

Quick Comment

Dacian Gold Ltd (DCN \$1.99) Speculative Buy

| Analyst | Date | Price Target |
|------------|---------------------------|--------------|
| Jon Bishop | 1 st June 2016 | \$2.50/sh |

Further Strong Assays from Morgans U/G Drilling

Key points

- DCN has returned some spectacularly drilling intercepts from the final 34 diamond holes from the Morgans underground in-frill programme:
 - 12m @ 5.7g/t;
 - 5.6m @ 5.1g/t;
 - 5.1m @ 7.4g/t;
 - 4.3m @ 22.4g/t;
 - 4.3 @ 17.5g/t; and
 - 4.0m @ 13.9g/t
- The results complete a programme designed on 50x50m spacing to upgrade the Morgans underground resource to Indicated and enable estimation of a mineable reserve in the mine plan;
- Whilst predominantly infill there is potential to combine multiple intersections into larger, high grade mineralised intervals, noting observation of several subparallel intervals. This augers well for the potential for larger scale mining methods as part of the Morgans underground development strategy;
- With a true width of 3m and defined over a 750m (strike) x 450m (dip) area we estimate the resource could grow from ~345koz to +500koz @ 8-9 g/t Au. The scoping study had a mining inventory of 244koz @ 6.8 g/t and we expect this to grow considerably;
- The results from the final 26 diamond holes at Westralia underground are due this month;
- The Westralia open pit and underground extends for ~1km with historical production of 900koz @ 4.5 g/t. Mineralisation is contained within the basalt/Banded Iron Formation ('BIF') contact and the footwall BIF discovery (Morgans U/G) of 344koz @ 9.1 g/t Au north of the previously thought terminating fault is impressive.
- An upgraded resource for both the Westralia-Morgans underground and Jupiter projects are due in July with maiden ore reserves due in August;
- We see these as key catalysts in that they should fill out the production profile (substantiating LOM av. production closer to the peak output rate of +250kozpa forecast for yrs 3&4 under the scoping study) and potential extend mine life, enhancing project economics;
- Likewise, drilling of exploration targets such as Callisto should also capture market attention;
- Catalyst rich over medium term, complemented by proven Management and a market with a thirst for Australian domestic gold companies, we view that DCN will continue to outperform;
- We set a \$2.50/sh Price Target though see risk to the upside with clear likelihood for resource growth and corresponding boost to project economics.

Investment Thesis

DCN continues to be our preferred emerging gold producer. Today's release builds upon the insights gained from our site visit that highlighted the large scale and excellent optionality on both the open pit and underground resource. Furthermore, the recently completed 90,000m drill program points to significant resource growth and economies of scale if a single large open pit is justified. The potential for higher production in the early years as Morgans U/G is bought forward should improve the scoping study economics. The exploration upside is substantial with newly identified prospective syenite corridors. We retain our Spec Buy recommendation with a \$2.50/sh Price Target.

Dacian Gold Ltd (DCN)

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|-----------------------|------|--------|---------------------|----------|-------|
| Share Price | 1.99 | A\$/sh | Enterprise Value | 246 | A\$/m |
| Price Target | 2.50 | A\$/sh | Debt | 0 | A\$/m |
| Valuation | 2.46 | A\$/sh | Cash est. | 17 | A\$/m |
| Shares on issue | 132 | m(dil) | Largest Shareholder | Colonial | 6.2% |
| Market Capitalisation | 263 | A\$m | | | |

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