DUKETON MINING LIMITED (DKM)

Gold and Nickel Exploration Coming to the Fore

Duketon Mining (DKM) remains focused on nickel and gold exploration within the highly prospective Duketon Greenstone Belt.

The Company’s gold-only exploration JV with Regis Resources (RRL) continues to provide early encouragement, with the clock now ticking for RRL to earn its 75% interest by committing to a decision to mine within a 2 year period (commenced 13th October 2015). RRL has well established gold operations (processing infrastructure) throughout the Duketon Belt, and as such can monetise any new gold discoveries rapidly. Higher grade ore sources could potentially displace current low grade feed at the existing operations. DKM retains exposure to any discoveries which could provide future cash flows, or potentially be diverted for cash, or retained royalties.

The exploration JV is over only a small proportion (~19%) of DKM’s ground holdings, with the JV ground largely contiguous to RRL’s Moolart Well project area, and contain a number of prospective shear zones along strike from known gold deposits. For example, RRL’s Petra gold deposit, located 15kms ESE of the Moolart Well gold plant has a shallow (potential open pit) resource of 42Koz (@ 3.12g/t Au), with the controlling structure for gold mineralisation trending into the JV ground, up to the tenement boundary. This structure will likely be drill-tested in the coming quarters.

Recently completed exploration by RRL focused largely on surface geochemical sampling, with first pass reconnaissance and infill follow-up expected to be concluded in the MarQ. Geochemical anomalies are expected to be tested by aircore bedrock drilling in the latter parts of the MarQ. In addition, drill programs (likely RC) have been proposed for the gold mineralised trends at North Petra and North Garden Well.

Drilling 100%-owned ground a key near term catalyst

DKM continues to advance its key nickel prospects (Rosie, C2 and the Nariz discovery), while focused on new high-grade discoveries. The most recent interpretation of the Nariz nickel discovery is that a new target zone, highlighted by DHEM and geological models, below and to the east and west of the original discovery (~5.7m @ 7.1% Ni, 0.5% Cu and 3.8g/t Pt+Pd from ~438m) requires drill testing (planning underway).

The Company has also identified a compelling geophysical (DHEM) anomaly ~300m west of the Rosie contact on the C2 mineralised contact, which has been interpreted to be a potential repeat to the Rosie nickel deposit. This nickel target (141) is planned to be tested by drilling early in 2016.

Recent gold exploration at the South East Bulge prospect has confirmed a 2km long gold trend via aircore bedrock drilling. The shallow aircore program was successful in increasing the width of mineralisation across strike and reinforcing the gold trend, which appears to be depleted near-surface. Further aircore drilling is proposed to infill the gold anomaly before deeper RC drilling in March/April 2016. DKM has a pipeline of gold targets to test with drilling also set to commence at Davies and Henry’s Bore (Kulguddy prospect).

Duketon has estimated cash of ~$4.4m (plus ~$1.5m in listed investments), and remains well funded for planned exploration. We maintain our Speculative Buy recommendation, with a price target of 28cps. The Company’s very low EV (~$3.3m) makes it a compelling investment case.
**SUMMARY MODEL**

<table>
<thead>
<tr>
<th>Duketon Mining</th>
<th>Share Price</th>
<th>$0.120</th>
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</table>

**Key Market Information**

<table>
<thead>
<tr>
<th>Share Price</th>
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<tbody>
<tr>
<td>Market Capitalisation</td>
<td>$9.3m</td>
</tr>
<tr>
<td>Market Capitalisation - full dil.</td>
<td>$13.9m</td>
</tr>
<tr>
<td>Net Cash (Debt)</td>
<td>$4.4m</td>
</tr>
<tr>
<td>Listed Investments (est)</td>
<td>$1.5m</td>
</tr>
<tr>
<td>Issued Capital</td>
<td>77.39m</td>
</tr>
<tr>
<td>Options</td>
<td>38.65m</td>
</tr>
<tr>
<td>Issued Capital (fully diluted all options)</td>
<td>116.0m</td>
</tr>
<tr>
<td>EV - incl. listed invest</td>
<td>$3.3m</td>
</tr>
<tr>
<td>EV - full diluted, option cash</td>
<td>$-1.9m</td>
</tr>
<tr>
<td>Price Target</td>
<td>$0.28</td>
</tr>
</tbody>
</table>

