

AUSTRALIA



ROCKS & STOCKS

Noosa Conference wrap 2015

Morgans was again proud to support the fifth Noosa Mining and Exploration Conference. Delegate registrations were up again and the sentiment amongst the attending companies was upbeat. The view from the keynotes echoed our own view that equities are cheap, M&A will continue and that competitive funding sources such as private equity are becoming more popular.

Notes from the Field

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Call to action

Conference Picks in the metals space

Dacian Gold (DCN) - \$0.40ps

Not covered

A resource upgrade at Westralia is coming in July-August which could see a significant upgrade. We like the story as a early stage development play.

Doray Minerals (DRM) - \$0.40ps

Not covered

Doray produces around 80-90koz of gold per annum from its Andy Well project, but aims to become a 160kozpa producer by adding its second project at Deflector in 2016.

Orocobre (ORE) - \$1.97ps TP \$2.40

ORE's Olaroz project is scheduled to ramp up to full nameplate production by the Q4 2015 and remains the only way to invest in a lithium producer on the ASX. It's a quality asset in a niche market with demand projections seeing significant demand growth in the next decade.

"If you can see the bandwagon, you're already too late".

Owen Hegarty, Chairman EMR Capital

Read on from page 2 for our best Conference picks

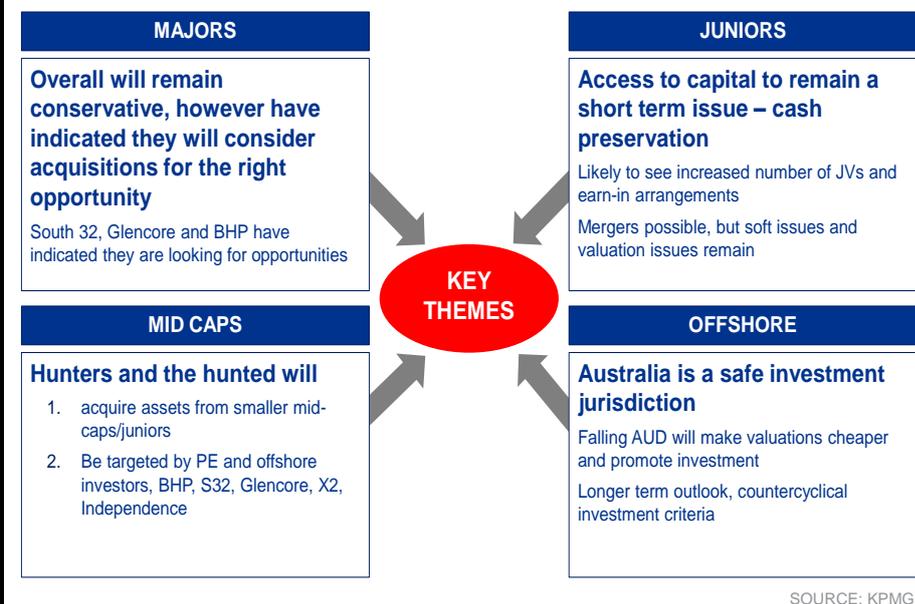
We thank the 4 Keynotes, 40 Corporates and +600 investors for a successful 2 days.

If any of our readers would like a copy of any of the **Keynote speaker presentations**, then please get in touch.

Similarly, if any of your colleagues, contacts or sector enthusiasts would like to be added to the **Rocks & Stocks mailing list**, then we're more than happy to oblige. Cheers,

James W, James L, Adrian, Chris and Tom

KPMG's expected mining themes



Renowned mining entrepreneur Owen Hegarty

Owen speaks regularly about China's multi-decade growth outlook. He notes China's social imperative for stable growth and the emergence of India as a global consumer of commodities which has been a common theme over the last 12 months. He spoke about the importance of private equity ("PE") funds entering the scene. He estimated there's anywhere between US\$10-15bn (others say up to US\$20bn) available specifically for mining.

