

7 Apr 2016

Share Price	\$0.145
Price Target	\$0.28

### Brief Business Description:

Focused on nickel and gold exploration/development.

### Hartleys Brief Investment Conclusion

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.

### Chairman & MD

Seamus Cornelius (Non-Exec Chairman)

Stuart Fogarty (Managing Director)

### Top Shareholders

Directors 5.2%

### Company Address

31 Ventnor Avenue  
West Perth, WA 6005

**Issued Capital** 77.4m

- fully diluted 116.0m

**Market Cap** A\$11.2m

- fully diluted A\$16.8m

**Cash (31 Mar 16e)** A\$4.0m

**Listed Investments (est)** A\$1.5m

**Debt (est)** A\$0.0m

**EV - incl. listed investments** A\$5.7m

**EV - full diluted, option cash** A\$1.5m

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

## DUKETON MINING LIMITED (DKM)

### New Significant Gold Anomaly at Davies Bore

Duketon Mining (DKM) has reported some highly encouraging aircore drill results over the Davies Bore prospect, Kulguddi Project, within the Duketon Greenstone Belt.

Drilling has outlined a significant gold anomaly within 100%-DKM owned tenure, which so far, spans over 1km across three aircore lines some 500m apart. The anomaly remains open to the north-west and south-east and is well located only ~3km west of Regis Resources' (RRL) Rosemont gold mine/plant (2Mtpa). Follow-up infill aircore drilling is expected to commence in May with deeper RC/diamond drilling to follow.

### Largely untested gold prospect, with more zones to test

Gold mineralisation at Davies Bore is hosted within highly weathered and altered felsic and mafic rocks with quartz veining, within an interpreted shear zone (Davies Bore Shear Zone).

Some of the better, latest aircore results include: 12m @ 0.9g/t Au from 97m (Incl. **3m @ 2.7g/t Au** from 100m); 25m @ 0.7g/t Au from 100m (incl. **9m @ 1.6g/t Au** from 116m); and 6m @ 0.7g/t Au from 70m (incl. **3m @ 1.1g/t Au** from 73m).

The Davies Bore gold prospect is considered to be largely untested, with only minor historical drilling within the area. Some of the historical drilling, has however, reported 13m @ 0.2g/t Au along strike, just to the north of a DKM aircore hole which encountered a massive quartz vein but was unable to penetrate to fresh basement. Further drilling within this zone is clearly warranted.

### Already has a gold-only exploration JV with neighbour RRL

Duketon already has a gold-only exploration JV with RRL, over some of its exploration tenure (largely to the west of RRL's Moolart Well gold mine), with RRL required to commit to a decision to mine within a 2 year period (deadline 13<sup>th</sup> Oct 2017) to earn a 75% interest. RRL has well established gold operations (large processing infrastructure) throughout the belt, and as such can monetise any new gold discoveries rapidly. Under the current JV framework, DKM retains exposure to any discoveries which could provide future cash flows, or potentially be divested for cash, or retained royalties.

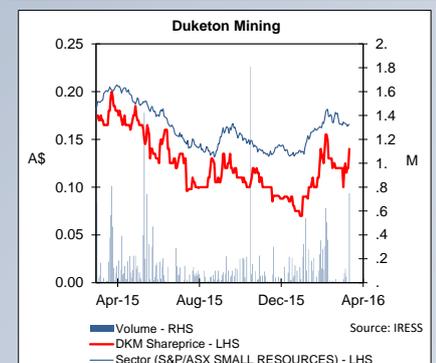
New ore sources remain a priority for RRL and we would suspect that a potential new gold deposit within 3km of processing infrastructure could be of particular interest. Davies Bore is a significant gold anomaly, albeit further drilling is required for definition.

Importantly, Davies Bore is contained within 100%-DKM owned tenure and is not subject to the current RRL gold-only JV. DKM has a pipeline of gold targets to test overtime within the Kulguddi Trend.

### Well-funded for planned exploration; Maintain Spec Buy

We estimate that Duketon has cash of ~\$4.0m (plus ~\$1.5m in listed investments), and remains well funded for planned exploration. With strong gold and nickel exploration upside, within a strategically important tenement package, we maintain our Speculative Buy recommendation.

The Company's low EV (<A\$6m) makes it a compelling investment case, and our 12-month price target remains unchanged at 28cps.



### Analyst

Mike Millikan

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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Duketon Mining Limited ("Duketon"), for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 3,000,000 Duketon options.