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- Heath Hellewell (Non-Exec Director) +61 8 6315 1490
- Dennis Wilkins (Comp Secretary) +61 8 9322 7602

**Top Shareholders**

<table>
<thead>
<tr>
<th>m shs</th>
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<tr>
<td>4.1</td>
<td>5.2%</td>
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**Projects**

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<th>Interest</th>
<th>Location</th>
<th>Commodity</th>
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<tbody>
<tr>
<td>Duketon</td>
<td>100%</td>
<td>WA</td>
<td>Ni, Au, Cu, PGE</td>
</tr>
<tr>
<td>Eastern Goldfields</td>
<td>100%</td>
<td>WA</td>
<td>Ni, Au, Cu, PGE</td>
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**JORC Resources**

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<tr>
<th>Rosie - Nickel</th>
<th>Mt</th>
<th>Grade</th>
<th>Metal (t)</th>
<th>LC</th>
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<tbody>
<tr>
<td>Indicated</td>
<td>1.41</td>
<td>1.7% Ni</td>
<td>24,100</td>
<td>1.0% Ni</td>
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<tr>
<td>Inferring</td>
<td>0.53</td>
<td>1.6% Ni</td>
<td>8,600</td>
<td>1.0% Ni</td>
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<tr>
<td>Total</td>
<td>1.94</td>
<td>1.7% Ni</td>
<td>32,700</td>
<td>1.0% Ni</td>
</tr>
<tr>
<td>C2 - Nickel</td>
<td>5.70</td>
<td>0.7% Ni</td>
<td>38,000</td>
<td>0.5% Ni</td>
</tr>
<tr>
<td>Total</td>
<td>5.70</td>
<td>0.7% Ni</td>
<td>38,000</td>
<td>0.5% Ni</td>
</tr>
</tbody>
</table>

**Duketon Total**

| 7.64 | 0.9% Ni | 70,700 |

**Investment Summary**

Great nickel and gold address, considered largely underexplored. New gold JV with RRL over some ground. Strong potential to grow resources and make new discoveries. Well-funded for planned exploration.

**Newsflow**

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<tr>
<th>Project</th>
<th>FY16</th>
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<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
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<tr>
<td>Q1 CY16</td>
<td>RRL gold JV aircore drilling</td>
<td>Duke JV</td>
<td></td>
<td></td>
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<tr>
<td>Q1/Q2 CY16</td>
<td>RRL gold JV follow-up RC</td>
<td>Duke JV</td>
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<td></td>
<td></td>
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<tr>
<td>Q1 CY16</td>
<td>Gold aircore drilling</td>
<td>Duke</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1/Q2 CY16</td>
<td>Nickel target testing</td>
<td>Duke</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 CY16</td>
<td>Gold target testing RC</td>
<td>Duke</td>
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**Unpaid Capital**

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<tr>
<th>No (m)</th>
<th>$ (m)</th>
<th>Ave Pr</th>
<th>% Ord</th>
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<tr>
<td>38.65</td>
<td>9.86</td>
<td>0.255</td>
<td>49.9%</td>
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**Options**

<table>
<thead>
<tr>
<th>Options</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
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<tbody>
<tr>
<td>0.00</td>
<td>3.30</td>
<td>30.30</td>
<td>5.05</td>
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</tr>
<tr>
<td>0.00</td>
<td>1.14</td>
<td>7.71</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>0.345</td>
<td>0.254</td>
<td>0.201</td>
<td>0.201</td>
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</tr>
<tr>
<td>4.3%</td>
<td>39.2%</td>
<td>6.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments**

Duketon Project is the flagship project and is considered highly prospective for nickel and gold mineralisation.

