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De Grey Mining: Finally, a real gold project in the Pilbara?

Recently, I have been following the news flow from De Grey Mining Limited (ASX:DEG) and it occurred to me that they may turn out to be the only real gold project to come out of the Pilbara for a long time. I know there is some gold history out of the Pilbara region but that was a while ago.

The Pilbara region is a harsh place for the unprepared. Even the great Mark Creasy had given up on the Pilbara and made his fortunes in the southern goldfields of Yandal, Albany Fraser and the Kalgoorlie region.

There is no argument that there is gold in the Pilbara region, it's just that nobody has yet found a sizeable source. Like the Patterson Range where there has been limited 'exploration' due to its remoteness, the Pilbara suffers from a lack of success.

I have seen chunks of manganese on the surface and very colourful pegmatites during my limited time in the Pilbara but ultimately, this is iron ore country. Those that have spent many more moons in this region tell me that they get close but as yet, come up with nothing.

I found this Mines Department Annual Report from 1914 and you can see that there is a suite of minerals identified as of interest. I can guarantee many ASX companies would love to go chasing them in today's market.

The issue is that even today, none of that has been even noticed. Some may have been investigated and listed as non-economical. However, I would have a guess that most would be overlooked from a market sentiment point of view. What could be interesting are the ones that were overlooked due to a lack of funding or technical misunderstanding.

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Figure 1: Map showing the distribution of useful minerals in WA (Source: Department of Mines WA).

What's the issue?

Looking at the diagram below, you can see that the Pilbara is predominantly iron ore country. The BIFs (Banded Iron Formation) that strike from one side of the basin (Newman) to the coast carry a minimum of 30% iron. Since the rise of the iron ore boom in the 1970s, the Pilbara has really been a single commodity region. Some players have gone in there to look at nickel and gold but it has not made an impression. There is also the Wittenoom asbestos mine which was a world-class deposit being shipped out of Point Samson (not sure if this was shipped out of the other ports).

Figure 2: Project location. (Source: De Grey Mining Limited).

The conglomerate gold rush in late 2017 was what made this place stand out in terms of a commodity other than iron ore. The rush was international and money from big names came flooding into the region. I think that is a rush that could have opened the place up for real exploration. The rush for lithium did not make the same impact. I guess that is why there is the term Gold Fever.

Obviously, when the Conglomerate Goldrush came, that fuelled the speculation that this is why there has never been any primary source. The theory was that the gold was deposited rather than your traditional 'primary' source. Kind of like sedimentary deposition ... etc.

This was the main aspect of the story that got everyone excited and the association with the South African Witwatersrand conglomerates and their resources in billions of ounces. The traditionalist felt that the story was just that, a good story. A lack of success on that theory would end that rush.

Corporate Information

(Source: Commsec)

- **Market Capitalisation:** \$62 million
- **Outstanding Shares:** 334.47 million (2018/06)
- **Top 20 shareholding:** 51.40% (2019)

Figure 3: De Grey Mining Limited 3 Year Share Price Chart.

What is the REAL value of DeGrey Mining?

De Grey is not your ordinary explorer. When one looks at this company, in my opinion, you need to understand that you are investing in a company that is the who's who of gold mining. I am talking about the following shareholders:

- Kirkland Lake Gold Ltd (ASX:KLA) with 9%
- DGO Gold Ltd (ASX:DGO) with 7%

Kirkland is an 18.4% shareholder of Novo Resources Corp (CVE:NVO) who has a JV (Farno JV) with De Grey. In turn, the shareholders of Novo are also highly notable gold bulls, such as Mark Creasy, Sprott Asset Management and Newmont Mining Corp. Hence as you can see, they are well connected. I think they must be the most well-connected company that does not operate a mine, yet.

DGO Gold is chaired by Ed Eshuys who was the right-hand man of Great Central Mines, discovering major nickel and gold mines in the 1980s and 1990s.