# SUMMARY MODEL

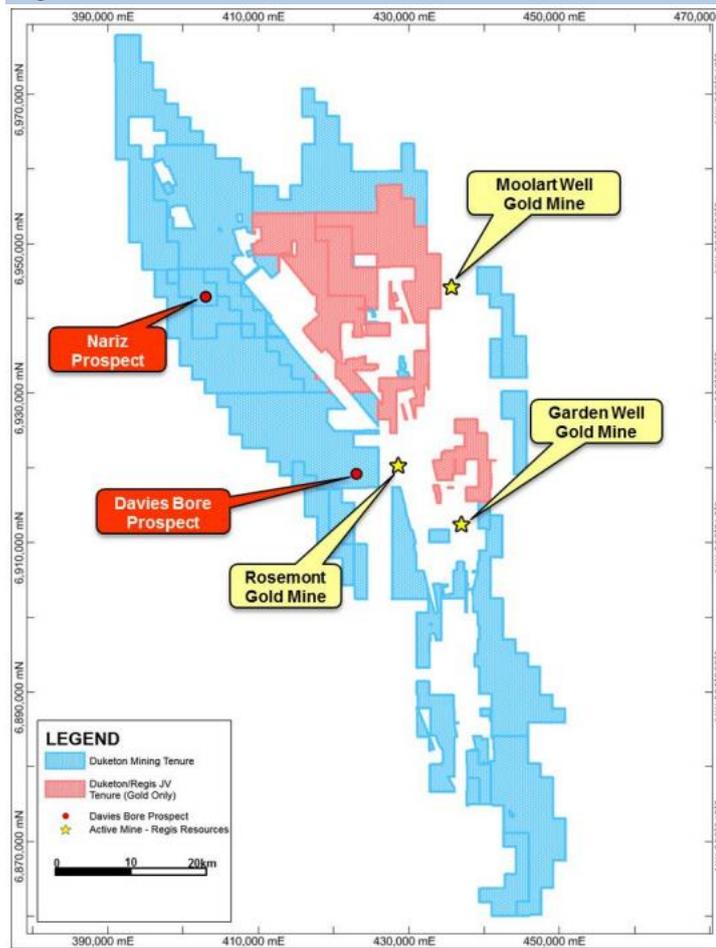
Duketon Mining DKM		Share Price \$0.145		Apr-16 Speculative Buy	
<b>Key Market Information</b>					
Share Price					
Market Capitalisation					
Market Capitalisation - full dil.					
Net Cash (Debt)					
Listed Investments (est)					
Issued Capital					
Options					
Issued Capital (fully diluted all options)					
EV - incl. listed invest					
EV - full diluted, option cash					
<b>Price Target</b>					
<b>Projects</b>					
	Interest	Location	Commodity		
Duketon	100%	WA	Ni, Au, Cu, PGE		
Eastern Goldfields	100%	WA	Ni, Au, Cu, PGE		
<b>JORC Resources</b>					
	Mt	Grade	Metal (t)	LC	
<b>Rosie - Nickel</b>					
Indicated	1.41	1.7% Ni	24,100	1.0% Ni	
Inferred	0.53	1.6% Ni	8,600	1.0% Ni	
<b>Total</b>	<b>1.94</b>	<b>1.7% Ni</b>	<b>32,700</b>	<b>1.0% Ni</b>	
<b>C2 - Nickel</b>					
Inferred	5.70	0.7% Ni	38,000	0.5% Ni	
<b>Total</b>	<b>5.70</b>	<b>0.7% Ni</b>	<b>38,000</b>	<b>0.5% Ni</b>	
<b>Duketon Total</b>	<b>7.64</b>	<b>0.9% Ni</b>	<b>70,700</b>		
<b>P&amp;L</b>					
	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		
<b>Directors</b>					
<b>Company Details</b>					
Seamus Cornelius (Non-Exec Chairman)			31 Ventnor Avenue		
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					
<b>Top Shareholders</b>					
	m shs	%			
Directors	4.1	5.2%			
<b>Investment Summary</b>					
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.					
<b>Newsflow</b>					
	Project				
Q1 CY16	RRL gold JV aircore drilling	Duke JV			
Q1/Q2 CY16	RRL gold JV follow-up RC	Duke JV			
Q1 CY16	Gold aircore drilling	Duke			
Q1/Q2 CY16	Nickel target testing	Duke			
Q2 CY16	Gold target testing RC	Duke			
<b>Unpaid Capital</b>					
	No (m)	\$ (m)	Ave Pr	% Ord	
<b>Options</b>					
FY17	0.00	0.00	nm	0.0%	
FY18	3.30	1.14	0.345	4.3%	
FY19	30.30	7.71	0.254	39.2%	
FY20	5.05	1.01	0.201	6.5%	
<b>Total</b>	<b>38.65</b>	<b>9.86</b>	<b>0.255</b>	<b>49.9%</b>	
<b>Comments</b>					
Duketon Project is the flagship project and is considered highly prospective for nickel and gold mineralisation					
Analyst: Mike Millikan					
Phone: +61 8 9268 2805					
Last Updated: 07/04/2016					
Sources: IRESS, Company Information, Hartleys Research					

