

## SPEC BUY

Current Price **\$1.15**  
Target Price **\$1.25**

Ticker:	DCN	
Sector:	Materials	
Shares on Issue (m)*:	132.4	
Market Cap (\$m):	152.2	
Cash Estimate*:	24.4	
Enterprise Value (\$m):	127.8	
*post raising		
52 wk High/Low:	\$1.21	\$0.35
12m Av Daily Vol (m):	0.16	

### Mineral Inventory (100% basis, CIL only)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	41.7	2.2	3.0

EV / Reserve	\$/oz	-
EV / Resource		42

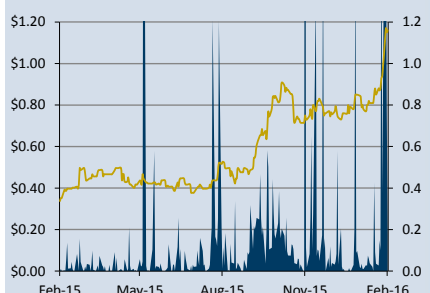
### Directors:

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

### Substantial Shareholders:

Redland Plains	10.7%
Directors	11.8%

### Share Price Graph



Thursday, 11 February 2016

## Dacian Gold

### High grade results from Morgans Underground

Analysts | Patrick Chang, CFA | Matthew Keane

### Quick Read

Dacian Gold (DCN) released the first batch of in-fill drilling at Morgans Underground. The results form ~13% of the planned drilling at Westralia and reaffirmed the high grades with an average grade of ~8.5g/t. Completion of this 50m x 50m in-fill program will lift confidence on the Resource (Resource updated expected in the September Q). In addition, this should allow the higher grade material to be fed in the earlier years, catapulting ounces produced to ~280koz pa and thereby improving the project NPV with a shorter payback period. DCN remains one of Argonaut's preferred emerging gold producers given AUD denominated costs, exploration upside and proven management. Given scalable inventory, proximity to infrastructure and high margins, DCN will also attract corporate attention. The Company is catalyst rich and well-funded with A\$24m cash and nine rigs drilling. SPEC BUY maintained.

### Event & Impact | Positive

**High grade results:** First batch results (17 holes) at the Morgans Underground include:

- 6.2m @ 20.1g/t from 420m
- 4.5m @ 13.4g/t from 253m
- 2.9m @ 16.1g/t from 230m
- 2.6m @ 11.9g/t from 328m

The results were in-line with previous drilling and demonstrate the high grade of the deposit. The additional geological information from diamond drilling will improve the understanding of controls on higher grade mineralisation.

**Feasibility full speed ahead:** The Mt Morgans Project is rapidly progressing towards a DFS, due end of CY16. Nine drill rigs (seven on double shift, two on single shift) are drilling to support the ongoing feasibility work. Project development could commence in early CY17.

**Corporate appeal:** Argonaut's recent analysis demonstrates Goldfields (GFI:SJ) could make an accretive acquisition for DCN, paying up to A\$1.60. GFI owns the Granny Smith processing facility and the high grade Wallaby underground mine. Given the proximity of the operations to DCN's Mt Morgans Project (~15km from Jupiter), the spare capacity at Granny Smith (~2Mtpa) and GFI's desire to secure future ore sources, a potential business combination with DCN could be value accretive for GFI. Given the buoyant sentiment towards Australian domiciled gold producers, DCN's corporate appeal has also arguably increased.

### Recommendation

SPEC BUY maintained with A\$1.25 target price (unchanged). At spot gold and FX, Argonaut's valuation increases to A\$1.50.

## Morgans Underground results

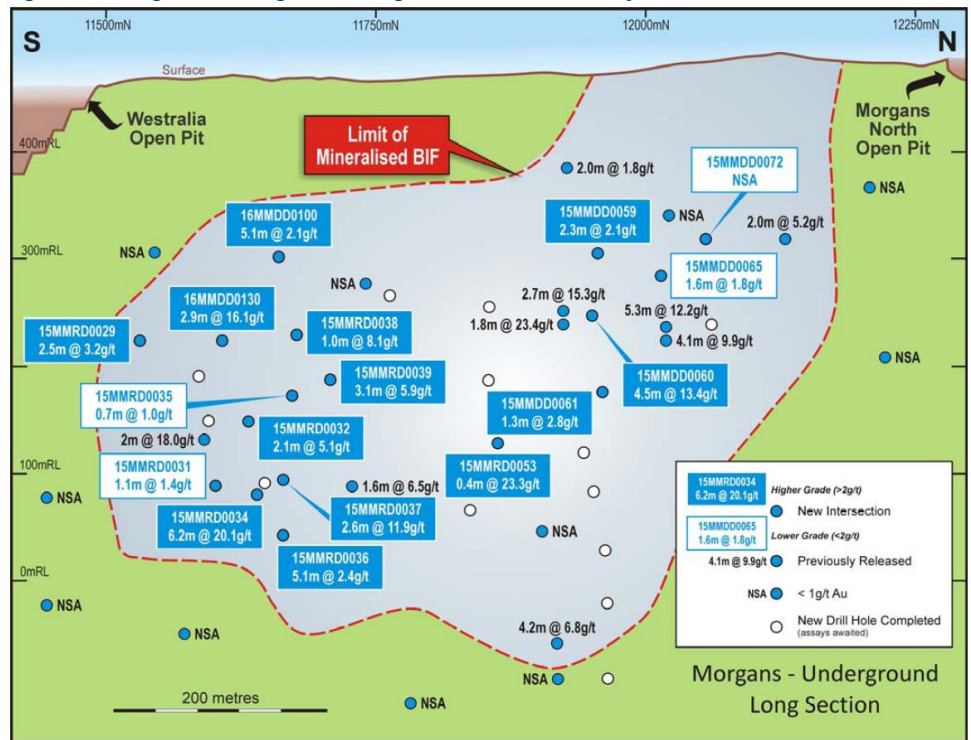
**DCN released additional results at Morgans Underground...**