Novo Resources has the 'famous' Quinton Hennigh, who 'discovered' the big resources for Kirkland Lake's project at Fosterville Gold Mine in Victoria, Australia.

My point is that when you look to invest in this company, you are with some good company. I am not saying that this is a given that they will discover things and make the company great. I am just highlighting that you are in the company of some good names.

When one looks at the management of a company, as I mentioned in my article (5 Points you Need to know before Investing in a small-cap resource company on the ASX), there is a focus on who they are and what they have done before in the past and what they will potentially do in the future. When you have so much experience close at hand, it would allow technical issues to be sorted out easily. This would be a great tick of approval in regard to the correct management.

From the project asset register, one will see that they have got some decent resources and if the economics hang together, there will no issue raising the

funds. This has got to be one of the easiest fundraising campaigns when the time comes to doing that job.

The projects

(Source: De Grey Mining Limited)

Figure 4: Mineral projects within the Pilbara Region (Source: De Grey Mining Limited).

The projects are 60 kilometres south of Port Hedland in the Pilbara Region of Western Australia (see above). The company has mentioned that there is a mineralised strike of approximately 150 kilometres. The total tenement packages are approximately 1500 square kilometres. Currently, their gold inventory is a total of 1.4 million ounces (see below). They are shared by several deposits over the 150-kilometre strike.

Like most of the goldfields a couple of decades ago, the amount of drilling in this region is primarily to bedrock, which literally means drill to when it gets hard. Hence, most of the drilling is less than 100 metres. I do suspect that the maximum depths would have been in the 150-metre department.

The Pilbara is a place where there is not much cover. Unlike the Goldfields, you pretty much cannot dig too deep. Hence, it is pretty interesting that in places where you find decent mineralisation, there is a deep 'soft' geology, for obvious reasons :-). In places like Carlow Castle, you can get RC drilling doing 400 metres in a day. That is not going to happen if you start drilling the BIFs, especially the fresh kind of stuff.

This is a region that has had previous mining and exploration success so there are good reasons for optimism in making this work. Items such as infrastructure will not be an issue and the cost of mobilisation for construction will be reasonable. All these factors are aligned with the fortunes of the company.

Figure 5: Project resources for De Grey Mining Limited (Source: De Grey Mining Limited).

Geological factors of the projects

The geology of the projects is fairly straight forward. Most of the projects are now at the stage of just needing more drilling. The aim is to accumulate information to construct some sort of a resource leading to mining. It is no longer an issue of discovery as the drilling data just needs to be consolidated.

The latest announcement on the Toweranna with the release of 136 metres at 2 g/t got my attention. Like the Ausmex Mining Group Ltd (ASX:AMG) story, where there was the intercept of 59 metres at 1.25 g/t gold, and 0.43% of copper. The 136 metres to me was some sort of validation that they could have some depth to the story. These days, I tend to look for the length of intercept and not just grade of intercept. Repetition over sections is also a good thing.

Figure 6: Toweranna project, 2019 RC drilling. (Source: De Grey Mining Limited).

On April 15, 2019, the company announced the latest drilling result from the Toweranna project. Figure 6 above shows the drill plan and the drilling can be seen over three sections which are described over Figures 7, 8 and 9. The cross-sections showed clearly the information which caught my attention.

The drilling did show that the mineralisation at depth could be substantial and of a decent grade. The grade is not going to set any records but if mineralisation does get extended from 200 metres to 400 metres, that will be something that you want to really shout to the markets.

In Figure 7, the proposed drilling will hopefully put that theory to bed. One must think that this will happen unless there is a great big fault in between and displace the continuity. I have not seen any geophysical information, but I am assuming that management would have noticed this possibility. A mineralisation length of 280 metres would be really good for the share price.

Figure 7: Toweranna project, cross section 7679970N (Source: De Grey Mining Ltd).

I noticed that in that same announcement, the company made the comment that this mineralisation style is not common in the Pilbara and has analogies to Wallaby (Gold Fields) and Jupiter (Dacian Gold Limited).

