

PANTORO LIMITED (PNR)

Upgrades Nicolsons diluted head grade to ~10g/t Au

Pantoro Limited has announced an updated resource and reserve following remodelling of the initial four levels of mine development at the Nicolsons project. The remodelling has delivered a pre-mining mineral resource for the Hall Lode (previously Main Zone) of ~57kt @ 17.1g/t Au for ~31koz compared to the previous resource of ~105kt @ 6.7g/t Au for ~23koz. More importantly, the ore reserve grade within the remodelled zone has increased from 6.17g/t Au to 9.81g/t Au. This significant upgrade in the diluted head grade from the underground mine is in line with our expectations and drives our modelling assumptions. We assume the Company can now grow production from the current ~24kozpa to ~40kozpa in FY17 and ~55kozpa from FY18 onwards.

Mother Lode (Splay Vein) delivers ~12koz @ 19.24g/t Au

The Mother O'Neil Lode (aka Mother Lode) is a high grade splay vein which has been mined over the initial four levels of development and was previously unidentified from surface drilling. The maiden Mother Lode resource delivered an estimate of 19kt @ 19.24g/t Au for ~12koz. The lode has consistently delivered level on level improvements in volume and grade and looks to be increasing in strike length with depth. We expect the head grade from Nicolsons to continue to deliver ~10g/t Au as development continues and the full extent of the lode is explored. The Company will look to develop the capital infrastructure required to infill the Mother Lode while embarking on the next phase of its development. The current resource has the Mother Lode modelled to the 2160 RL only and we see potential for significant upside to the maiden resource with extensions at depth.

Open Pit mining to allow a faster ramp up to ~200ktpa

PNR recently announced an open pit mining evaluation study which highlighted a maiden open pit ore reserve estimate of ~96kt @ ~5.5g/t Au for ~16koz (recoverable). The Rowdies and Wagtail pits are located ~1.5km from the Nicolsons processing plant and will allow an increase in ore feed to the plant while the Nicolsons underground mine continues to ramp up. The open pit mines are estimated to be mined over ~9 months at AISC of ~A\$965/oz from DecQ '16 onwards.

PNR expects to be in a position to enable expansions of the processing plant to ~200ktpa by the end of CY16 (we estimate a small capex requirement of ~A\$1m). The open pit mines allow the Company to ramp up to ~200ktpa faster than we had previously estimated. Our modelling suggests the underground mine has potential to deliver ~200ktpa from FY18 and the open pit mines allow this run rate to be achieved ~6 months earlier (from early CY17 onwards).

Higher grades = lower costs, upgrade to Buy (from Spec Buy)

With an updated reserve estimate we now have increased confidence the Company will produce up to ~50kozpa over the coming quarters. With the increase in head grade (towards ~10g/t Au) we see operating costs (AISC) dropping towards ~A\$800-900/oz over the coming quarters. In our opinion the Nicolsons project is now clearly one of the highest grade underground gold mines operating in Australia and is increasingly likely to be operating with one of the lowest operating cost (A\$/oz) profiles of the ASX-listed gold producers. We upgrade to a Buy recommendation (from Speculative Buy) with a price target of 19c, NAV of 19c, spot NAV of 20c.

Share Price	\$0.108
Valuation	\$0.19
Price Target (12 month)	\$0.19

Brief Business Description:
Gold producer and explorer

Hartleys Brief Investment Conclusion

Gold producer focussed on the Halls Creek project in WA, ramping up towards ~50kozpa over the coming years

Chairman & MD

Peter Cook (Non-Exec Chairman)
Paul Cmrllec (Managing Director)

Top Shareholders

Robmar Investments Pty Ltd	11.0%
Directors	6.1%

Company Address

Level 3, 18-32 Parliament Place
West Perth WA 6005

Issued Capital

	548.6m
- fully diluted (incl. convertible notes)	769.9m

Market Cap

	A\$59.0m
- fully diluted	A\$82.8m

Cash (31 Mar 16a)

