SPEC BUY

Current Price	$0.70
Target Price	$1.05

Ticker:		DCN
Sector:		Materials
Shares on Issue (m):		96.1
Market Cap ($m):		67.3
Cash Estimate @ 30th June ($m):		4.6
Enterprise Value ($m):		62.6
52 wk High/Low:	$0.70	$0.25
12m Av Daily Vol (m):		0.07

Mineral Inventory (100% basis, CIL only)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	41.7	2.2	3.0
			$/oz
EV / Reserve			-
EV / Resource			21

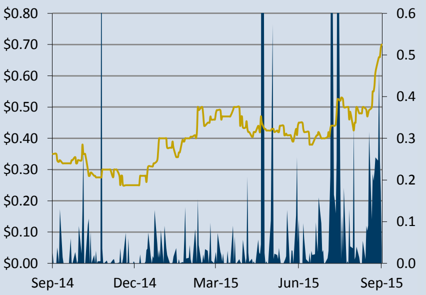
Directors:

Rohan Williams	Executive Chairman
Barry Patterson	Non-Executive Director
Robert Reynolds	Non-Executive Director

Substantial Shareholders:

Redland Plains	14.7%
Directors	11.8%

Share Price Graph



Thursday, 1 October 2015

Dacian Gold

Mt Morgans Scoping Study

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Dacian Gold (DCN) delivered a Scoping Study (SS) on its 100% owned Mt Morgans project, demonstrating a scalable (~220koz pa in years 1-5), high margin, Australia domiciled project. Incorporating the study parameters, Argonaut's target price based on a stand-alone scenario increases from A$0.70 to A$1.05 (parameters on page 2), and our valuation based on a Goldfields (GFI:SJ) scenario (see note Fields have eyes released on 25th September) increases from A$1.45 to A$1.60. DCN remains one of Argonaut's preferred emerging gold producers given AUD denominated costs, exploration upside and proven management. Given scalable inventory and proximity to infrastructure, DCN is likely to attract corporate attention. Speculative Buy maintained.

Event & Impact | Positive

Scoping Study highlights: The Scoping Study outlined a scalable, high margin operation. Highlights include:

- 2.5Mtpa operation, producing 1.2Moz over seven years
- Higher production of ~220koz for the first 5 years
- High metallurgical recoveries of 91%
- Infrastructure capex estimated at A$157m
- AISC estimated A$929/oz

Further upside: Whilst already robust, the economics of the project can be improved further with:

- In-fill drilling the Footwall BIF and upgrading the Resource category to Indicated (currently Inferred). This would allow the deposit to be brought into production quicker (currently in year 3) and increase production in the first few years
- Further extensional drilling success at Westralia, particularly at the Footwall BIF
- Exploration success from regional targets, including Callisto (drilling next month), other regional BIF and syenite targets, as well as near mine extensions at Jupiter

A case for business combination: Argonaut's recent analysis demonstrates Goldfields (GFI:SJ) could make an accretive acquisition for DCN, paying up to A$1.60 (was A$1.45 pre-SS). GFI owns the Granny Smith processing facility and the high grade Wallaby underground mine. Given the proximity (~15km from Jupiter) of the operations to DCN's Mt Morgans Project (see Figure 4), the spare capacity at Granny Smith (~2Mtpa) and GFI's desire to secure future ore sources, a potential business combination with DCN can be value accretive for GFI.

Recommendation

Speculative Buy maintained with a revised target price of A$1.05 (was A$0.70).

Valuation update

The Scoping Study demonstrated a high margin, scalable project…

The Scoping Study outlined a high margin, scalable project, sourcing ore from seven deposits (four potential open pits and three potential underground), and producing ~220koz pa in the first 5 years. The underground feed will contribute ~820koz out of the 1.2Moz produced LOM. ~50% of the future feed comprises mineralisation already classified as Measured and Indicated (>80% in the first two years).

…producing ~220koz in the first 5 years...

