

3 Oct 2016

DUKETON MINING LIMITED (DKM)

Davies Bore gold upgraded by latest drilling

Duketon Mining (DKM) recently received highly encouraging first assays from RC drilling at the 100%-owned Davies Bore gold prospect.

Significant results include **35m @ 2.3 g/t Au** from 79m, which included a higher grade interval of **9m @ 7.6 g/t Au**. The first round of RC drilling at the prospect is targeting a +1.2km long gold anomaly, previously defined through broad-spaced aircore drilling, which returned a drill highlight of **4m @ 5.2g/t Au**. The shallow mineralisation at Davies Bore remains open to the north-west and south-east, and at depth. Due to the nature of the drilling completed to date (RC and aircore) true width and mineralised orientation is still to be determined, with more assays pending.

Follow-up diamond drilling is expected to commence in the coming days, with additional aircore and RC drilling planned further to the north and south. With three drill rigs now on site to accelerate the program, strong news flow is anticipated providing opportunities for further share price appreciation

Importantly, the Davies Bore gold discovery is well located within the Duketon Greenstone Belt only ~5km west of Regis Resources' (RRL) Rosemont gold mine/plant (2Mtpa). A new gold zone so close to an operating gold mine could have commercial value, assuming the prospect progresses through deposit definition and ultimately resources and reserves overtime.

Drilling to define the extent of gold mineralisation ongoing

The first round of RC results have upgraded the prospect in our opinion, especially in terms of mineralised continuity along section, with broad mineralisation (~35m and ~41m) confirmed in two holes some 100m apart. Davies Bore has the hallmarks of a potentially large system, which so far is defined within ~60m of surface. We see good potential for mineralisation to extend along strike (+1.5km) and at depth, with the planned diamond drilling expected to provide critical geological understanding for mineralised orientation and plunge direction. Similar to the Rosemount gold deposit, mineralisation at Davies Bore is largely quartz hosted within mafics, along a major north-west shear zone.

Drilling underway on JV ground fully funded by neighbour RRL

In addition to exploration within 100%-owned tenure, DKM has a gold-only exploration JV with RRL, over some tenure, to the west of RRL's Moolart Well gold mine and north of RRL's Garden Well. Recent drill activities have largely focused at Petra North, Hack's Bore and Commonwealth. Hack's Bore is considered an analogue target to Garden Well (+2Moz), located 5kms along strike to the south. Aircore drill results are eagerly anticipated but overdue.

Making new gold discoveries; Maintain Speculative Buy

New ore sources remains a priority for RRL and we would suspect that a potential new gold deposit (Davies Bore) within 5km of processing infrastructure could be of particular interest. In addition, potentially significant mineralisation has been previously reported at Henry's Bore South, also within 100%-DKM ground only 3km north-west of Davies Bore. Other gold prospects to be tested include Murphy Hills, Lancefield North and Golden Star, all expected to be drilled before the end of CY16.

Duketon has estimated cash and liquids of ~\$8.5m; well-funded for planned exploration. We maintain our Speculative Buy with a price target of 42cps.

Share Price	\$0.280
Price Target	\$0.42

Brief Business Description:

Focused on gold and nickel exploration/development.

Hartleys Brief Investment Conclusion

Great gold and nickel address, considered largely underexplored. New gold JV with RRL over some ground but also retains 100%-owned gold prospects. Strong potential to grow resources and make new discoveries. Well-funded for planned exploration.

Chairman & MD

Seamus Cornelius (Non-Exec Chairman)

Stuart Fogarty (Managing Director)

Top Shareholders

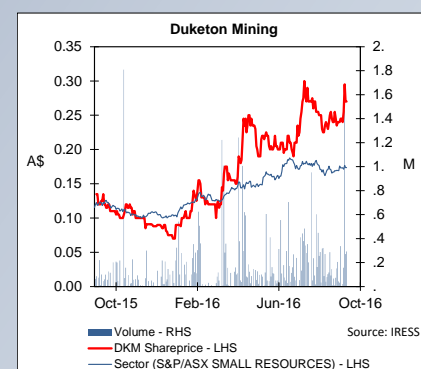
Montezuma Mining	5.2%
Directors	3.9%

Company Address

31 Ventnor Avenue
West Perth, WA 6005

Issued Capital	103.2m
- fully diluted	141.8m
Market Cap	A\$28.9m
- fully diluted	A\$39.7m
Cash (est)	A\$7.5m
Listed Investments (est)	A\$1.0m
Debt (est)	A\$0.0m
EV - incl. listed investments	A\$20.4m
EV - full diluted, option cash	A\$21.3m

	Mt	Ni (Kt)	Cu (Kt)
Reserves	-	-	-
Resources	7.6	70.7	10.4



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Hartleys has completed a capital raising in the past 12 months for Duketon Mining for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Duketon, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 3,000,000 DKM options.