DCN released the first batch of in-fill drilling at the potential Morgans Underground. The results form ~13% of the planned drilling at Westralia and reaffirmed the high grades with an average grade of ~8.5g/t.

First batch results (17 holes) at the Morgans Underground include:

- 6.2m @ 20.1g/t from 420m
- 4.5m @ 13.4g/t from 253m
- 2.9m @ 16.1g/t from 230m
- 2.6m @ 11.9g/t from 328m

Figure 1: Morgans Underground long section with new in-fill results



Source: DCN

...highlighting the high grades at the deposit...

Completion of the in-fill program...

...should allow the higher grade material to be fed earlier...

Completion of the 50x50m program should build a case for this high grade material to be fed in the earlier years, catapulting ounces produced to ~280koz pa and thereby improving the project NPV and shorten the payback period.

### Further results expected

Results from an additional 50 holes are expected from Morgans Underground and 62 holes are expected from Westralia underground. Drilling is continuing with four rigs operating on double shift.

...thereby improving project NPV and payback

Completion of the current in-fill program will lift confidence on the Resource (Resource updated expected in the September Q). In addition, the new geological information will improve the understanding of controls on higher grade mineralisation.

**The Feasibility Study is progressing rapidly...**

**...with nine rigs drilling...**

**...GR Engineering appointed to progress the study**

**The regional upside is expected to be tested in CY16**

## FS full speed ahead, catalyst rich

### Feasibility Study

The Mt Morgans Project is rapidly progressing towards the delivery of a DFS, due end of CY16. Nine drill rigs (seven on double shift, two on single shift) are drilling to support the ongoing feasibility work. Project development could commence in early CY17.

Following a recent A\$25m capital raising, DCN has appointed GR Engineering (GNG) to advance its Feasibility Study, and Grant Dyker (ex-Avoca, Doray, Sirius) as its CFO.

### Upcoming catalyst

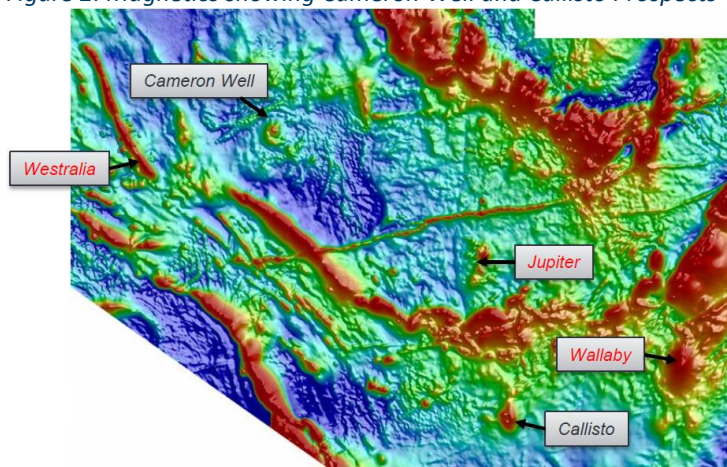
The stock is well-funded with A\$24m cash at 31<sup>st</sup> December. Newsflow expected includes:

- Drilling results from Jupiter (March Q, five rigs drilling)
- Reconnaissance drilling (RAB) at Jupiter proximal targets (March / June Q)
- Drilling results from Westralia (March Q, June Q)
- Resource update at Jupiter (June Q)
- Resource update at Westralia (September Q)
- Completion of key metallurgical test programs (June Q)
- Ongoing study including geotechnical, hydrology, scheduling and designs (ongoing)

### Regional upside

In addition, Argonaut anticipates the Company to systematically test its regional targets in CY16. DCN 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 expected H1 CY16).

Figure 2: Magnetics showing Cameron Well and Callisto Prospects



Source: DCN

In addition, the Company will be testing additional BIF targets including Maxwells and Rainbow Bore.

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**Important Disclosure**

Argonaut currently holds or controls 115,634 DCN shares. Argonaut acted as Joint Lead Manager to the Placement to raise \$25M in November 2015 and received fees commensurate with this service.

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