

SPEC BUY

Current Price **\$1.77**
Target Price **\$1.88**

Ticker: DCN
Sector: Materials

Shares on Issue (m)*: 132.4
Market Cap (\$m): 234.3
Cash Estimate*: 24.4
Enterprise Value (\$m): 209.9
*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

	\$/oz
EV / Reserve	-
EV / Resource	70

Directors:

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

Substantial Shareholders:

Redland Plains	8.7%
Directors	11.8%

Share Price Graph



Tuesday, 22 March 2016

Dacian Gold

Morgans very moreish

Analysts | Matthew Keane | Patrick Chang

Quick Read

Dacian Gold (DCN) released further assay results from infill drilling at Morgans Underground, part of the Mt Morgans Gold Project. Results to date have extended mineralisation, demonstrated continuity and improved confidence which should reallocate a majority of the Inferred Resource to Indicated category. DCN defined a largely contiguous zone of mineralisation along a 700m strike and 400m down dip. The Company should deliver a steady stream of positive news through 2016 from ongoing drilling, resource updates on multiple deposits, metallurgical results and a Feasibility Study, due late 2016. SPEC BUY maintained with a revised target price of \$1.88 (previously \$1.55).

Event & Impact | Positive

Further high grade results: Assays from infill drilling returned further high grade results at the Morgans Underground, including a record intercept of 3.6m @ 48g/t from 527m. Further results included; 3.0m @ 25g/t from 270m and 5.6m @ 23g/t from 469m.

Morgans Underground could boost early production: The 1.2Mt @ 6.83g/t Morgans Underground mining inventory applied to the Scoping Study was based on nine drill holes which supported an Inferred Resource. A drill-out, targeting an upgrade in confidence, is nearing completion and high grade mineralisation has been defined over a ~700m strike and vertical distance of ~400m. Due to its Inferred status, the higher grade Morgans deposit was previously scheduled in years 3 and 4 of the project. Argonaut believes Morgans can deliver 7.0g/t based on recent drill results, and with a higher level of confidence, could be scheduled earlier in the mine life. Mining higher grades earlier increases our modelled production from 205koz to ~240kzpa in the first two years, significantly improving project NPV and reducing payback to <15 months.

Exploration newsflow ongoing: Diamond drilling at Jupiter and Morgans will be completed this month and the drill out of Westralia Underground will commence shortly. This drilling, along with a backlog of assays, will maintain consistent newsflow. DCN is also undertaking a \$1.5m regional exploration program testing potential syenite corridors proximal to Jupiter and geophysical/syenite targets at Callisto and Cameron Well. Two 800m scissor holes at Callisto will test a Jupiter/Wallaby lookalike magnetic anomaly, while at Cameron Well, drilling will follow up previously identified flat lying mineralisation analogous to Jupiter.

Upside to the Scoping study: Argonaut sees opportunities to improve project economics through; higher recoveries resulting from a low cost gravity concentrator, better than forecast grades earlier in the project and mine life extension (see Page 5).

Recommendation

SPEC BUY recommendation maintained with a revised target price of \$1.88 (was \$1.55). Our higher valuation is driven by an increased production profile from higher ounces in the initial years of the project and lower dilution from development equity funding resulting from recent share price accretion.

Morgans Underground could boost early production

Argonaut believes the higher grade Morgans underground will be scheduled earlier...

...increasing production ounces in early years of the project

Due to the lower JORC Resource confidence level, the higher grade Morgans Underground was scheduled later in the project. Following the successful infill drill program, which should move the majority of Resources into the Indicated and Measured categories, we expect ore from this deposit to be processed earlier in the mine life. By Argonauts modelling, moving Morgan Underground ahead in the schedule increases production from ~205kozpa to >240kozpa in the first two years of production. This lifts our project NPV₁₀ to \$367m (from \$283m) and reduces project payback to <15 months.

Further drilling ongoing

Drilling is now shifting to Westralia Underground...