SUMMARY MODEL

Duketon Mining DKM		Share Price \$0.280		Oct-16 Speculative Buy	
Key Market Information					
Share Price					
Market Capitalisation					
Market Capitalisation - full dil.					
Net Cash (Debt)					
Listed Investments (est)					
Issued Capital					
Options					
Issued Capital (fully diluted all options)					
EV - incl. listed invest					
EV - full diluted, option cash					
Price Target					\$0.42
Directors					
Company Details					
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Stuart Fogarty (Managing Director)			West Perth, WA 6005		
Heath Hellewell (Non-Exec Director)			+61 8 6315 1490		
Dennis Wilkins (Comp Secretary)			+61 8 9322 7602		
www.duketonmining.com.au					
Top Shareholders					
		m shs		%	
Montezuma Mining		5.4		5.2%	
Directors		4.1		3.9%	
Investment Summary					
Great gold and nickel address, considered largely underexplored. New gold JV with RRL over some ground but also retains 100%-owned gold prospects. Strong potential to grow resources and make new discoveries. Well-funded for planned exploration.					
Newsflow					
				Project	
Q3/Q4 CY16	RRL gold JV	aircore drilling		Duke JV	
Q4 CY16	RRL gold JV	follow-up RC		Duke JV	
Q3 CY16	Gold RC	drilling		Duke	
Q3/Q4 CY16	Gold DD, RC	and aircore drilling		Duke	
Q4 CY16	Nickel target	testing		Duke	
Unpaid Capital					
		No (m)	\$ (m)	Ave Pr	% Ord
Options					
FY17		0.00	0.00	nm	0.0%
FY18		3.30	1.14	0.345	3.2%
FY19		30.30	7.71	0.254	29.4%
FY20		5.05	1.01	0.201	4.9%
Total		38.65	9.86	0.255	37.5%
Comments					
Duketon Project is the flagship project and is considered highly prospective for nickel and gold mineralisation					
Projects					
Projects	Interest	Location	Commodity		
Duketon	100%	WA	Ni, Au, Cu, PGE		
Eastern Goldfields	100%	WA	Ni, Au, Cu, PGE		
JORC Resources					
	Mt	Grade	Metal (t)	LC	
Rosie - Nickel					
Indicated	1.41	1.7% Ni	24,100	1.0% Ni	
Inferred	0.53	1.6% Ni	8,600	1.0% Ni	
Total	1.94	1.7% Ni	32,700	1.0% Ni	
C2 - Nickel					
Inferred	5.70	0.7% Ni	38,000	0.5% Ni	
Total	5.70	0.7% Ni	38,000	0.5% Ni	
Duketon Total	7.64	0.9% Ni	70,700		
P&L					
	FY2016F	FY2017F	FY2018F		
Net Revenue	na	na	na		
Total Costs	na	na	na		
EBITDA	na	na	na		
Deprec/Amort	na	na	na		
EBIT	na	na	na		
Net Interest	na	na	na		
Pre-Tax Profit	na	na	na		
Tax Expense	na	na	na		
NPAT	loss	loss	loss		
Abnormal Items	na	na	na		
Reported Profit	loss	loss	loss		
Analyst: Mike Millikan					
Phone: +61 8 9268 2805				Last Updated: 03/10/2016	
Sources: IRESS, Company Information, Hartleys Research					

Davies Bore prospect is well located only ~5km to the west of RRL's Rosemont gold mine

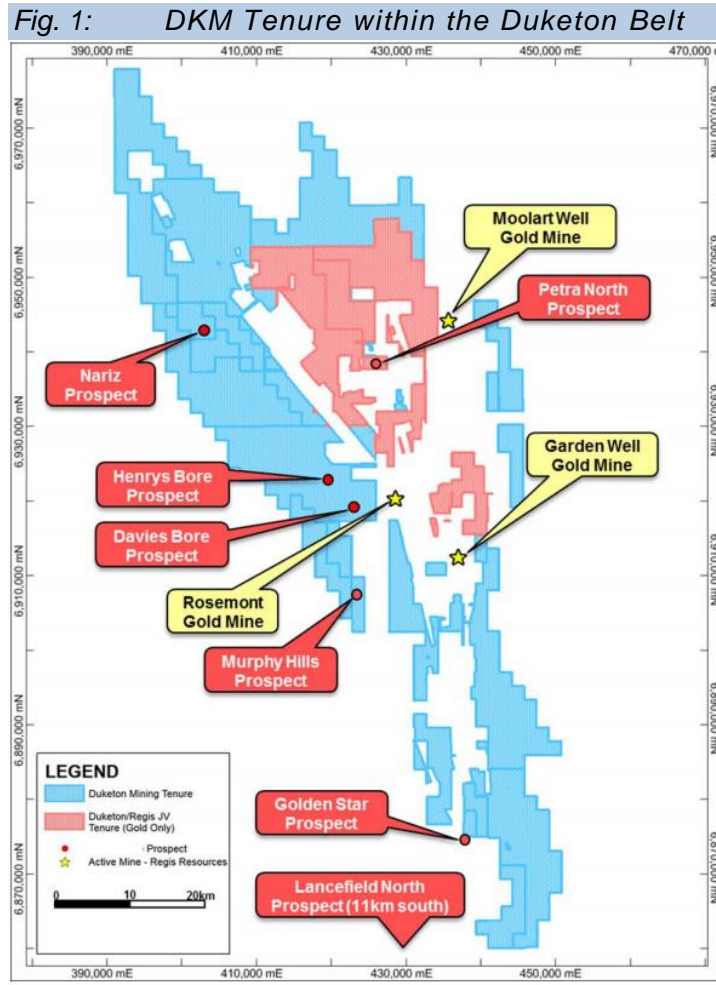
The Davies Bore prospect is defined by a significant gold anomaly which remains open but already spans +1.2km