…with ~50% of the future feed already classified as Measured and Indicated

Table1: Key project assumptions and valuation

Valuation Summary	Standalone ($ps)	GFI Case ($ps)
Mt Morgans	1.03	1.58
Additional Resources	0.05	0.00
Exploration	0.13	0.00
Forwards	0.00	0.00
Corporate	-0.17	0.00
Cash	0.02	0.02
Total @10% discount rate	**1.05**	**1.60**

Key project assumptions		Scoping Study	Standalone	GFI Case
Mt Morgans				
Ownership	%	100	100	100
Ore milled	Mtpa	2.5	2.5	2.0
Head grade	Au g/t	2.5	2.5	2.5
Recovery	%	91	91	91
Production	koz Eq pa	171	176	146
Mine Life	yrs	7.0	7.0	8.0
Strip ratio (Open pits)	:	6.5	6.5	6.5
"All-in" sustaining cost (Standalone)	A$/oz	929	1052	1101
Pre-production Capex*	A$m	157	181	24
Study / drilling costs	A$m	-	20	20
Long term Pricing				
Gold price	US$/oz	-	1200	1200
Exchange rate	:	-	0.75	0.75
Fiscal				
Government royalty	%	-	2.5	2.5
Third Party royalty	%	-	0.5	0.5
Tax Rate	%	-	30	30
Discount Rate	%	-	10	15

Source: Argonaut

Key changes

Key variances with Argonaut's previous estimates include the scale of operation

Compared to Argonaut's previous estimates, key variances include the scale of the operation (2.5Mtpa v 2.0Mtpa), incorporation of additional feed from Transvaal, Westralia open pit and Jupiter lower grade material, as well as lower operating and G&A costs, partly attributed to increased scale. Argonaut decreases its discount rate to 10% from 15% post the delivery of the SS.

Argonaut's pre-production capex estimate of A$181m is higher than the Company's estimate A$157m (infrastructure only). Our estimate includes working capital required to start underground (including declines, development, de-watering and ventilation) and open pit operations.

Argonaut's modelled AISC is slightly higher than the Company's estimate, mainly due to the incorporation of lower grade open pit material and conservative cost parameters for the underground operations, leaving further valuation upside.

Further upside

In-fill drilling at Morgans Underground

Upgrading the high grade Footwall BIF to Measured and Indicated through drilling…

The high grade Morgans Underground ore (1.2Mt @ 6.8g/t, classified as Inferred), is scheduled to be fed in year 3-5. Successful in-fill drilling upgrading the Resource Category will increase the priority of this high grade feed material and see it incorporated in the first years. The high grade nature makes a material contribution to increased production, catapulting ounces produced to ~280koz pa (based on current Year 3-4 forecasts), thereby improving NPV and potentially shortening the payback period.

Jupiter extensional drilling

The Jupiter inventory is expected to expand further with drilling. Significant exploration upside exists, with the testing of multiple targets during FY16.

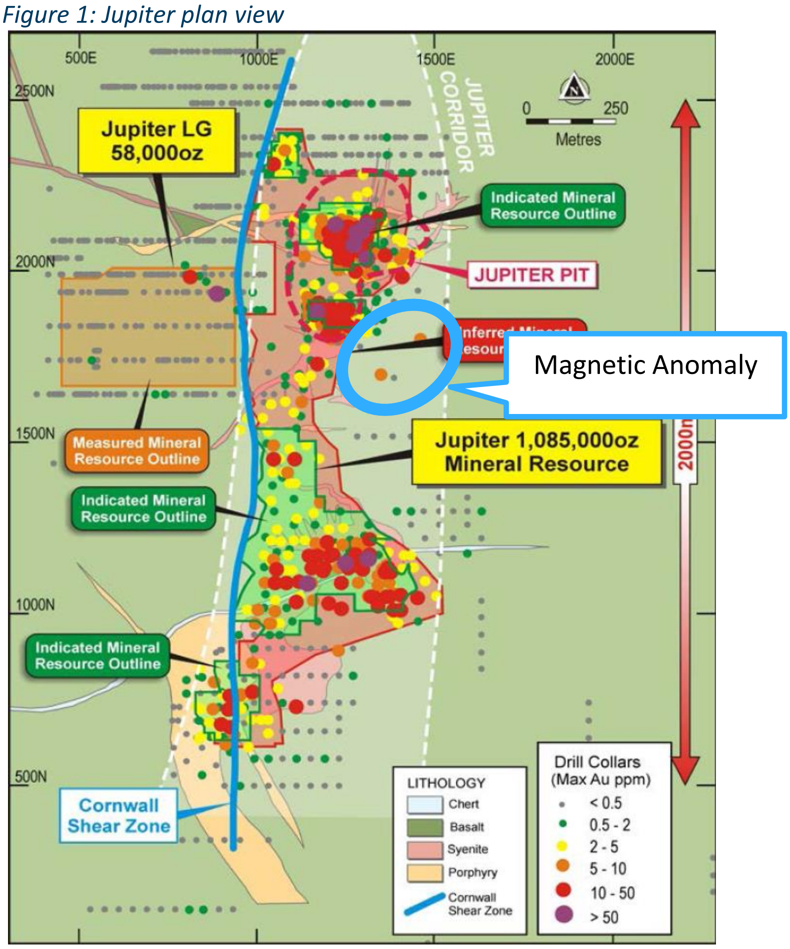
…will further enhance the project's NPV

These targets include:

