BELL POTTER

Speculative
See key risks on Page 5. Speculative securities may not be suitable for retail clients

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Dacian Gold Ltd (DCN)

December 2015 quarterly report

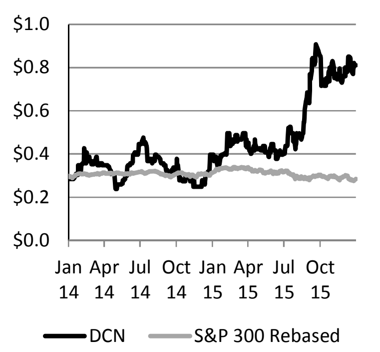
Recommendation
Buy (unchanged)
Price
$0.81
Target (12 months)
$1.08 (previously $1.05)
Risk
Speculative

Expected Return	
Capital growth	33.3%
Dividend yield	0%
Total expected return	33.3%
Company Data & Ratios	
Enterprise value	$82.8m
Market cap	$107.2m
Issued capital	132.4m
Free float	81%
Avg. daily val. (52wk)	$82.0k
12 month price range	$0.34-$0.93
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.74	0.86	0.36
Absolute (%)	9.46	-6.17	126.75
Rel market (%)	11.63	-1.88	132.20

Absolute Price



SOURCE: IRESS

All set to prove the pudding in 2016

During the December quarter DCN completed a $25m equity raising, commenced an 80,000m Resource infill drilling program focused on the Westralia and Jupiter prospects at the Mt Morgans Gold Project (MMGP) and engaged engineering firm GR Engineering Services (GRES) to advance key aspects of the Feasibility Study for the MMGP. The equity raised should comfortably fund DCN through all of this work, allow testing of additional exploration targets and meet the working capital expenses of the company. The bulk of this work will feed into the MMGP Feasibility Study, which is due to be completed by end CY16 to allow a decision to mine and procurement of finance in early CY17. DCN held cash of $24.4m as at end December 2015.

Milestones laid out – what we'll be watching

DCN has clearly laid out its milestones for CY16, all of which are unambiguously directed at advancing the MMGP towards a development and financing decision in early CY17. While the broad parameters for the MMGP were laid out in the Scoping Study (30 September 2015), several key aspects require higher levels of confidence for approval. Early indications of these will come from ongoing drilling results from the Westralia prospect (March quarter), Mineral Resource updates for both Westralia and Jupiter, metallurgical test work results (June quarter), mine optimisations and project-wide scheduling, CAPEX and OPEX estimate updates (September quarter) and Feasibility Study completion (December quarter).

Investment thesis – Buy (Speculative), TP $1.08/sh

We continue rate DCN a Buy (Speculative) on a blended (85:15) NPV-based / peer comparison valuation of $1.08/sh (from $1.05/sh) which we update for the capital raising, a reduced risk discount and updated peer metrics. Earnings are unchanged. Our investment thesis remains predicated on a strong management team, further value creation and a credible pathway to production. DCN is well funded to meet its objectives through FY17 and emerge as a compelling and viable development story.

Earnings Forecast

Year end June 30	2015a	2016e	2017e	2018e
Sales (A$m)	0	0	0	0
EBITDA (A$m)	(8)	(18)	(10)	(8)
NPAT (reported) (A$m)	(8)	(18)	(10)	(8)
NPAT (adjusted) (A$m)	(8)	(18)	(10)	(8)
EPS (adjusted) (¢ps)	(8)	(16)	(7)	(5)
EPS growth (%)	na	na	na	na
PER (x)	(9.7)	(5.1)	(11.2)	(15.1)
FCF Yield (%)	-8%	-16%	-10%	-6%
EV/EBITDA (x)	(10.1)	(4.6)	(8.7)	(10.8)
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-57%	-131%	-76%	-55%

SOURCE: BELL POTTER SECURITIES ESTIMATES

December 2015 quarterly report

All set to prove the pudding in 2016

During the December quarter DCN completed a $25m equity raising, commenced an 80,000m Resource infill drilling program focussed on the Westralia and Jupiter prospects at the Mt Morgans Gold Project (MMGP) and engaged engineering firm GR Engineering Services (GRES) to key aspects of the Feasibility Study for the MMGP.

The existing Resources at the Westralia and Jupiter Prospects stand at:

- Westralia Mineral Resource: **9.27Mt @ 5.1g/t Au for 1.52Moz** contained; and
- Jupiter Mineral Resource: **26.55Mt @ 1.3g/t Au for 1.09Moz** contained.