	A\$7.0m
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Debt (gold pre-pay facility)

	A\$8.1m
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EV

	A\$60.1m
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EV/Resource oz

	A\$276/oz
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EV/Reserve oz

	A\$550/oz
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Prelim. (A\$m)

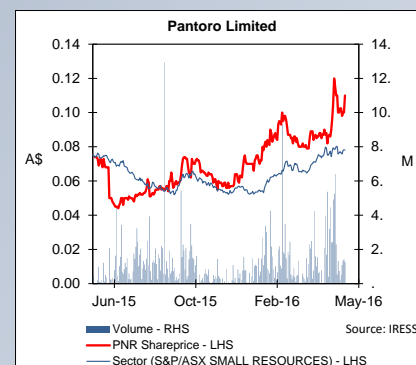
	FY16e	FY17e	FY18e
Prod (koz Au)	17	40	55
Op Cash Flw	3	29	47
Norm NPAT	3	20	31
CF/Share (cps)	0.6	5.0	7.6
EPS (cps)	4.9	7.2	4.8
P/E	12.6	2.2	1.5

Resources (koz)

	218
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Reserves (koz)

	109
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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to PNR, for which it has earned fees and continues to earn fees. The analyst has a beneficial interest in PNR.

SUMMARY MODEL

Pantoro Limited PNR		Share Price \$0.108					Buy
Key Market Information							
Share Price		\$0.108					
Market Capitalisation - ordinary		A\$59m					
Net Debt (cash)		\$1m					
Market Capitalisation - fully diluted		A\$66m					
EV		A\$67m					
Issued Capital		548.6m					
Options		61.3					
Issued Capital (fully diluted inc. all options)		609.9m					
Issued Capital (fully diluted inc. all options and new capital)		769.9m					
Valuation		\$0.19					
12month price target		\$0.19					
P&L							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Net Revenue	A\$m	0.1	27.1	69.2	93.3	92.2	
Total Costs	A\$m	-1.6	-20.4	-37.8	-45.2	-45.3	
EBITDA	A\$m	-1.5	6.7	31.4	48.1	46.9	
- margin		0%	25%	45%	52%	51%	
Depreciation/Amort	A\$m	0.0	-2.0	-2.8	-3.7	-4.6	
EBIT	A\$m	-1.5	4.8	28.6	44.4	42.4	
Net Interest	A\$m	0.1	0.1	0.1	0.1	0.1	
Norm. Pre-Tax Profit	A\$m	-1.3	4.9	28.7	44.5	42.5	
Reported Tax Expense	A\$m	0.0	0.0	0.0	0.0	-11.2	
Normalised NPAT	A\$m	-0.9	3.4	20.1	31.1	29.7	
Abnormal Items	A\$m	-2.7	1.5	8.6	13.3	1.6	
Reported Profit	A\$m	-3.6	4.9	28.7	44.5	31.3	
Minority	A\$m	0.0	0.0	0.0	0.0	0.0	
Profit Attrib	A\$m	-3.6	4.9	28.7	44.5	31.3	
Balance Sheet							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Cash	A\$m	6.8	4.3	25.7	67.5	95.5	
Other Current Assets	A\$m	2.0	2.4	5.9	7.9	7.8	
Total Current Assets	A\$m	8.8	6.7	31.6	75.4	103.4	
Property, Plant & Equip.	A\$m	8.0	10.0	11.4	12.0	11.7	
Exploration	A\$m	5.9	9.9	13.9	17.9	21.9	
Investments/other	A\$m	6.8	6.8	6.8	6.8	6.8	