- The potential supergene mineralisation located west of Heffernans
- The intersection of the Cornwall Shear Zone (CSZ) and a large, high intensity magnetic anomaly immediately to the south-east of the historic Jupiter pit
- The intersection of the CSZ and dykes between Doublejay and Heffernans
- The potential up-dip extension of the mineralisation from the historic Jupiter pit

The Jupiter inventory could also further expand with additional drilling

Figure 1: Jupiter plan view



Source: DCN, modified by Argonaut

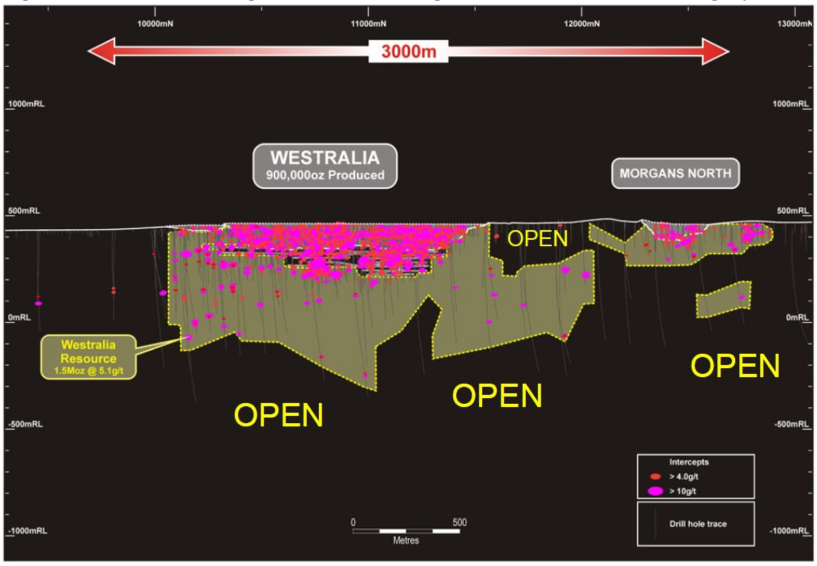
Westralia extensional drilling

The Westralia Resource remains open in several directions…

The Westralia Resource remains open in multiple directions and is expected to grow further with extensional drilling. The recent discovery in the footwall BIF highlights the under-explored nature of the deposit.

…and could expand with further drilling

Figure 2: Westralia long section, showing mineralisation remaining open



Source: DCN

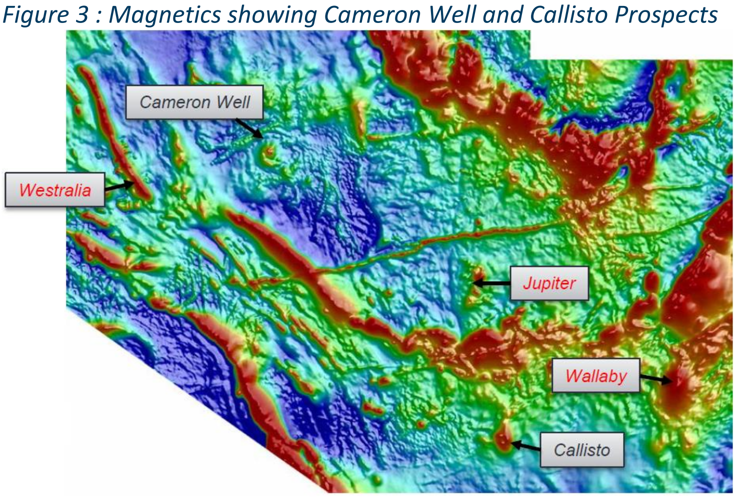
Regional upside

Regionally, a few high priority targets will be tested…

The Company has a number of circular, magnetic anomalies that remain inadequately tested across its tenement packages. Such features could represent mineralised syenite intrusions, as observed in the nearby multi-million ounce Wallaby deposit. These targets include Cameron Well, which is a known syenite intrusion and Callisto (to the south of Jupiter, drilling scheduled for next month, see Figure 3 below).

