

18 Dec 2014

Share Price	\$0.270
Price Target	\$0.46

Brief Business Description:

Recent IPO, focused on nickel and gold exploration/development.

Hartleys Brief Investment Conclusion

Strong potential to grow resources after making a new nickel discovery at Nariz. Well funded for planned exploration. Great nickel and gold address, considered largely underexplored.

Chairman & MD

Seamus Cornelius (Non-Exec Chairman)

Stuart Fogarty (Managing Director)

Top Shareholders

Directors 11.0%

Company Address

 31 Ventnor Avenue
 West Perth, WA 6005

Issued Capital 82.5m

- fully diluted 115.8m

Market Cap A\$22.3m

- fully diluted A\$31.3m

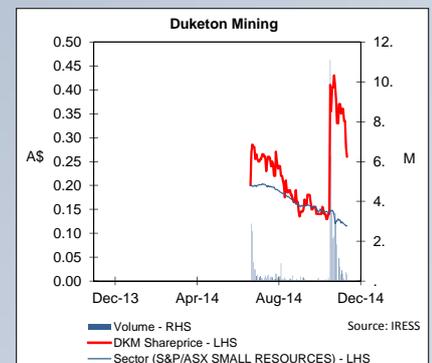
Cash (30 Sep 14) A\$7.8m

Debt (30 Sep 14) A\$0.0m

EV A\$14.5m

EV - full diluted, option cash A\$14.8m

	Mt	Ni (%)	Cu (%)
Reserves	-	-	-
Resources - 1% Ni LC	1.9	1.7	0.4


Analyst

Mike Millikan

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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 3m DKM options.

DUKETON MINING LIMITED (DKM)

Nariz a major nickel sulphide system in the making?

Duketon Mining recently reported more massive sulphides down-dip and up-dip at the new Nariz nickel-copper discovery, Duketon Project WA.

Nariz is emerging as a significant new nickel sulphide system, with drilling highlighting an extensive column (+50m) of largely blebby to disseminated sulphides above a main (higher-grade) section of massive and heavy stringer sulphides. The section drilled to date appears to be well preserved and typical of a komatiite nickel system which has the potential to have a large metal budget. Massive sulphides containing nickel and copper mineralisation have now been confirmed over 70m down-dip, with mineralisation open in all directions.

Downhole electromagnetic (DHEM) surveys of previously completed diamond holes DKMDD005 (discovery hole) and DKMDD006 (~35m down-dip) has identified multiple conductive responses modelled as several large conductors covering ~150m by ~200m in which to target. There are likely to be more conductive zones outside the holes surveyed.

Drilling is ongoing, with the fourth hole well underway positioned to intersect one of the newly defined conductors along strike towards the west.

Nariz discovery high-grade +7% nickel confirmed

The belt's prospectivity has already been confirmed by nickel sulphide mineralisation at Rosie and C2. Rosie currently hosts a resource estimate of 1.94Mt grading 1.7% Ni, 0.4% Cu and 1.9g/t PGE for 33Kt of contained nickel. A maiden nickel resource estimate for C2 is pending, and could effectively double the amount of contained nickel for the project.

Nariz is located over 120m from the most southerly intersection of nickel-copper mineralisation at the Rosie nickel deposit, well outside of the current resource envelope. Nariz, at this stage, would appear to be less structurally disturbed when compared to Rosie, but since it is early in discovery, the size of the deposit is yet to be determined.

 Assays from the discovery hole DKMDD005, which intersected massive and stringer sulphides over 9.22m, reported grades of 4.96% Ni, 0.41% Cu and 2.41g/t Pt+Pd from ~438m, including **5.65m @ 7.09% Ni, 0.50% Cu and 3.76g/t Pt+Pd**. Follow-up diamond holes intersected stringer and massive sulphide mineralisation at ~35m down-dip (over 3.75m) and ~35m up-dip (over 1.8m) of the discovery hole. Clearly visible pentlandite (nickel sulphide) and chalcopyrite (copper sulphide) have been reported with assays expected in the coming weeks. Rosie, C2 and Nariz are all contained within a granted mining lease which is 100%-Duketon owned.