Tot Non-Curr. Assets	A\$m	20.7	26.7	32.1	36.7	40.5	
Total Assets	A\$m	29.4	33.4	63.7	112.1	143.8	
Short Term Borrowings	A\$m	2.3	2.3	2.3	2.3	2.3	
Other	A\$m	5.0	1.8	3.2	3.8	3.8	
Total Curr. Liabilities	A\$m	7.3	4.0	5.5	6.1	6.1	
Long Term Borrowings	A\$m	6.9	6.9	6.9	6.9	6.9	
Other	A\$m	1.4	1.4	1.4	1.4	1.4	
Total Non-Curr. Liabil.	A\$m	8.3	8.3	8.3	8.3	8.3	
Total Liabilities	A\$m	15.6	12.3	13.8	14.4	14.4	
Net Assets	A\$m	13.9	21.1	49.9	97.7	129.4	
Net Debt	A\$m	2.4	4.9	-16.5	-58.3	-86.3	
Cashflow							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Operating Cashflow	A\$m	-1.4	3.1	29.3	46.7	47.0	
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0	-11.2	
Interest & Other	A\$m	0.1	0.1	0.1	0.1	0.1	
Operating Activities	A\$m	-1.3	3.2	29.4	46.8	36.0	
Property, Plant & Equip.	A\$m	-3.3	-4.0	-4.2	-4.3	-4.4	
Exploration and Devel.	A\$m	-0.7	-4.0	-4.0	-4.0	-4.0	
Other	A\$m	-3.5	0.0	0.0	0.0	0.0	
Investment Activities	A\$m	-7.5	-8.0	-8.2	-8.3	-8.4	
Borrowings	A\$m	0.0	0.0	0.0	0.0	0.0	
Equity or "tbc capital"	A\$m	3.8	2.3	0.2	3.3	0.4	
Dividends Paid	A\$m	0.0	0.0	0.0	0.0	0.0	
Financing Activities	A\$m	13.0	2.3	0.2	3.3	0.4	
Net Cashflow	A\$m	4.3	-2.5	21.4	41.8	28.0	
Shares							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Ordinary Shares - End	m	550.5	588.8	590.8	648.1	651.1	
Ordinary shares - weighted	m	549.6	589.7	589.8	618.5	648.1	
Diluted Shares - Weighted	m	549.6	569.7	588.9	588.9	588.9	
Ratio Analysis							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Cashflow Per Share	A\$ cps	-0.2	0.6	5.0	7.6	5.6	
Cashflow Multiple	x	0.0	0.0	0.0	0.0	0.0	
Earnings Per Share	A\$ cps	-0.7	0.9	4.9	7.2	4.8	
Price to Earnings Ratio	x	-16.4	12.6	2.2	1.5	2.2	
Dividends Per Share	AUD	-	-	-	-	-	
Dividend Yield	%	0%	0%	0%	0%	0%	
Net Debt / Net Debt + Equity	%	15%	19%	-49%	-148%	-200%	
Interest Cover	x	13.9	na	na	na	na	
Return on Equity	%	na	16%	40%	32%	23%	
Directors							
Peter Cook (Non-Exec Chairman)			Company Information				
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David Osikore (Non-Exec Director)			+61 9215 6005				
David Okeley (Co-Sec)			+61 9220 5757				
			www.niugini.com.au				
Top Shareholders							
	m shares	%					
Robmar Investments Pty Ltd	60.1	11.0					
Directors	33.7	6.1					
Reserves & Resources							
	Mt	g/t Au	koz				
TOTAL RESOURCE (inclusive of Reserve)							
Measured	0.0	17.3	26				
Indicated	0.8	5.9	146				