KPMG's Greg Evans on M&A

KPMG described the environment of subdued M&A driven by economic uncertainty and lack of access to capital. Companies are opting for capital preservation or dividends over inorganic growth and responding to yield oriented investors which has seen M&A activity fall to its lowest level since 2002. Despite this the frequency of domestic Australian M&A deals is increasing as a result of a weaker Australian dollar and risk averse proven asset based acquisitions (such as EVN's Cowal acquisition, IGO & SIR).

It's a matter of "when", not "if" the market will rebound

The common thematic between the presenters was that commodities prices are weak which subdues investment. Subdued commodity prices have seen exploration investment fall and M&A activity is focussing on established operations. With the lack of new projects the feeling is the market will rebound, but the time frame is more difficult to pick.

Sector themes ▶

Investor interest is building in small cap resources, but they remain cautious and aren't willing to deploy capital for longer term investment due to the volatility of commodity prices and geopolitical instability.

A tangible pick-up in investor sentiment ▶ We gauged an uptick in investor sentiment at the conference compared to last year with attendance levels staying high throughout the conference including another well-attended final session on Friday 17th hosted by Peter Switzer. Investors were keen to ask questions - mostly around the value of commodities vs a potentially weaker Aussie dollar in the next few years. The general feeling was that the disconnect between pricing and reality is being narrowed and that there is real interest in the small end of the sector although investors still remain somewhat cautious and aren't willing to deploy capital for long term investment.

Corporate feedback is improving ▶ We often ask companies if they get much out of the conference and our feedback suggests that they were surprised by the number of retail investors interested to hear about small cap explorers. In 2014 we said it was about the quality of the investor over the quantity of investors and this improved again in 2015.

Private Equity is making inroads into small cap financing ▶ A number of the keynotes touched on Private Equity funds making inroads into small-cap financing. Owen Hegarty's EMR Capital recently raised \$450m for its PE fund and has already deployed the first tranche of a minimum C\$85m investment in Crystal Peak minerals potash project. RCF Capital, Greenstone Resources and X2 Resources have also been active or linked to active bids in small and large cap resources deals in recent months.

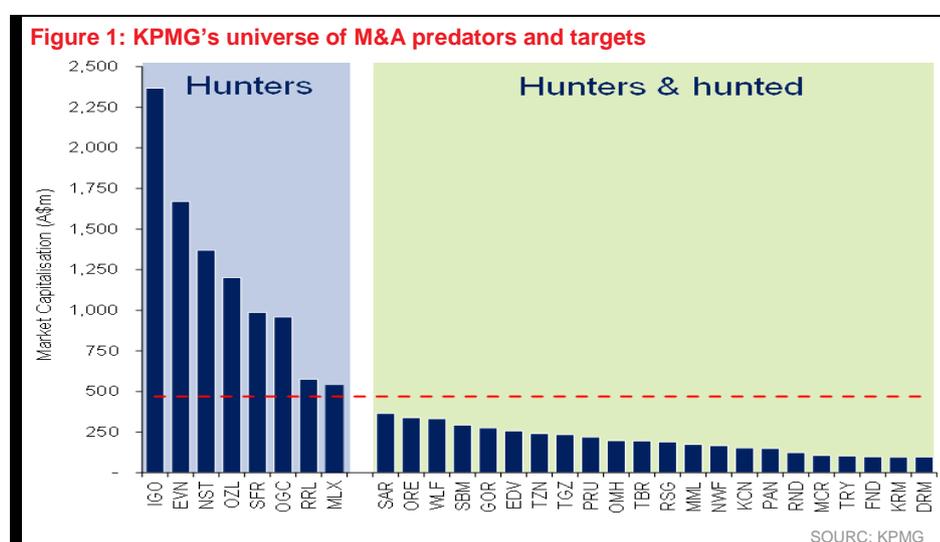
What does it mean: Private equity IS investing for the longer term counter cyclical play. Retail investors are usually the last to enter this phase, but interest is building, albeit slowly.

KPMG sees an increase in JV's and earn-in's, however negotiated mergers between juniors still looks difficult due to gaps in valuation opinions.