Davies Bore prospect is well located only ~3km to the west of RRL's Rosemont gold mine

Davies Bore is a significant gold anomaly which remains open but already spans +1km

Thickness and grade of gold mineralisation encountered by reconnaissance activities is highly encouraging

Fig. 1: DKM Tenure within the Duketon Belt



Source: Duketon Mining Limited

Some of the better latest drill results include:

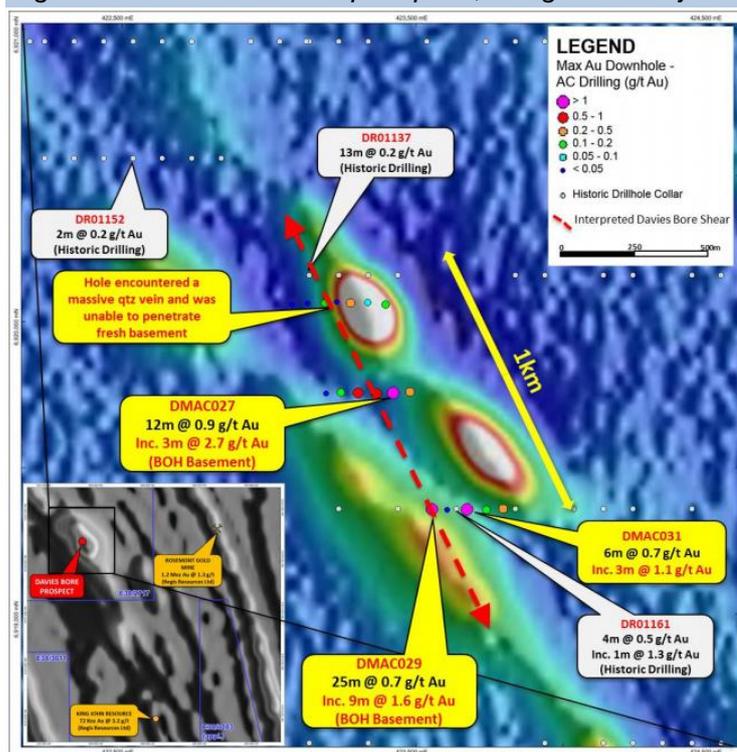
12m @ 0.9g/t Au from 97m (Incl. 3m @ 2.7g/t Au from 100m)

25m @ 0.7g/t Au from 100m (incl. 9m @ 1.6g/t Au from 116m);

6m @ 0.7g/t Au from 70m (incl. 3m @ 1.1g/t Au from 73m)

Follow-up infill aircore drilling is set to commence in May

Fig. 2: Davies Bore prospect, Kulguddi Project



Source: Duketon Mining Limited

## Price Target - Unchanged

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.

*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.

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.

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

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 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.

*Our DKM 12-month price target is 28cps*

**Fig. 3: Price Target Methodology**

Price Target Methodology	Weighting	Spot	12 Month
Peer comparison metric valuation	30%	\$0.20	\$0.27
Nominal exploration value	55%	\$0.26	\$0.29
+ Nariz (ie new Rosie-size at good-grade), new Ni, Au discoveries	10%	\$0.33	\$0.40
Net cash backing	5%	\$0.05	\$0.05
<b>Risk weighted composite</b>		<b>\$0.24</b>	
<b>Price Target</b>		<b>\$0.28</b>	
Shareprice - Last		\$0.145	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>96%</b>	

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. 4: Key Risks**

Assumption	Risk of not realising assumption	Downside risk to share price if assumption is incorrect	Comment
Timely land access	Low	Med	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.
Funding for ongoing exploration	High	High	We estimate DKM has a current cash position ~\$4.0m, 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
Preliminary Metallurgical testing	Low-Med	Med-High	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.
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. 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

*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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*Note: personal email addresses of company employees are structured in the following manner:firstname\_lastname@hartleys.com.au*

## 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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Hartleys has completed a capital raising in the past 12 months for Duketon Mining Limited ("Duketon") 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 Duketon options.

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