**Analysis**

- Mike Millikan
- Phone: +61 8 9268 2805

**Sources:** IRESS, Company Information, Hartleys Research
RRL GOLD JV

RRL can earn a 75% interest in the ground, by committing to a decision to mine within a 2 year time frame.

Upon the decision to mine any gold deposits discovered, DKM can contribute to the mining JV, sell for a fixed $850,000 in cash, or convert to a 2% NSR on gold production.

DKM retains all non-gold rights.

NEW NICKEL TARGET

New high-priority DHTEM nickel target (141) planned to be drill-tested in early 2016.

Target located ~300m west of Rosie on the C2 contact.

Plate model 200m x 200m.

Represents a potential structural repeat of Rosie.

Source: Duketon Mining Limited
**NARIZ NEW EM TARGET**

New priority target zone identified at the high-grade Nariz nickel discovery.

The target zone is positioned below and to the east and west of the original Nariz discovery hole which reported ~5.7m @ 7.1% Ni, 0.5% Cu and 3.8g/t Pt+Pd from ~438m.

**GOLD 100% DKM**

Anomalous 2km long gold trend located at the South East Bulge prospect confirmed by aircore drilling.

Highly prospective rocks encountered in the drilling which include sheared mafics and ultramafics.

Deeply weathered regolith has depleted some of the surficial gold responses but still highly anomalous to the background levels.
**Price Target Methodology**

Duketon remains focused on nickel and gold exploration within the Duketon Belt. Its nickel exploration activities are more advanced than the gold exploration activities which are considered early stage.

The nickel exploration strategy is focused on the high-grade zones within and around the Rosie nickel deposit, and shallow mineralised zones within the C2 nickel deposit, both located within the Bulge Ultramafic Complex. Exploration has already led to a new nickel discovery at Nariz.

Lateral extensions at and along strike of Rosie, C2 and Nariz remain a key focus area, with the new C2-141 DHEM target, representing a high priority target that requires drill-testing. Rosie contains a resource estimate for ~33Kt of nickel, along with potential credits from copper (~8Kt) and PGE (118Koz Pt+Pd). Over 70% of the resource is Indicated, but further metallurgical testwork is required. C2 is a largely disseminated sulphide deposit which contains a resource estimate for ~38Kt of nickel, taking Duketon’s nickel resource base to ~71Kt. From completed preliminary mining studies C2 is expected to be amenable to shallow open pit extraction and we would expect favourable nickel recoveries (+80-90%), though yet to be reported.

In our opinion, a mining inventory of ~100Kt of contained nickel will be required to justify a potential standalone operation or the transportation of ore to a third party concentrator (ie BHP NiWest’s Leinster concentrator, which currently has idle capacity and is entertaining third part ore purchases; or WSA’s Cosmos concentrator (current care and maintainence)). This mining inventory size would provide production of ~10Kt of nickel per annum over a 7 to 10 year period (dependent on resource conversion, final metallurgical testwork, etc). At this stage we treat Duketon as an explorer which can progress towards development, if and when critical mass is established on the resource front and nickel prices are more favourable.

The Duketon Belt has proven nickel and gold endowment and through systematic exploration we expect the Company will have more drill success leading to resource extensions and new discoveries. DKM has mineral deposits that can progress into the early development/feasibility stage, this is potentially the most rewarding part of the lifecycle but requires funding/derisking.

We have a preliminary price target assigned to Duketon Mining, which is largely based on peer comparison and exploration value. Our price target for DKM includes weighting for the peer comparison, nominal exploration value and a weighting for the current net cash backing. Our latest price target is 28cps. The exploration JV with Regis provides Duketon with exposure to any gold discoveries with the JV ground, which could provide future production for early cash flows or potentially be divested for cash or retain royalties.