...the key value driver the Mt Morgans Project

Rigs shifting to Westralia Underground

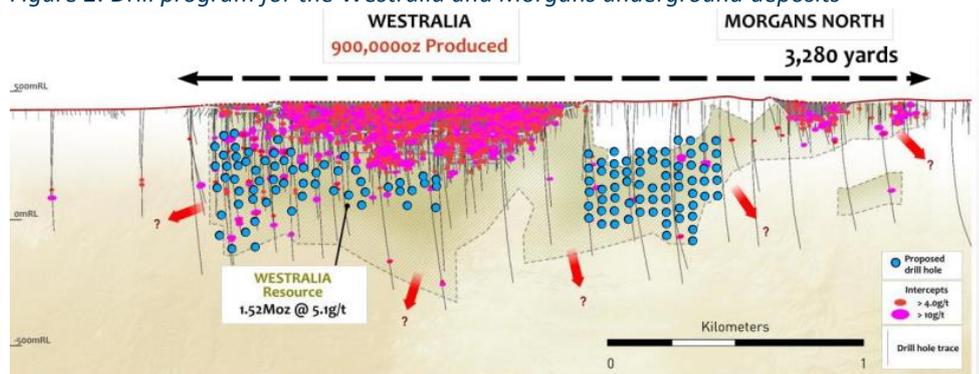
Upon completion of drilling at Morgans Underground, diamond rigs will move to the Westralia Underground deposit (current mining inventory 3.1Mt @ 5.0g/t for 491koz). This deposit is the key economic driver of the project with ~1,500oz per vertical metre and the highest contained ounces (combined ~3,000oz per vertical metre including Morgans). While the current focus remains on drilling out defined deposits, the Westralia region remains open in multiple directions which will be tested in future drill programs. The zone between Westralia and Morgans is particularly interesting with a ~500m untested strike length and evidence from recent drilling that Morgans is extending further to the south. Morgans North also remains open at depth with isolated high grade intercepts below the designed pit. Incorporating mined-out surface zones, the Westralia region has 2.8km of defined mineralisation.

Future programs will test open mineralisation...

...between Morgans and Westralia...

...and below Morgans North

Figure 2: Drill program for the Westralia and Morgans underground deposits



Source: DCN

Regional success would be transformational

Scissoring Callisto

Two scissor holes are planned to test the magnetic anomaly at Calisto next month

DCN is planning two ~800m scissor holes in April to test the magnetic anomaly at Callisto. This geophysical prospect has the same “donut shaped” signature as the syenite hosted 8Moz Wallaby deposit just 8km to the south-east. Historically, three drill holes to a maximum 320m depth have targeted this anomaly, but did not intercept the source of the magnetism. Wallaby, Jupiter and Callisto appear as intrusions along roughly north-south structures in the axis of a large scale antiform.

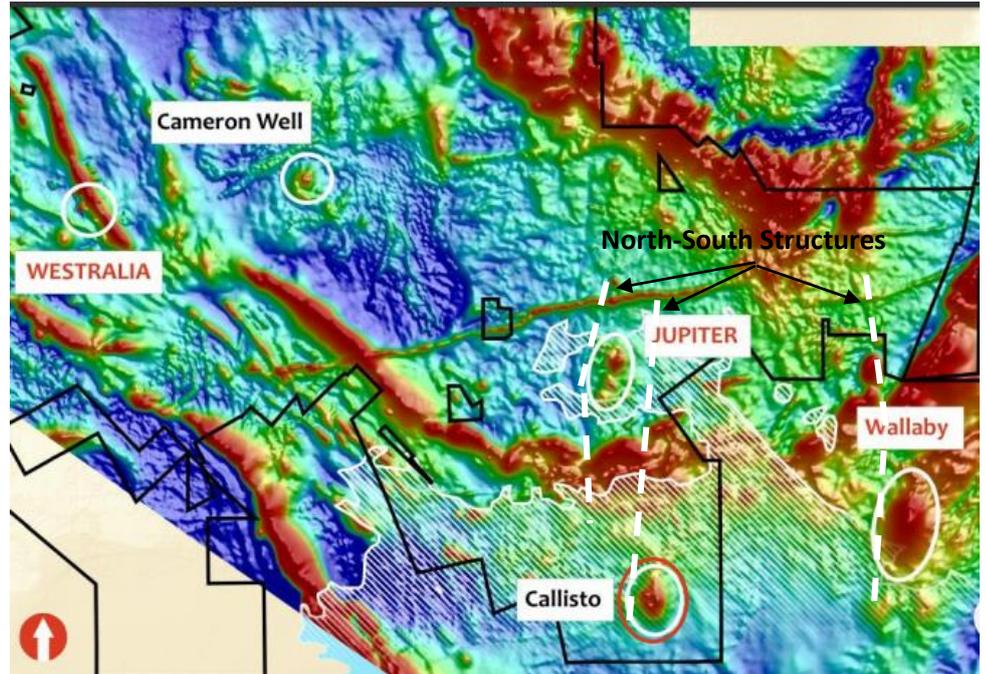
Given the former two are all proven syenites, there is strong potential for Callisto to be a similar geological feature. Attaining drill access to the region is challenging and the reason why this prospect remains largely untested.