Some of the better latest RC drill results include:

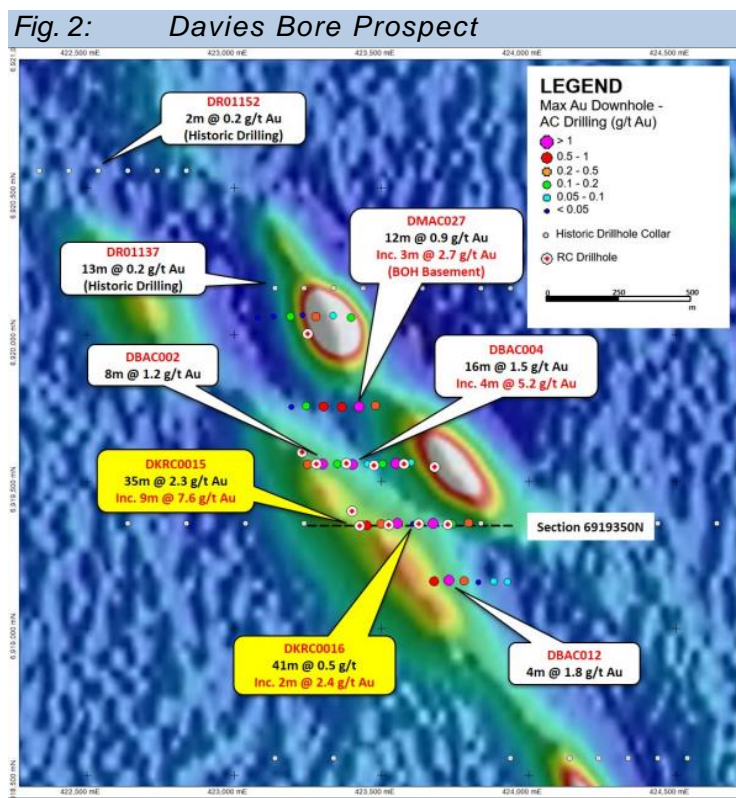
- 35m @ 2.3 g/t Au from 79m, including 9m @ 7.6 g/t Au;
- 2m @ 7.4 g/t Au from 37m, including 1m @ 14.4 g/t Au;
- 5m @ 1.2 g/t Au from 67m, including 3m @ 2.0 g/t Au;
- 41m @ 0.5 g/t Au from 197m, including 2m @ 2.4 g/t Au