Mergers and acquisitions ▶ M&A remains relatively subdued driven by shareholders' requirement for yield or for preservation of capital and dividends over inorganic growth. Recent deals have focused largely on established assets (such as EVN's Cowal acquisition) or high quality development projects (SIR-IGO). KPMG sees limited deals in the majors, with the majority of M&A in the mid-tiers and an increased pattern of consolidation or increased joint venture activity in the juniors. KPMG also pointed out that Gold price stability (or instability as we saw this week), a falling Australian dollar, and a bullish outlook for some precious and base metals has seen cashed up mid-caps make counter-cyclical targeted investment (EVN, SIR, IGO, NGF, OGC etc..)

What does it mean : M&A is likely to focus on quality development assets in the near term. Don't expect takeover plays on small-cap resources for the moment – that's likely to take the form of consolidation or JV's.

The majority of the deals will be in established or high quality assets by a limited number of cashed up players



Counter cyclical investment by mid-tiers and private equity ▶

A weaker Australian dollar, and a bullish outlook for some precious and base metals has seen cashed up mid-caps make counter-cyclical targeted investment (EVN, SIR, IGO, NGF, OGC etc..).

The number of capital raisings is increasing, but the value of the raisings is decreasing. Hence many companies are turning to private equity for a better deal. Mid-cap resources companies will remain in the crosshairs of private equity or offshore investors.

M&A will continue to focus on Australian assets. It's a safe jurisdiction and a weaker AUD exchange rate makes valuations cheaper, improved by the tailwind for US\$ denominated commodities pricing and this will continue to stimulate investment.

Key Picks from the Noosa conference ▶

Advanced explorers:

Dacian Gold (DCN) – \$0.40, Not covered.

DCN's has a strong mine-finding team of ex-Avoca Resources executives including former MD Rohan Williams. The company's Mt Morgans project currently has a resource of 24Mt @ 2.6g/t for 2.1Moz of gold resources. DRM has been busy expanding the resource base at the Westralia and Jupiter projects.

The Westralia resource has grown in size from around 364koz in 2012 to around 850koz in 2015. Drill results released recently returned 5.3m @ 12.2g/t Au and 4.1m @ 9.9g/t Au, located up to 1100m from the existing Westralia resource in an untested BIF horizon. Additional infill holes are planned, and a successful outcome could result in a significant resource upgrade for Westralia. DCN has previously announced it expects a new resource could be announced in late July or early August (around the time of the Diggers & Dealers conference in Kalgoorlie in our view).

In tandem the team is carrying out pre-feasibility studies to determine the viability of the project. If successful the company aims to be in production by CY2017/18.

Share price catalysts: Resource upgrade due in late July/August. Results of the pre-feasibility study in 2015/16. Ongoing infill drilling results from Westralia.

Established gold producers:

Doray Minerals (DRM) – A\$0.40ps, Not covered

DRM has been on our M&A radar for a while now. DRM's Andy Well mine is producing 89koz in FY15 at an all-in cost of ~\$1165/oz. Adding to the upside is the recently acquired Deflector project (also in Western Australia) which is forecast to produce ~60kozpa at an all-in sustaining cash cost of ~A\$790/oz. Combining the two assets turns DRM into a mid-tier play with 160kozpa production at <A\$1000/oz transforming it into a very attractive potential M&A target.

DRM has been focussed on resource expansion drilling at Andy Well with substantial success at the Wilber Lode returning assays of 0.9m @ 155.2g/t Au confirming the continuation of the mineralised zones at depth. DRM is also having substantial near mine success with significant results from their Gnaweeda project located 15km from Andy Well which returned 5m @ 17.4g/t Au.

Share price catalysts: Ongoing resource expansion results from Andy Well & Gnaweeda. Completion of financing for the Deflector project due in 2H CY15. Open pit mining is due to commence at Deflector in February 2016.

Dacian is expecting a resource upgrade in late July – early August which could add significant ounces to the existing 2.1Moz resource.

Doray has had significant success in deep exploration drilling at Andy Well which could potentially extend the mine life.

The Deflector asset is under construction and mining is due to commence in February 2016.