Potential to accelerate drilling in early 2015; Speculative Buy

With drilling ongoing currently testing a large EM conductor along strike and assays pending, we would expect momentum to continue in the stock.

With a current estimated cash position of ~\$8m, the Company remains well funded for planned exploration activities and has the potential to accelerate drilling early in the New Year (CY15) if warranted by results (as expected).

We maintain our Speculative Buy recommendation, with an updated price target of 46cps. We still expect share price volatility, at least in the short-term but continue to see longer term value.

SUMMARY MODEL

Duketon Mining DKM		Share Price \$0.270		Dec-14 Speculative Buy	
Key Market Information					
Share Price					
Market Capitalisation					
Market Capitalisation - full dil.					
Net Debt (cash)					
Issued Capital					
Options					
Issued Capital (fully diluted all options)					
EV					
EV - full diluted, option cash					
Price Target					
Projects					
	Interest	Location	Commodity		
Duketon	100%	WA	Ni, Au, Cu, PGE		
Eastern Goldfields	100%	WA	Ni, Au, Cu, PGE		
The Lakes	100%	WA	K		
Other minor interests					
- Cardabia	20%	WA	P, base metals		
- Pilgangoora	10%	WA	Au, Ni, other minerals		
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					
Resource pending					
P&L					
	FY2014F	FY2015F	FY2016F		
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		
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	%			
Directors	9.1	11.0%			
Investment Summary					
Strong potential to grow resources after making a new nickel discovery at Nariz. Well funded for planned exploration. Great nickel and gold address, considered largely underexplored.					
Newsflow					
			Project		
Q4 CY14	Nariz follow-up drilling	Duke			
Q4 CY14	Prelim. Met work - C2	Duke			
Q4 CY14	Maiden C2 resource	Duke			
Q1 CY15	Nariz delineation drilling	Duke			
CY15	Regional target testing	Duke			
Unpaid Capital					
	No (m)	\$ (m)	Ave Pr	% Ord	
Options					
FY17	0.00	0.0	nm	0.0%	
FY18	2.55	0.9	0.350	3.1%	
FY19	15.75	4.9	0.309	19.1%	
FY20	15.00	3.0	0.200	18.2%	
Total	33.30	8.8	0.263	40.4%	
Comments					
Recent IPO with the Duketon Project being the flagship project.					
Analyst: Mike Millikan					
Phone: +61 8 9268 2805					
Last Updated: 18/12/2014					
Sources: IRESS, Company Information, Hartleys Research					