At Westralia 78% of the Resource is in the Inferred category (gold ounces basis) and at Jupiter that number is 44%. Given the importance of the high grade contribution from the Westralia underground we view it as entirely appropriate that this will receive the bulk of the drilling in CY16, with 50,000m of predominantly diamond drilling to be completed here in the next six months. A further 30,000m of RC drilling will go into the Jupiter Prospect.

The equity raised should comfortably fund DCN through all of this work, allow testing of additional exploration targets and meet the working capital expenses of the company. The bulk of this work will feed into the MMGP Feasibility Study, which is due to be completed by end CY16 to allow a decision to mine and procurement of finance in early CY17. DCN held cash of $24.4m as at end December 2015.

Milestones laid out

DCN has clearly laid out its milestones for CY16, all of which are unambiguously directed at advancing the MMGP towards a development and financing decision in early CY17. They are summarised below:

March quarter 2016:

- Completion of resource in-fill drilling program at the Jupiter Prospect;
- Engagement of specialist consultants relating to mine geotechnical studies;
- hydrogeology, project regulatory approvals and permitting, ore processing and site service infrastructure design and cost estimation;
- Commencement of metallurgical testwork programs on samples from proposed mining areas; and
- Confirmation of process plant operating parameters and flowsheet.

June quarter 2016:

- Mineral Resource estimate update for the Jupiter Prospect;
- Completion of resource in-fill drilling programs at the Westralia Prospect and Mineral Resource estimate update;
- Mine optimisation and design for the proposed Jupiter open pit mining complex;
- Completion of key metallurgical testwork programs; and

- Commencement of a detailed study for the ore processing facility and site service infrastructure.

September quarter 2016:

- Mine optimisation and design for the proposed Westralia underground mining complex;
- Mine project-wide ore production scheduling;
- Completion of ore processing facility and site service infrastructure detailed study and related capital and operating cost estimate; and
- Submission of applications for project regulatory approvals and permitting.

December quarter 2016:

- MMGP Feasibility Study finalisation for presentation to the Dacian Board.

What we'll be watching

While the broad parameters for the MMGP were laid out in the Scoping Study (released on 30 September 2015), several key aspects require higher levels of confidence for Board approval, financing and development, as well as to demonstrate the level of profitability of the project. For us, the most important early indications and potential catalysts for the stock will come from:

- the ongoing drill results from the Westralia prospect (March quarter);
- the Mineral Resource updates for both Westralia and Jupiter and the metallurgical testwork results (June quarter);
- the mine optimisations and project-wide scheduling, which we expect to optimise project valuation by bringing forward high-value ore, and updated CAPEX and OPEX estimates (September quarter); and
- the MMGP Feasibility Study completion (December quarter).

In addition to these we will also be looking for potential increases to the current Mining Inventory of 16Mt @ 2.5g/t Au as outlined in the MMGP Scoping Study. This currently supports a mine life of approximately seven years and our NPV-based valuation for the project of $323m (un-risked). There is however clear potential for material mine life extension and valuation uplift from either additional conversion from Resources or further exploration success.

As a result, the exploration drilling program (over and above the 80,000m Resource drill-out) that is planned to test for additional mineralised syenites surrounding the known Jupiter Prospect also has the potential to be a material positive catalyst for DCN.

Dacian Gold Ltd (DCN)

Company description

DCN is a West Australian based company focused solely on the exploration and development of the Mt Morgans Gold Project near Laverton in Western Australia. The company acquired the project in early 2012, and after raising $20 million in an IPO process, listed on the ASX in November 2012. The funds from the IPO raising have financed approximately 3 years of exploration at the Mt Morgans project. Since acquisition of the project DCN has increased the Mineral Resource base from 8.5Mt at 3.1g/t Au containing 0.84Moz gold to 41.73Mt at 2.2g/t Au for 3.008Moz gold as at September 2015. This equates to an increase of 258% in terms of contained ounces.

Investment thesis – Buy (Speculative) TP$1.08/sh

We rate DCN a Buy (Speculative) on a blended (85:15) NPV-based / peer comparison valuation of $1.08/sh. Our investment thesis is predicated on a strong management team, attractive relative value, further value creation and a credible pathway to production. The release of the MMGP Scoping Study continues to validate our case and we see potential for further upside as the project advances toward production. DCN is transforming from an exploration success story and emerging as a compelling and viable development story. Its progress continues to validate the key tenets of our investment thesis.