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**Fig. 5: Price Target Methodology**

<table>
<thead>
<tr>
<th>Price Target Methodology</th>
<th>Weighting</th>
<th>Spot</th>
<th>12 Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer comparison metric valuation</td>
<td>30%</td>
<td>$0.20</td>
<td>$0.27</td>
</tr>
<tr>
<td>Nominal exploration value</td>
<td>55%</td>
<td>$0.26</td>
<td>$0.29</td>
</tr>
<tr>
<td>+ Nariz (ie new Rosie-size at good-grade), new Ni, Au discoveries</td>
<td>10%</td>
<td>$0.33</td>
<td>$0.40</td>
</tr>
<tr>
<td>Net cash backing</td>
<td>5%</td>
<td>$0.06</td>
<td>$0.05</td>
</tr>
<tr>
<td><strong>Risk weighted composite</strong></td>
<td></td>
<td><strong>$0.24</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Price Target</strong></td>
<td></td>
<td><strong>$0.28</strong></td>
<td></td>
</tr>
<tr>
<td>Shareprice - Last</td>
<td></td>
<td>$0.120</td>
<td></td>
</tr>
<tr>
<td><strong>12 mth total return (% to 12mth target + dividend)</strong></td>
<td>137%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Hartleys Estimate
Risks

Key risks for Duketon include developing a project that will be economically viable, and obtaining funding for ongoing exploration. Weather, land access, metallurgical testwork, ore deposit delineating, retaining key people are all risks.

**Fig. 6: Key Risks**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Risk of not realising assumption</th>
<th>Downside risk to share price if assumption is incorrect</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely land access</td>
<td>Low</td>
<td>Med</td>
<td>The Duketon Project is contained within crown land with no native title claims. Land access and approvals are at the mines department level, with program of work needing to be approved prior to exploration. Rosie, C2, Nariz and Terminator are located within a granted mining lease.</td>
</tr>
<tr>
<td>Funding for ongoing exploration</td>
<td>Low-Med</td>
<td>Med</td>
<td>We estimate DKM has a current cash position ~$4.4m, with listed investment worth a further ~A$1.5m. To achieve the Company’s longer term milestones it will require funding for further exploration and development studies. We expect this funding will be realised with minimal risk to the downside. The JV agreement with RRL provides exploration funding for some ground, and this model could be potentially applied to additional DKM tenements</td>
</tr>
<tr>
<td>Preliminary Metallurgical testing</td>
<td>Low-Med</td>
<td>Med-High</td>
<td>Only preliminary metallurgical test-work has been completed but not as yet released. Test work is needed to ensure favourable metallurgical recoveries to prove an economic reserve. Poor metallurgical results are a downside risk to the share price.</td>
</tr>
<tr>
<td>Feasible project development</td>
<td>Med</td>
<td>Med-High</td>
<td>No development studies have as yet commenced. We expect given favourable metallurgical work that scoping activities can progress when nickel prices are more favourable.</td>
</tr>
<tr>
<td>Commodity prices</td>
<td>Med</td>
<td>High</td>
<td>The project remains highly sensitive to commodity price movements and sentiment. The Company’s exploration focus is Ni-Cu-PGE and Au deposits, with commodity exposure to nickel, copper, PGE’s, gold, along with others. The mineral field in which DKM is currently focused is Greenfields, we view DKM as having a high exposure to underlying commodity prices</td>
</tr>
</tbody>
</table>

**Conclusion**

At this stage we consider the assumptions have a low to medium risk of not being achieved.

Our price target is based on assumptions, some of which are speculative

Source: Hartleys Research
HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories
Buy
Share price appreciation anticipated.
Accumulate
Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral
Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits
It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell
Significant price depreciation anticipated.
No Rating
No recommendation.
Speculative Buy
Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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