Figure 3: Magnetic image of the Mt Morgans and Wallaby projects highlighting the “donut like” comparison of Callisto and Wallaby and potential north-south controlling structures

Callisto appears to be on north-south structures...

...with a similar donut like magnetic signature...

...to the 8Moz Wallaby deposit



Source: DCN (modified by Argonaut)

Cameron Well a proven Syenite hosted gold system

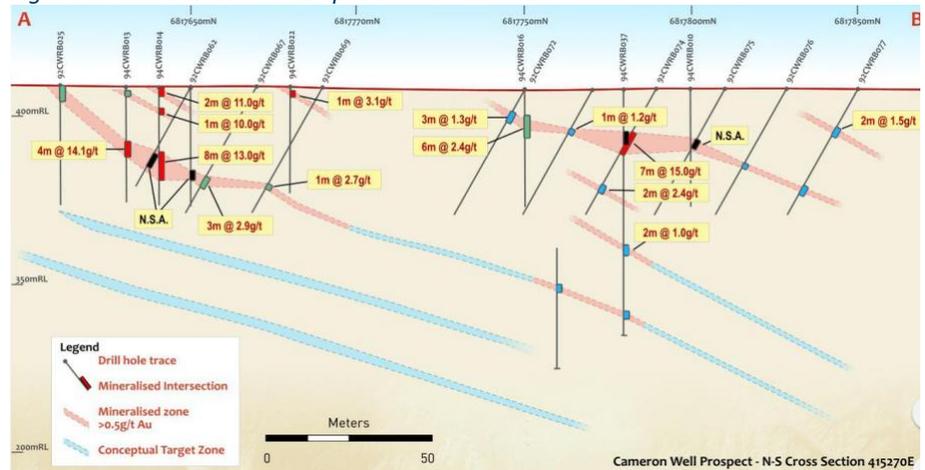
Drilling is also planned at Cameron Well...

Cameron Well appears similar in nature to Jupiter with sub-horizontal mineralised structures cutting a syenite intrusion. The system has a 2km by 1km 0.5g/t geochemical signature in the overlying regolith. The Company will be hoping to find deeper parallel structures and extensions to identify additional mineralised horizons to add scale and grade to the prospect.

...looking for repeated sub-horizontal loads at depth...

...analogous to the Jupiter deposit

Figure 4: Cameron Well conceptual mineralisation



Source: DCN

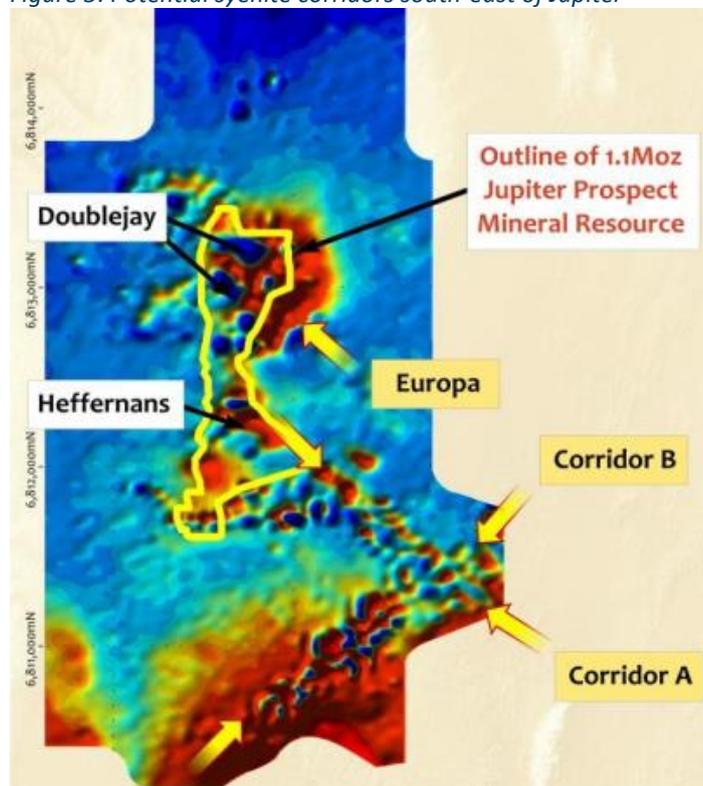
Detailed Magnetics has highlighted potential for further syenites south-east of Jupiter...