Inferred	0.2	6.4	46				
Reserve	0.5	6.6	109				
Production Summary							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Mill Throughput	Mt	0.0	0.1	0.2	0.2	0.2	
Mined grade	g/t	0.00	7.4	8.2	9.0	9.0	
Combined Recovery & Payability	%	0.0%	94%	95%	95%	95%	
Gold	(koz)	0.0	16.6	40.5	55.0	55.0	
Gold Equiv	(koz)	0.0	16.6	40.5	55.0	55.0	
M&I Resource Conversion	%	70%	66%	57%	51%	38%	
Mine Life	yr	4.50	4.50	3.50	2.50	1.50	
Costs							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Cost per milled tonne	\$/t	-	202.0	186.6	182.0	182.0	
EBITDA / tonne milled ore	\$/t	-	89.7	193.3	240.4	234.7	
C1: Operating Cash Cost = (a)							
(a) + Royalty = (b)	\$/oz	-	911	749	662	662	
(a) + Royalty = (b)	\$/oz	-	992	835	747	746	
C2: (a) + depreciation & amortisation = (c)	\$/oz	-	1,029	819	729	746	
(a) + actual cash for development = (d)	\$/oz	-	1,392	952	813	814	
C3: (c) + Royalty	\$/oz	-	1,110	904	814	830	
(d) + Royalty	\$/oz	-	1,473	1,037	898	898	
All In Sustaining Cost (AISC)	\$/oz	-	1,555	1,118	977	975	
Price Assumptions							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
AUDUSD	AS/US\$	0.81	0.69	0.69	0.73	0.75	
Gold	US\$/oz	1187	1124	1183	1242	1255	
Gold	AS\$/oz	1473	1620	1704	1697	1677	
Hedging							
	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	
Hedges maturing?	No	Yes	Yes	Yes	Yes	No	
Sensitivity Analysis							
	Valuation	FY17 NPAT					
Base Case	0.19	28.7					
Spot Prices	0.20 (2.1%)	27.6 (-3.9%)					
Spot USD/AUD 0.72, Gold \$1209/oz.							
AUDUSD +/-10%	0.17 / 0.23 (-13.1% / 15.9%)	23.0 / 36.0 (-20.0% / 25.5%)					
Gold +/-10%	0.22 / 0.17 (14.3% / -14.4%)	35.3 / 22.5 (22.9% / -21.7%)					
Production +/-10%	0.19 / 0.19 (0.0% / 0.0%)	28.7 / 28.7 (0.0% / 0.0%)					
Operating Costs +/-10%	0.18 / 0.21 (-6.3% / 6.2%)	25.7 / 31.7 (-10.6% / 10.6%)					
Unpaid Capital							
	No. (m)	\$m	Avg price	% ord			
30-Jun-16	0.0	0.0	0.00	0%			
30-Jun-17	2.0	0.2	0.09	0%			
30-Jun-18	55.3	3.3	0.06	10%			
30-Jun-19	4.0	0.4	0.10	1%			
30-Jun-20	0.0	0.0	0.00	0%			
TOTAL	61.3	3.9	0.064	11%			
Share Price Valuation (NAV)							
	Riskd Est. A\$m	Est. A\$/share					
100% Halls Creek (pre-tax NAV at disc. rate of 8%)	134	0.17					
Other Exploration	50	0.06					
Forwards	0	0.00					
Corporate Overheads	-19	-0.03					
Net Cash (Debt)	-1	0.00					
Tax (NPV future liability)	-16	-0.02					
Options & Other Equity	2	0.00					
Hedging	0	0.00					
Total	150	0.19					

