

January 21 2016

**SUBJECT: Pantoro (formerly Pacific Niugini) (PNR-ASX) – Significant reserve overcall continues, resulting in positive cash flow in December**

**Price:** 7c **Impact:** Positive **Market Cap:** \$36m

**IMPACT: Positive** – Australia’s newest gold producer continues its impressive ramp up at Nicholsons. In an investor presentation released to the market this week the company updated investors on December production, exploration and management additions. Highlights from the update are discussed below.

- **Positive cash flow in December** – Largely in line with expectations the company has delivered positive cash flow for the month of December. This is a good performance given PNR is still in the ramp up phase at Nicholsons. AISC were largely in line with expectations at A\$1,190/oz (GMPe A\$1,170/oz). The very slight miss reflects the fact that we had assumed the company would commence stoping in December rather than January. The slight delay in the commencement of stoping has resulted in a small miss on production ounces at 4,075oz over the quarter compared to our expectation of 4,700oz. Consequently quarterly EBITDA is a miss, but we expect this to meet expectations once stoping commences this month.
- **Importantly the reserve overcall continues** – We continue to see considerable upside on the stated reserve with development mining returning grades well in excess of those modelled and returning 25% more reserve tonnes as mining extends beyond the boundary of initial reserves. **Overcall on reserves is an impressive 180%.**

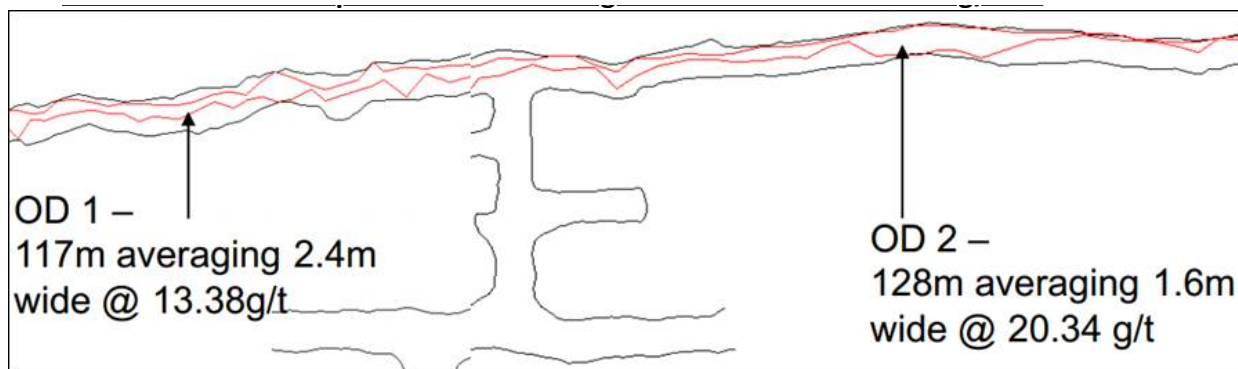
**Mining recovery compared to reserve model**

Level	Development Reserve			Mined within Reserve			Mined outside Reserve			Reserve Ounces
	Tonnes	Grade (g/t)	Oz	Tonnes	Grade (g/t)	Oz	Tonnes	Grade (g/t)	Oz	Overcall
220	2,505	10.36	834	3,353	8.73	941	735	2.10	50	119%
210	3,581	5.31	611	3,576	9.51	1,094	2,350	7.00	529	266%
200	4,887	5.40	849	5,559	5.63	1,006	1,348	10.99	476	175%
Total	10,973	6.50	2,294	12,489	7.57	3,040	4,433	7.40	1,055	179%

Source: PNR

- **Drilling and development indicate the reserve overcall will continue** - We estimate head grades once stoping commences will average closer to 10g/t Au rather than the 6.2g/t reserve grade. Reasons for this significant grade improvement have been outlined in detail previously and include the effect of grade dilution/smearing in RC drilling and a conservative top cut on the reserve model. The 2210 level plan shown below indicates grades will improve with the company targeting a minimum mining width of 2.2m. Consequently we would expect minimal dilution on ore drive 2 (OD2) and a grade above 10g/t Au seems likely from OD1 below.

**2210 Level indicates potential for mined grades well in excess of 6.2g/t Au**



Source: PNR

- **Underground drilling this quarter** – Significant underground targets exist in this shallow mine. Drilling has commenced and is expected to add substantial reserves and consequent mine life now the company is in a position to drill from underground mine infrastructure
- **The option to blend open pit ore in FY17 will add substantial flexibility** – The news that drilling will commence shortly at Rowdies and Wagtail open pit targets along strike from Nicolson's is very favourable. The company believes it will be in a position to blend open pit material with underground material in FY17 and this will greatly benefit the company in terms of grade and mill throughput. Historical drilling results are very impressive and include 8m @ 18.7g/t Au, 3m @ 27.9g/t Au, 4m @ 19.8g/t Au and 5m @ 16.4g/t Au. Initial indications suggest an open pit operation averaging 3-4g/t Au at strip ratios in the region of 7-8:1 look achievable.
- **The already strong management team is complemented by the addition of COO Scott Huffadine** – Scott, the former managing director of fellow high grade miner Kingsrose Mining, has experience on similar ore bodies and is known to management through his time at MLX. Scott will be heavily involved in the upcoming exploration program.

**Duncan Hughes** | Mining & Metals Analyst | Direct: +61 2 6141 6322 | Mobile: +61 429 009 440 | Email: [dhughes@gmpsecurities.com](mailto:dhughes@gmpsecurities.com)  
 ABN: 46 149 263 543 | AFSL: 403684 | **Participant of the ASX Group Limited**



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