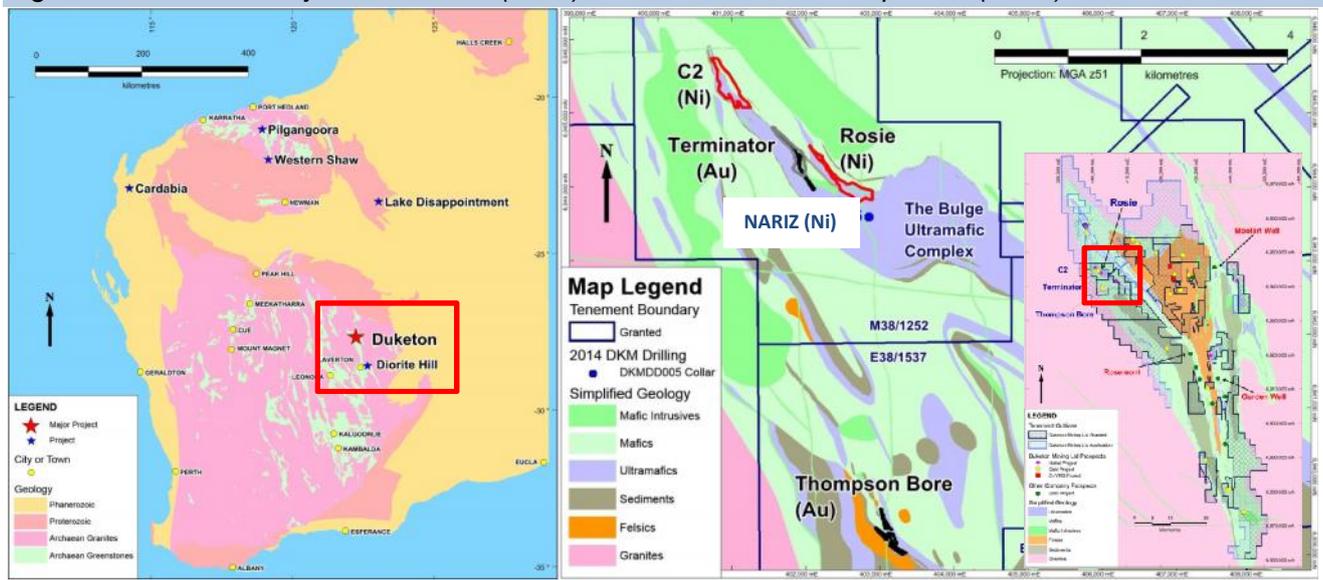
Exploration upside within the Bulge

The Nariz discovery further enhances the prospectivity of the Bulge Ultramafic Complex

The Duketon Project (100% DKM) is located ~80km north of Laverton and contains advanced nickel prospects, along with emerging gold prospects. Nickel sulphides were first discovered within the belt in 2006 at the C2 prospect, with higher grade mineralisation defined at Rosie in 2009. Rosie currently hosts a resource estimate of 1.94Mt @ 1.7% Ni, 0.4% Cu and 1.9g/t PGE for 33Kt of nickel, 8Kt of copper and 118Koz of Pt+Pd, which remains open along strike and at depth.

Nickel exploration upside is expected from high-grade extensions to the Rosie resource, along strike of the large C2 deposit (maiden resource pending) and along the +12km Bulge Ultramafic Complex which remains largely untested. The new nickel-copper discovery at Nariz further enhances prospectivity of the area. Nariz' structural setting, results received to date and latest DHEM data highlights potential for a large (potentially significant) nickel sulphide system.

Fig. 1: Duketon's Project Location (LHS): Nickel and Gold Deposits (RHS)



Source: Duketon Mining Limited

Nariz located over 120m from previous nickel mineralisation

Mineralisation remains open and delineation drilling is now underway

All completed holes to date have intersected massive sulphides

Hole DKMDD-005 (discovery hole):

- Massive and stringer sulphide zone of 9.22m @ 4.96% Ni, 0.41% Cu and 2.41g/t Pt + Pd from 438.01m; including an impressive
 - 5.65m @ 7.09% Ni, 0.50% Cu and 3.76g/t Pt+Pd from 438.41m

Hole DKMDD006 (~35m down-dip of discovery hole):