Ramping up production in a niche space

Orocobre (ORE) – Add, Price target \$2.40ps

Orocobre has overcome impediments to its production bottleneck and will reach nameplate capacity in Q4 2015.

Tesla’s “Gigafactory” battery facility will commence operations in 2016 which will further enhance the demand for lithium products.

ORE remains the only ASX listed lithium producer.

ORE has two unique properties about it, i) it’s a producer of the lightest metal (lithium) on the periodic table and ii) it’s the only ASX listed lithium producer that we know of. The stock has weakened recently after a slower than expected ramp up at their Olaroz project in Argentina, limiting revenue and necessitating a capital raise. Its share price is bouncing off a two year low and at a price of A\$1.97 ORE is 22% below our DCF-based valuation of A\$2.40 per share. It’s worth a look in our view as the impediments are now cleared to ramp up the project to nameplate capacity by the end of this year.

In partnership with Toyota Tsusho Corporation (TTC - 25%) and the provincial Government of Jujuy (8.5%), the US\$235m Olaroz project is ramping up to full Stage 1 production of 1,450 tonnes per month of lithium carbonate. Olaroz has a life above 40 years from 15% of the resource, which contains 6.4Mt of lithium carbonate and 19.3Mt of potash.

Share price catalysts: Olaroz production is expected to reach nameplate design capacity in Q4 2015. Tesla’s “Gigafactory”, a large user of lithium in its hybrid batteries is expected to commence operations in 2016.

Table 1: Presenting companies and catalysts from the Noosa 2015 conference (Mining and Metals companies listed)

Company	ASX Code	Market Cap \$m	Price \$/sh	Cash \$m	Comments and Catalysts
Precious Metals					
Doray Minerals	DRM	\$100.0	\$0.41	\$28.70	Deflector project construction
Dacian Gold	DCN	\$38.5	\$0.40	\$6.50	Westralia Resource upgrade in July/August
Excelsior Gold	EXG	\$36.5	\$0.07	\$3.00	First gold pour expected in August 2015
Kingsgate Consolidated	KCN	\$140.0	\$0.63	\$66.10	Restart of Chatree production
Metals X	MLX	\$465.0	\$1.12	\$122.00	Murchison gold project ramp up to full production
Orinoco Gold	OGX	\$20.0	\$0.10	\$2.00	Ramp up of Cascavel gold project
Renaissance Minerals	RNS	\$18.0	\$0.04	\$2.92	Okvau exploration results
Solgold	SOLG	\$40.0	\$0.02		Continued drilling at Cascabel
Graphite/Lithium and Mineral sands					
European Metals	EMH	\$9.8	\$0.13	\$1.50	Bulk testing of Cinovec ores in pilot test work
Image Resources	IMA	\$12.0	\$0.07	\$1.00	Finalisation of Murray Zircon due diligence
Magnis Resources	MNS	\$92.0	\$0.29	\$4.30	Nachu project financing and mining approvals
Metals of Africa	MTA	\$8.3	\$0.06	\$1.00	Maiden graphite resource at Montpuez
Orocobre	ORE	\$335.0	\$1.99	\$33.00	Ramp up of Olaroz to full production in Q4 / 2015
Base metals					
AusTin Mining	ANW	\$5.2	\$0.04	\$0.70	Trial mining of 330kt @ 0.24% Sn
Avalon Minerals	AVI	\$7.2	\$0.03	\$3.20	Viscaria updated scoping study due in Q4 2015
Cassini Resources	CZI	\$15.0	\$0.07	\$7.00	Nebo Babel drilling results
DGR Global	DGR	\$14.0	\$0.03	\$19.00	Actively pursuing new project opportunities
Finders Resources	FND	\$105.0	\$0.16	N/A	Wetar project construction continuing into early 2016
Highlands Pacific	HIG	\$83.0	\$0.09	\$13.50	Freida River feasibility study due in November 2015
Red River Resources	RVR	\$25.0	\$0.15	\$2.80	Thalanga zinc production expected to restart in late 2015

SOURCE: MORGANS, IRESS

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