Valuation – risked discounted cash flow of key project

Our DCN valuation of A$1.08/sh is based on a blend of our NPV estimate of the Scoping Study scenario for the Mt Morgans Gold Project and a peer-comparison valuation based on Enterprise Value per Resource ounce (EV/oz).

We derive an NPV-based (10%) valuation of A$323m for a toll-treatment production scenario from a combined open-pit and underground project producing ~180kozpa Au at an All-in-Sustaining-Cost (AISC) of A$1,056/oz, on average, over the first seven years of operations. We apply a risk discount of 60% for an **NPV-based valuation of A$1.12/sh** using this methodology.

We have also reviewed a number of ASX-listed companies that we view as comparable to DCN. For these companies we have calculated an EV/oz average of A$23/oz. With the advancement of the MMGP, DCN is now trading at a premium to that level ($34/oz). As a benchmark, we apply $30/oz, the level at which Gold Road (GOR) is trading at, seeing it as DCN's closest peer in the market. This implies an Enterprise Value of A$90m, to which we add cash for an **EV/Resource oz based valuation of A$0.86/sh**.

We view the NPV-based valuation as the more rigorous of the two methods and give it a preferential weighting of 85%, for a blended valuation and **target price of A$1.08/sh.**

Resource sector risks

Risks to DCN include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, DCN is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Corporate/M&A risks.** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Dacian Gold Ltd
as at 27 January 2016

Recommendation	Buy, Speculative
Price	$0.81
Target (12 months)	$1.08

Table 1 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2014a	2015a	2016e	2017e	2018e
Revenue	$m	0.5	0.3	0.1	0.3	0.1
Expense	$m	(5.9)	(8.5)	(18.1)	(9.8)	(7.7)
EBITDA	$m	**(5.4)**	**(8.2)**	**(18.0)**	**(9.5)**	**(7.6)**
Depreciation	$m	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)
EBIT	$m	(5.6)	(8.4)	(18.0)	(9.5)	(7.7)
Net interest expense	$m	-	-	(0.0)	(0.0)	(0.0)
PBT	$m	**(5.6)**	**(8.4)**	**(18.0)**	**(9.5)**	**(7.7)**
Tax expense	$m	-	0.3	-	-	-
NPAT	**$m**	**(5.6)**	**(8.0)**	**(18.0)**	**(9.5)**	**(7.7)**

CASH FLOW

Year ending June	Unit	2014a	2015a	2016e	2017e	2018e
OPERATING CASHFLOW						
Receipts	$m	-	-	0.4	-	-
Payments	$m	(1.2)	(1.0)	(2.9)	(4.8)	(3.7)
Exploration payments	$m	(4.4)	(5.5)	(12.0)	(6.4)	(3.6)
Tax	$m	-	-	-	-	-
Net interest	$m	0.5	0.2	0.1	0.3	0.1
Other	$m	0.0	0.1	-	-	-
Operating cash flow	$m	**(5.1)**	**(6.2)**	**(14.4)**	**(10.9)**	**(7.3)**
INVESTING CASHFLOW						
Capex	$m	(0.2)	(0.1)	-	-	-
Exploration & evaluation	$m	-	-	-	-	-
Other	$m	1.2	(0.0)	-	-	-
Investing cash flow	$m	**1.0**	**(0.1)**	**-**	**-**	**-**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	-	-	23.8	-	19.0
Debt proceeds/(repayments)	$m	(0.0)	(0.0)	-	-	-
Dividends	$m	-	-	-	-	-
Other	$m	-	(0.0)	-	-	-
Financing cash flow	$m	**(0.0)**	**(0.1)**	**23.8**	**-**	**19.0**
Change in cash	$m	(4.1)	(6.3)	9.4	(10.9)	11.7

BALANCE SHEET

Year ending June	Unit	2014a	2015a	2016e	2017e	2018e
ASSETS						
Cash & short term investments	$m	10.9	4.6	14.0	3.1	14.8
Accounts receivable	$m	0.0	0.4	-	-	-
Property, plant & equipment	$m	0.5	0.4	0.4	0.4	0.3
Exploration & evaluation	$m	8.1	8.1	8.1	8.1	8.1
Other	$m	0.0	0.0	0.0	0.0	0.0
Total assets	$m	**19.7**	**13.6**	**22.5**	**11.6**	**23.3**
LIABILITIES						
Accounts payable	$m	0.4	1.4	3.4	2.0	1.3
Borrowings	$m	0.0	0.0	0.0	0.0	0.0
Other	$m	1.2	1.9	1.9	1.9	1.9
Total liabilities	$m	**1.7**	**3.4**	**5.3**	**3.9**	**3.3**
SHAREHOLDER'S EQUITY						
Share capital	$m	29.2	29.2	54.2	54.2	74.2
Reserves	$m	0.5	0.8	0.8	0.8	0.8
Retained earnings	$m	(11.7)	(19.7)	(37.7)	(47.3)	(54.9)
Total equity	$m	**18.0**	**10.2**	**17.3**	**7.7**	**20.1**
Weighted average shares	m	96.1	96.1	114.2	132.3	142.3