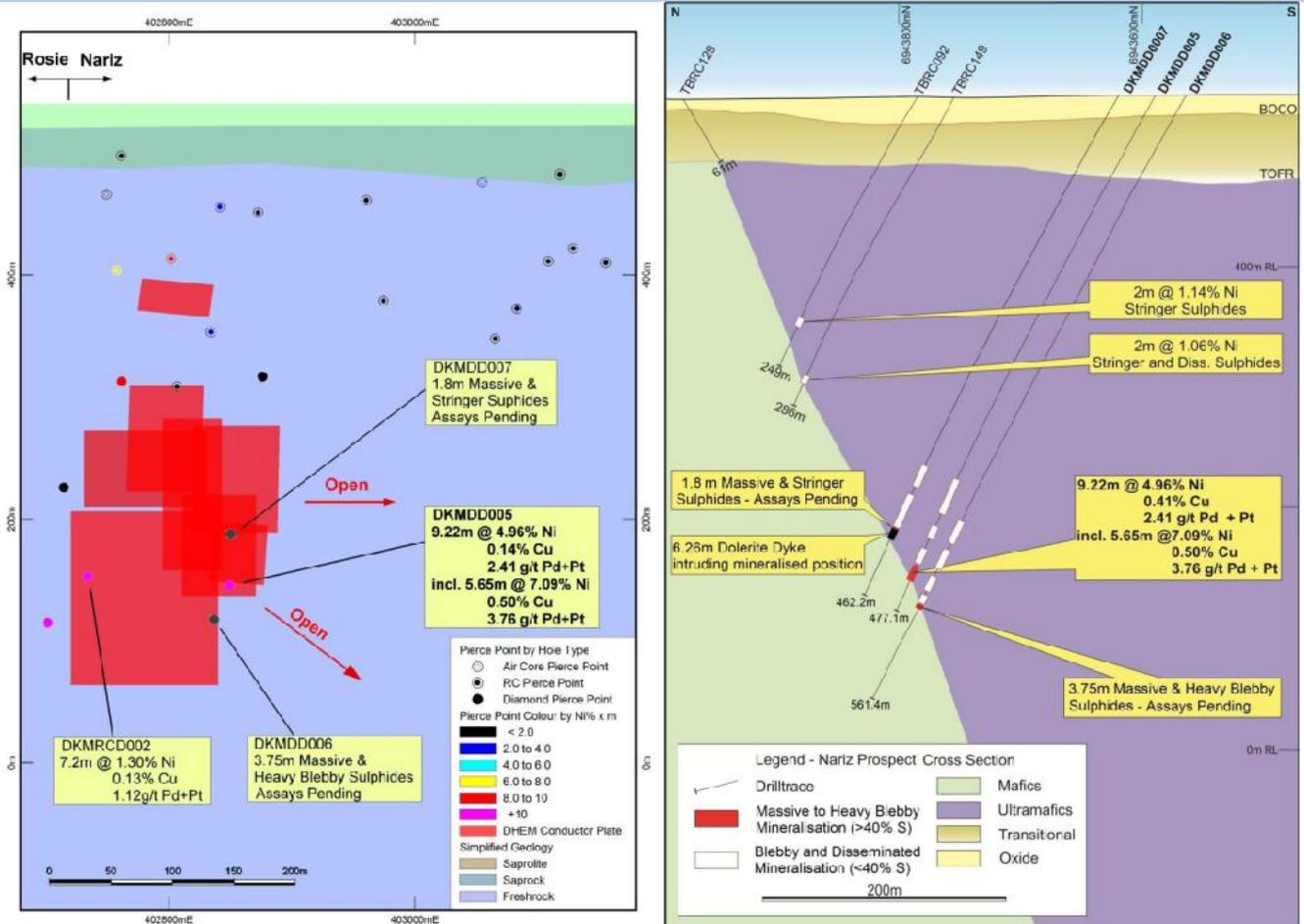
- Intersected 3.75m of massive and heavy blebby sulphides from 472.6m, consisting of:
 - 2.96m of heavy blebby sulphides;
 - 0.56m of massive sulphides, and
 - 0.23m of brecciated-massive sulphides.
 - Clearly visible pentlandite (nickel sulphide) and chalcopyrite (copper sulphide) has been reported (assays pending)

Hole DKMDD007 (~35m up-dip of discovery hole):

All of the drill holes to date have intersected thick disseminated to blebby sulphides above the main mineralised zone, which highlights a well preserved sulphide column

- Intersected ~1.8m of massive and heavy stringer sulphides from 394.58m, consisting of:
 - 0.85m of heavy stringer sulphides;
 - 0.94m of massive sulphides;
 - More visible pentlandite (nickel sulphide) and chalcopyrite (copper sulphide) has been logged (assays pending).
 - Drilling also intersected an un-mineralised dolerite intrusion over 6.26m which may have removed some of the sulphide profile before intersecting another zone of stringer sulphide over 2.48m.