…including Callisto, which is scheduled for next month

Figure 3 : Magnetics showing Cameron Well and Callisto Prospects



Source: DCN

In addition, the Company will be testing additional BIF targets including Maxwells and Rainbow Bore. DCN is expected to commence drilling of these targets in FY16.

Fields have eyes

GFI operates the Wallaby underground mine and Granny Smith mill…

GFI operates the high grade Wallaby underground mine and the adjacent Granny Smith processing facility. The mill is located ~15km from DCN's Jupiter deposits (see Figure 4 below for locations).

Table 2: Granny Smith Resource and Reserve

Operation	Tonnes (Mt)	Grade (g/t)	Gold (Moz)
Granny Smith Resources	17.4	6.61	3.7
Granny Smith Reserves	4.5	6.02	0.9

Source: GFI

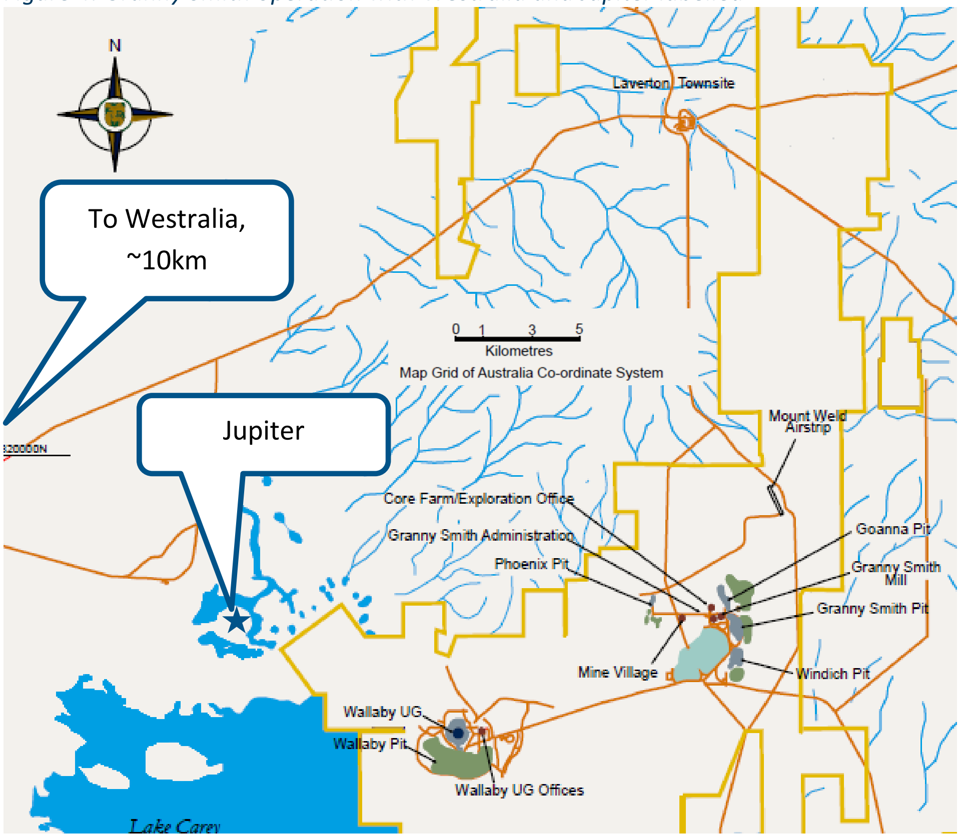
…which has an underutilised mill with ~2Mtpa capacity…

The CIL facility has ~2Mtpa spare capacity and was running at ~41% (in CY14) of nameplate capacity of 3.6Mtpa, operating on a campaign basis (15 days per month).

…located adjacent to DCN's Jupiter deposits

Acquiring DCN at a price up to A$1.59 is accretive to GFI…

Figure 4: Granny Smith operation with Westralia and Jupiter labelled



Source: GFI, modified by Argonaut

…based on Argonaut's assumptions

A potential business combination with DCN can be accretive for GFI given proximity of the operations, sunk costs, spare capacity at Granny Smith mill and GFI's desire to secure future ore sources. Based on our assumptions, an acquisition cost of up to A$1.60 (was A$1.45) per share is accretive. Further upside on this figure includes:

- Lower processing costs on Wallaby ore by running the mill at nameplate capacity
- Potentially lower AISC by utilising GFI's mining expertise and equipment
- Mine life upside through further exploration success

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Important Disclosure
Argonaut currently holds or controls 94,000 DCN shares.

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