Looking for more from Jupiter

Ultra-detailed magnetics has highlighted potential for new syenite corridors to the south-east of Jupiter. Much of this area should be within the reach of the shallow dipping Cornwell Shear, believed to be the controlling structure for Jupiter mineralisation. A ~600 hole RC/RAB reconnaissance program commenced in February this year to test the potential of two prospective corridors running northeast and southwest. When compared to the 2km deep Wallaby system, Jupiter is relatively shallow (600m limited by drilling to date) with a much lower level of geological understanding. The potential for intercepts such as the recent 139m @ 1.2g/t below the existing Doublejay pit highlight opportunity to add significant ounces from this style of mineralisation.

...from potential syenite corridors to the southeast

Figure 5: Potential syenite corridors south-east of Jupiter



...highlighting potential to increase the Resource of this deposit...

...which is still in the early stages of geological understanding

Source: DCN

Argonaut sees upside potential in the upcoming Feasibility Study...

Upside potential in the Feasibility Study

Argonaut sees opportunities to optimise the Mt Morgans gold project, improving economics in the upcoming Feasibility Study.

...including higher recovery from gravity reclaimed gold...

Improved recovery

The 91% recovery applied in the Scoping Study was based upon processing records of the historic Morgans CIP/CIL treatment plant which processed Westralia and Jupiter ore. Argonaut understands this plant did not contain a gravity circuit despite the presence of coarse/visible gold. DCN will incorporate a gravity circuit in the new design which could retrieve up to 30-40% of metal boosting overall recovery and improving processing costs.

We believe there is Resource upside potential from Jupiter...

...incorporating recent long drill intercepts below the existing DoubleJay open pit...

...with will likely result in a deeper pit shell...

...and potentially join all three conceptual open pits into one large 1.8km pit.

Higher grades earlier

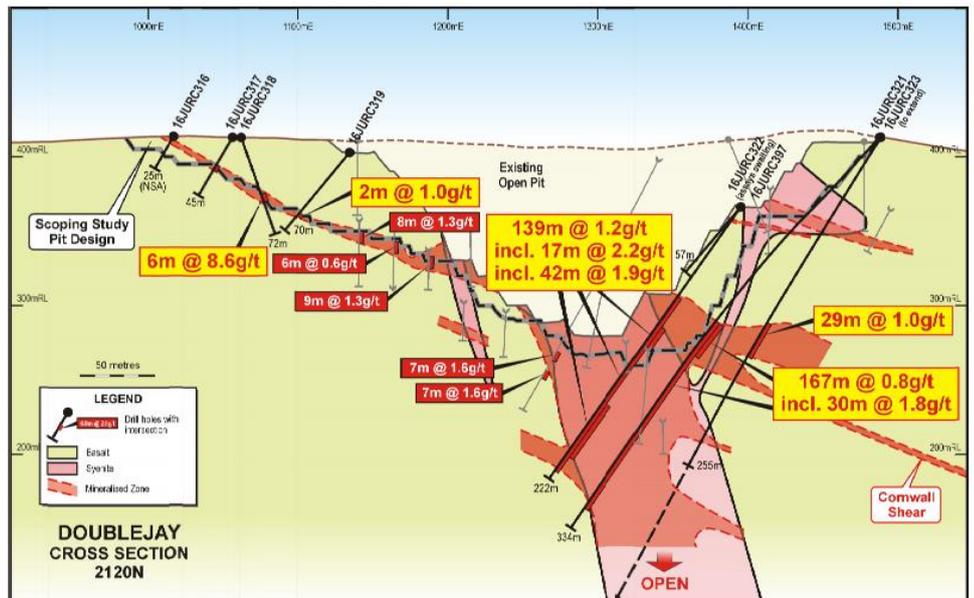
The higher level of Resource confidence following the infill drill program will enable DCN to optimise the mine schedule. Higher margin ore such as Morgans Underground is likely be bought forward in the mining sequence.