De Grey stated: "The Toweranna deposit shows a style of gold mineralisation not previously known in the Pilbara, but similar to other granitoid hosted gold deposits around the world, many of which host large gold resources (greater than 1.0 million ounces). Two Western Australian analogues are both in the Laverton region of the Eastern Goldfields and include:

- The Wallaby deposit of Gold Fields Limited (NYSE:GFI) - in excess of 8-million-ounce resource and producing over 250,000 ounces per year; and
- The nearby Jupiter deposit of Dacian Gold Ltd (ASX:DCN) - 1.6-million-ounce resource.

"Additionally, the Lamaque and Sigma gold deposits in Quebec, Canada, have both produced over 4.5 million ounces each for total production in excess of 9 million ounces. Mineralisation and mining extend at Sigma to over 1800 metres depth. Importantly, these large multi-million-ounce gold deposits also tend to occur in clusters, providing longer-term upside to discover additional Toweranna-style targets within De Grey tenement portfolio. De Grey is assessing a number of early-stage exploration targets including to the southwest of Mt Berghaus."

Figure 8: Toweranna project, cross section 7680010N (Source: De Grey Mining Ltd).

Personally, the fact that you have these clusters of mineralisation with decent resource numbers is already different from what is around in the Pilbara. The closest to something like this could be the Carlow Castle project that is owned by Artemis Resources Ltd (ASX:ARV). I covered this project in an article in late 2018. It was titled, 'Best undiscovered project: Carlow Castle an unconventional gold-cobalt-copper mineral project'.

If there was a negative aspect of this good story, it is that the resources are far apart. Toweranna is about 100 kilometres from Winginia and this is going to be an issue in the short term. I think many projects claim that they can economically mine several satellite pits and make money. In many cases if not all, I think this is more of a hope than a fact. This is more of a fact if you are a Northern Star Resources Ltd (ASX:NST), a Newcrest Mining Limited (ASX:NCM) or a Rio Tinto Limited (ASX:RIO). To be fair, if DeGrey can establish bigger numbers to all their projects, then this will not be an issue.

Figure 9: Toweranna project, cross section 7680050N (Source De Grey Mining Ltd).

It is very early at this point to make an encouraging or non-encouraging call, but the one concern I have is when you look at Figure 9, the mineralisation is not very lengthy. Sure, the plunge may come into play, but I would have thought that anything significant will hold true for at least 80 metres (two sections). I would have liked to see longer intercepts that will create meat for the resources.

Conclusions

De Grey Mining Limited has gone through a large transformation process. I remember the first time I came across the company, around 2015 (I think), they were trying to sell off one of their assets. I forget which one now. They were struggling in the market and looking for directions.

Fast forward to 2017 and they became a front runner on the Conglomerate Goldrush. Couple with a large holding in the Pilbara area and influential investors such as Kirkland and DGO, the company became noticed. The share price was moving and in some ways the company was being noticed more than the ARV-Novo partnership. Large sums of money were being raised even though their landholding in the Conglomerate Goldrush was not the most prospective.

However, after the dust settled, it is safe to say that DEG may have come off better. The shareholder list will most likely help with future fundraising assuming that the story unfolds well geologically. Looking at the data presented by the management, I do see some good signs that the current resource would increase.

My one unknown factor is I don't have much information on the metallurgical aspects and that may or may not turn out to be a deal breaker. This may have been mentioned but I am sure the standard company issue is that all is well. Time will tell if that is the case.

I have no doubt that if management drill more and get a decent number for the tonnage, the matrix will get better and the success will provide a good ending to the story. The take away from this story is that without the strong shareholding on the register, I would think that with the amount of work required to make this work, most companies will struggle to get it done. There is going to be a lot of money needed to be spent in the coming years.

The downside to such a strong shareholding will be if that translates to a stranglehold on sudden share price run. In the past, many of these top-heavy companies seem to struggle with this part of the equation. Time will tell.

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