CAPITAL STRUCTURE

Shares on issue	m		132.4
Performance shares / other	m		0.0
Total shares on issue	**m**		**132.4**
Share price	**$/sh**		**0.81**
Market capitalisation	$m		107.2
Net cash	$m		24.4
Enterprise value (undiluted)	**$m**		**82.8**
Options outstanding (m)	m	(wtd avg ex. price $0.72 per share)	10.2
Options (in the money)	m		4.0
Issued shares (diluted for options)	m		136.4
Market capitalisation (diluted)	m		110.4
Net cash + options	$m		26.6
Enterprise value (diluted)	**$m**		**83.9**

MAJOR SHAREHOLDERS

	%	m
Brian Rodan	10%	13.5
Directors and Management	9%	11.5
Colonial First State	6%	8.2
Barry Patterson	3%	4.1

FINANCIAL RATIOS

Year ending June	Unit	2014a	2015a	2016e	2017e	2018e
VALUATION						
NPAT	$m	(6)	(8)	(18)	(10)	(8)
Reported EPS	c/sh	(6)	(8)	(16)	(7)	(5)
EPS growth	%	na	na	na	na	na
PER	x	-13.8x	-9.7x	-5.1x	-11.2x	-15.1x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(0)	(0)	(0)	(0)	(0)
P/FCFPS	x	-19.0x	-12.4x	-6.4x	-9.8x	-15.9x
EV/EBITDA	x	-15.4x	-10.1x	-4.6x	-8.7x	-10.8x
EBITDA margin	%	nm	nm	nm	nm	nm
EBIT margin	%	nm	nm	nm	nm	nm
Return on assets	%	-25%	-48%	-99%	-56%	-44%
Return on equity	%	-27%	-57%	-131%	-76%	-55%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(11)	(5)	(14)	(3)	(15)
ND / E	%	-61%	-45%	-81%	-40%	-74%
ND / (ND + E)	%	-153%	-82%	-428%	-66%	-282%
EBITDA / Interest	x	-	-	-	-	-

ORE RESERVE AND MINERAL RESOURCE

Mt Morgans (WA)	Mt	g/t Au	koz Au
Total resource	**41.7**	**2.2**	**3,008**
Measured	4.1	1.2	161
Indicated	15.7	2.0	1,006
Inferred	22.0	2.6	1,841
Total Reserve	**0.0**	**9.2**	**8**
Proven	0.0	0.0	0
Probable	0.0	9.2	8

CONCEPTUAL PROJECT ASSUMPTIONS - MT MORGANS

Year ending June 30		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Currency	US$/A$	0.70	0.70	0.70	0.70	0.70
Gold price (real)	A$/oz	$1,643	$1,643	$1,643	$1,643	$1,643
CAPEX - development	A$m	(157)	-	-	-	-
CAPEX - sustaining	A$m	-	(19)	(19)	(19)	(19)
Ore milled	Mt	-	2.27	2.50	2.51	2.50
Head grade	g/t Au	-	3.0	2.8	3.8	3.8
Recovery	%	-	91%	91%	91%	91%
Production	koz	-	200.4	207.2	280.7	275.5
AISC	**A$/oz**	-	**1,079**	**1,030**	**861**	**767**

VALUATION

Ordinary shares (m)		132.4
Options in the money (m)		4.0
Diluted m		**136.4**

	$m	$/sh
Project (unrisked NPV10)	323	2.37
Project (risk discount 60%, NPV10)	129	0.95
Other exploration	15	0.11
Corporate overheads	(19)	(0.14)
Subtotal	126	0.92
Cash & options	27	0.19
Total (diluted)	**153**	**1.12**

Enterprise Value / Resource oz	30	A$/oz
Resource base	3,008	koz Au
Enterprise Value	90	0.66
Cash & options	26.6	0.19
Implied valuation (diluted)	**117**	**0.86**

NPV-based valuation	1.12	85%
Resource ounce based valuation	0.86	15%
Blended Valuation	**1.08**	**A$/sh**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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