Fig. 2: Nariz - Long Section looking North (LHS): Cross Section looking East (RHS)



Source: Duketon Mining Limited

Fig. 3: Comparison to some other nickel discoveries in WA

Deposit	Discovery Hole	Date	Company
Silver Swan	2.45m @ 16.7% Ni from ? depth (mineralisation occurs on the FW +190-740m)	May-95	Outokumpu
Cosmos	3.02m @ 7.54% Ni from 129.53m (JCD001)	Sep-97	Jubilee Mine
Mittel North	15.9m @ 2.66% Ni from 470.7m (MDD006W1)	Sep-02	Mincor
Flying Fox	6.6m @ 7.9% Ni from 454.6m (FFD 132)	Sep-03	Western Areas
Spotted Quoll	6.2m @ 4.8% Ni from 119.9m (WBD 18)	Oct-07	Western Areas
Rosie	7m @ 2.61% Ni (0.42% Cu, 3.75g/t Pt+Pd) from 190m (TBRC070)	Dec-09	Independence Group/South Boulder Mines
Nova	4m @ 3.8% Ni and 1.42% Cu from 191m (SFR0024)	Jul-12	Sirius Resources
Bollinger	4.78m @ 4.6% Ni and 1.29% Cu from 433.9m (SFRD0167)	Feb-13	Sirius Resources
Nariz	5.65m @ 7.09% Ni (0.50% Cu and 3.76g/t Pt + Pd) from 438.41m (DKMDD-005)	Nov-14	Duketon Mining

Source: Company Reports

Price Target – Updated

Duketon is undertaking advanced-stage exploration focussing 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.

Focused exploration to laterally extend Rosie, better define C2 and make new discoveries (ie Nariz)

Lateral extensions at and along strike of Rosie and Nariz are a key focus area. Further work at the C2 prospect will be subject to favourable metallurgical testwork and internal mining studies, which we expect will be favourable. Rosie contains a JORC-compliant resource estimate for ~33Kt of contained nickel, along with potential credits from copper (~8Kt) and PGE (118Koz Pt+Pd). Over 70% of the resource is Indicated, but metallurgical testwork is required and is expected to be completed by early 2015. The C2 deposit, is largely disseminated sulphide mineralisation but has potential to contain some higher grade zones, if a +30Kt of contained nickel can be defined at viable mining depths (ie shallow open pit) and favourable nickel recoveries (+80-90%), then the Duketon nickel inventory moves to +70Kt of contained nickel.

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

In our opinion, a mining inventory of 70-100Kt 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 (recent Poseidon Nickel (POS) deal). The Leinster Concentrator has capacity for ~3Mtpa and is currently <60% utilised. 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).

We expect share price volatility

At this stage we treat Duketon as an explorer with an eye on development. 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 (as highlighted by Nariz). On a peer comparison, Rox Resources Limited (RXL) is a pretty-good analogue, be it slightly more advanced in regards to metallurgical testwork progressing towards early development studies (scoping study soon to commence). ASX nickel peers have a current trading median on an EV/Resource Ni lb of 20c. Duketon is currently trading at 18c on a EV/Resource Ni lb basis, but with the pending C2 nickel resource this will likely change.

Duketon has proven 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 46cps.

Our DKM price target is now 46cps

Fig. 4: Price Target Methodology

Price Target Methodology	Weighting	Spot	12 Month
Peer comparison metric valuation	30%	\$0.21	\$0.37
Nominal exploration value	55%	\$0.43	\$0.52
+ Nariz (ie new Rosie-size discovery at good-grade)	10%	\$0.43	\$0.61
Net cash backing	5%	\$0.09	\$0.04
Risk weighted composite		\$0.35	
Price Target		\$0.46	
Shareprice - Last		\$0.270	
12 mth total return (% to 12mth target + dividend)		71%	

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. 5: Key Risks

Assumption	Risk of not realising assumption	Downside risk to shareprice 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	Low-Med	Med	We estimate DKM has a current cash position ~\$8m. To achieve the Company's medium 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.
Preliminary Metallurgical testing	Low-Med	Med-High	No metallurgical testwork has as yet been released but is currently underway. 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	Med	Med-High	No development studies have as yet commenced. We expect, given favourable metallurgical work that scoping activities will commence in the new year.
Commodity prices	Med	High	The project remains highly sensitive to commodity price movements and sentiment. The Company's exploration focus is Ni-Cu-PGE deposits, with commodity exposure to nickel, copper, PGE's, gold, along with others. The mineral field in which DKM is currently focused is greenfield, we view DKM as having a high exposure to underlying commodity prices

Conclusion

*At this stage we consider the assumptions have a low to medium risk of not being achieved.
We have no current price target on the Company.*

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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