Higher ounces and a longer life at Jupiter

Recent drilling at Jupiter reported significant intercepts outside the defined 483koz inventory. Most notable is the thick mineralisation directly below the existing DoubleJay open pit including; 139m @ 1.2g/t Au from 75m and 167m at 0.8g/t Au from 162m.

As shown in the cross section below, these intercepts are well beyond the extent of the planned open pit and should to extend the mining limit by at least ~100m in depth.

Figure 6. Cross section showing high grade mineralisation



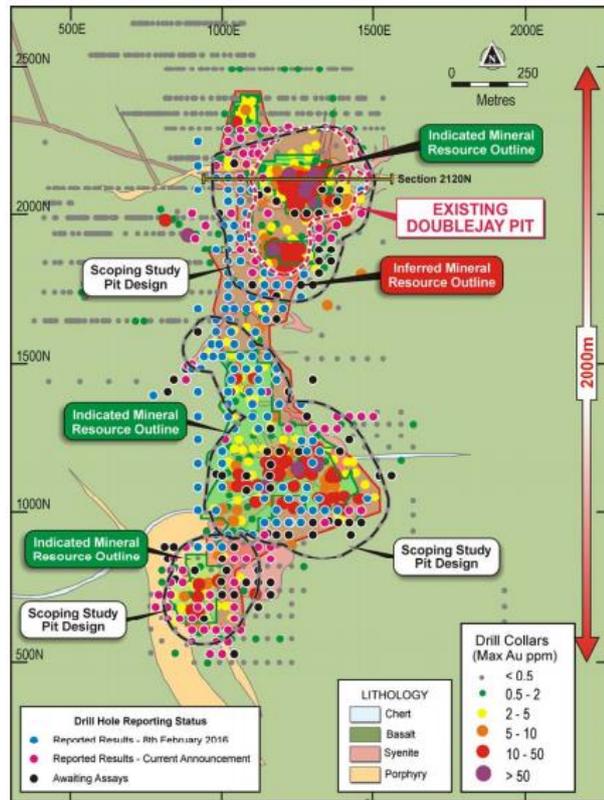
Source: DCN

Recent drilling has also bridged mineralisation between the three conceptual Jupiter pits (DoubleJay, Heffernans and Granymede) which are now likely to be combined into one large open pit extending 1.8km. Argonaut considers a mining sequence with a number of staged cutbacks the most likely concept in the upcoming Feasibility Study. A Resource update for Jupiter is expected late Q2 CY16.

Map plotting historic, recent and expected drill intercepts...

...highlighting continuity of mineralisation of a 1.8km strike

Figure 5. Conceptual pit designs for Jupiter with historic and recent assay depiction



Source: DCN

Valuation

Argonaut's revised valuation incorporates higher grade from Morgans earlier in the mine life

Argonaut's amended valuation for the Mt Morgans project incorporates mining of Morgans Underground at the start of the project. Previously, our grade and production assumptions were largely in line with Scoping Study estimates.

Table 1. Revised grade and production assumptions

Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Scoping Study Grade (g/t)	3.00	2.82	3.81	3.75	1.89	0.99	0.63	
Scoping Study Production (kozpa)	200.2	207.6	280.2	274.6	139.1	73.5	23.4	1,198.6
Argonaut Revised Grade (g/t)	3.80	3.10	3.60	3.00	1.70	1.20	1.00	
Argonaut Revised Production (kozpa)	253.9	226.6	266.3	217.7	123.0	90.3	20.1	1,197.9

Source: Argonaut, DCN

We apply A\$157m capex...

Argonaut's model assumes capex of A\$177m incorporating ~A\$20m working capital and applies 60:40 debt to equity funding. Our all-in sustaining cost estimate for steady state production of A\$990/oz is slightly higher than the Scoping Study (A\$929/oz LOM).

...and derive an NPV₁₀ value of A\$367m for Mt Morgans...

Table 2. Valuation summary

Valuation Summary	A\$m	A\$/sh
Mt Morgans	367.4	1.79
Additional Resources	10.5	0.05
Exploration	30.0	0.15
Forwards	0.0	0.00
Corporate	-32.4	-0.16
Cash Estimate	10.0	0.05
Total @10% discount rate	385.5	1.88

...and a Company AV of A\$385m

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Important disclosure

Argonaut acted as Joint Lead Manager to the Placement to raise \$25M in November 2015 and received fees commensurate with this service.

Argonaut currently holds or controls 115,634 DCN shares.

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