Remains open to the north-west, south-east and at depth

More assays pending

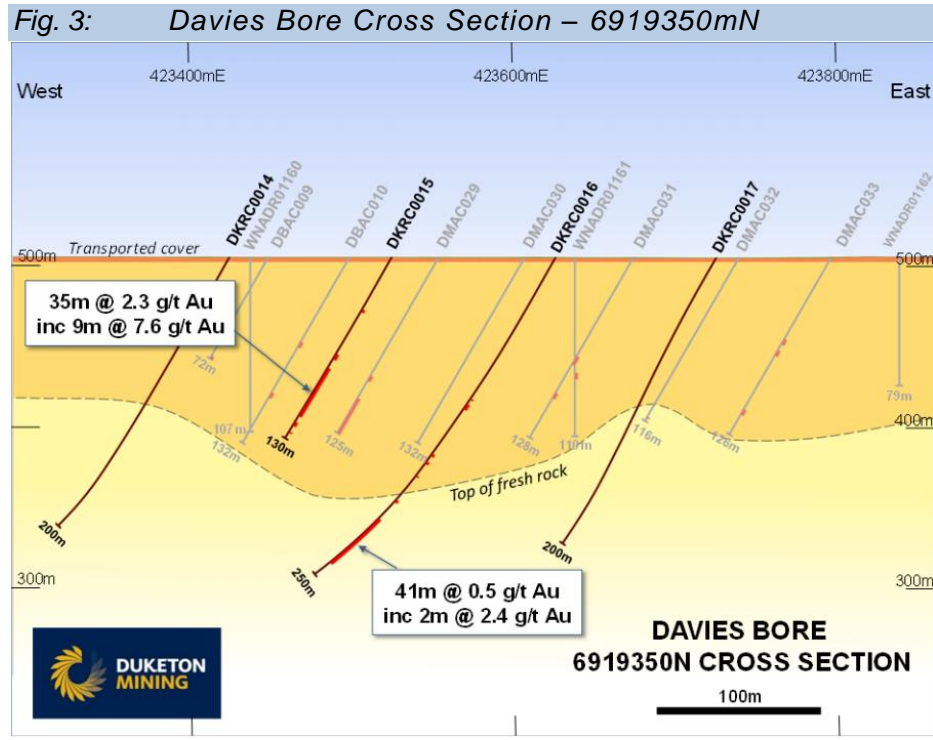


Source: Duketon Mining Limited



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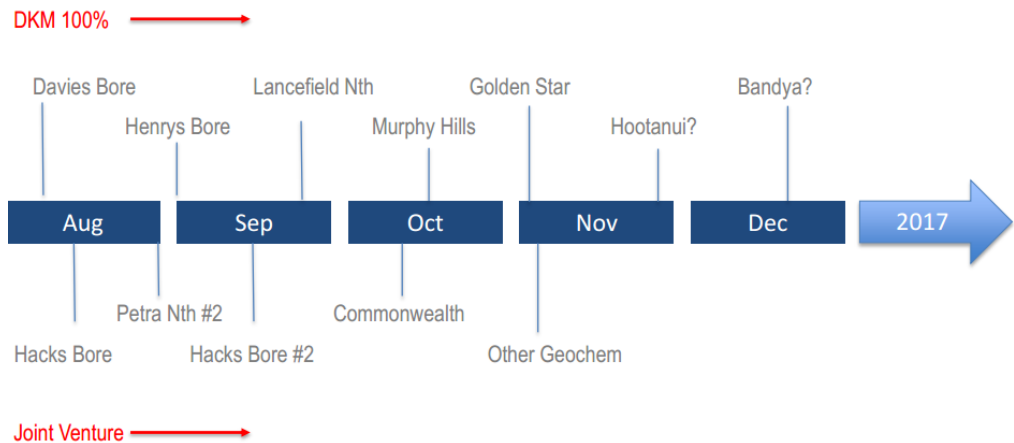
Similar to the Rosemount gold deposit, mineralisation at Davies Bore is largely quartz hosted within mafics, along a major north-west shear zone



Source: Duketon Mining Limited

Fig. 4: Gold Prospect Testing Indicative Schedule

Very active next 6 to 12 months, both on 100% DKM ground and JV ground with RRL



Source: Duketon Mining Limited

Price Target Methodology

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

DKM remains focused on nickel and gold exploration within the Duketon Belt

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.

We consider DKM to be a high risk/high reward investment given its early stage nature

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 party ore purchases; or WSA's Cosmos concentrator (current care and maintenance)). 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 42cps (up from 30cps). 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.

Our DKM 12-month price target is 42cps (up from 30cps)

Fig. 5: Price Target Methodology

Price Target Methodology	Weighting	Spot	12 Month
Peer comparison metric valuation	25%	\$0.22	\$0.27
Nominal exploration value	30%	\$0.35	\$0.39
+ Nariz Ni, New Au discoveries	40%	\$0.54	\$0.59
Net cash backing	5%	\$0.07	\$0.07
Risk weighted composite		\$0.38	
Price Target		\$0.42	
Shareprice - Last		\$0.280	
12 mth total return (% to 12mth target + dividend)		51%	

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

Assumption	Risk of not realising assumption	Downside risk to share price if assumption is incorrect	Comment
Funding for ongoing exploration	High	High	We estimate DKM has a current cash position ~\$7.5m, with listed investment worth a further ~A\$1.0m. 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
Preliminary Metallurgical testing	Low-Med	Med-High	Only preliminary metallurgical test-work on nickel deposits has been completed. 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.
Feasible project development	High	High	No development studies have as yet commenced. We expect given favourable metallurgical work that scoping activities can progress when nickel prices are more favourable.
Commodity prices	High	Extreme	The project remains highly sensitive to commodity price movements and sentiment. 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

Conclusion

*At this stage we consider the assumptions have a high risk of not being achieved.
Our price target is based on assumptions, some of which are speculative*

Source: Hartleys Research

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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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