Last Updated: 31/05/2016

Analyst: Scott Williamson
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*tbc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.
Sources: IRESS, Company Information, Hartleys Research

VALUATION

Our sum of parts valuation for PNR assumes a ramp up at Nicolsons to ~200ktpa over the coming years. We assume a LOM head grade of ~8.7g/t Au at the Halls Creek project over a ~5 year minelife.

Fig. 1: Halls Creek model assumptions

We assume a ramp up at Nicolsons to ~200ktpa over the coming years

	Halls Creek
Life of mine average head grade	8.7g/t
LOM avg mill feed (mt pa)	0.17mt pa
LOM Gold eq recovered grade g/t	8.2g/t
LOM Au combined recovery & payability	95%
Total Gold Sold	0.22Moz
Total Gold Sold pa	44k oz pa
Current Assumed Mine Life (yrs)	5yrs
LOM avg selling price (AUD/gold oz)	A\$ 1654 /oz
LOM avg C1 cash costs (AUD/gold oz)	A\$ 685 /oz
LOM avg all in site costs (AUD/gold oz)	A\$ 936 /oz
Life of mine annual net cash flow (A\$m pa)	A\$ 24m pa
Spot pre-tax NPV (AUDm), unfunded	A\$ 133.6m

Source: Hartleys Estimates

We assume a nominal A\$50m value for exploration upside

We model a nominal A\$50m (\$0.07/share) value for exploration upside potential which is equal to ~1.5 years of free cashflow from Halls Creek. We believe PNR is well positioned for brownfield exploration success at Halls Creek through extension of the current known orebodies and discoveries within close proximity to the processing plant.

Fig. 2: Hartleys Sum of Parts Valuation for PNR

Hartleys sum of parts valuation for PNR is A\$0.19/share

	A\$m	A\$/share
100% Halls Creek (pre-tax NAV @ 8%)	133.6	0.17
Other Exploration	50.0	0.06
Forwards	0.0	0.00
Corporate Overheads	-19.3	-0.03
Net Cash (Debt)	-1.1	0.00
Tax (NPV future liability)	-15.7	-0.02
Options & Other Equity	2.3	0.00
Hedging	0.0	0.00
Total	149.7	0.19

Source: Hartleys Estimates

PRICE TARGET

Our price target is based on a ramp up to ~200ktpa at Nicolson's over the coming years. We have included weighting for the base case at consensus and spot pricing and a small weighting for the current net cash backing.

Fig. 3: PNR Price Target Methodology

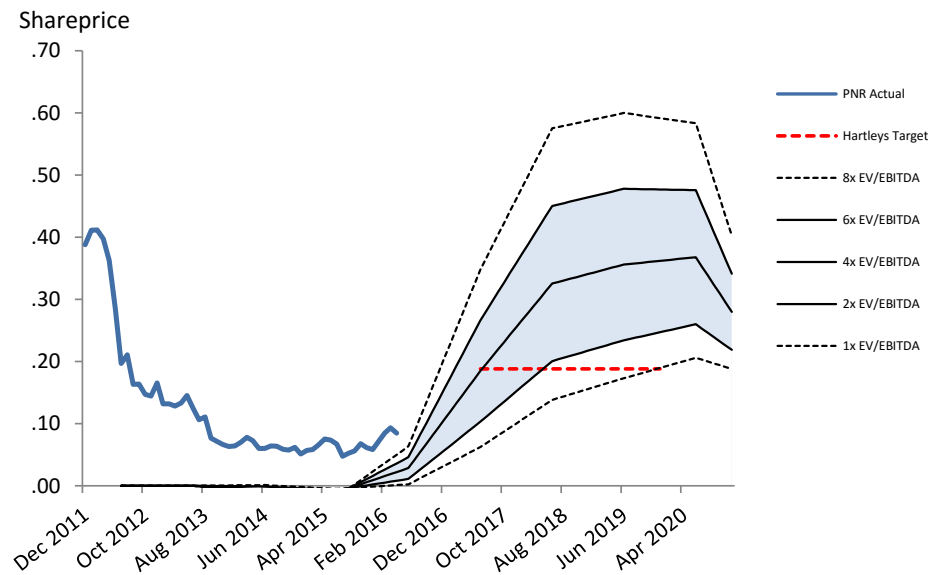
Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	60%	\$0.19	\$0.21
NPV at spot commodity and fx prices	30%	\$0.20	\$0.21
Net cash backing	10%	\$0.00	\$0.00
Risk weighted composite		\$0.18	
12 Months Price Target		\$0.19	
Shareprice - Last		\$0.108	
12 mth total return (% to 12mth target)		75%	

Source: Hartleys Estimates

Hartleys 12 month price target is 19c

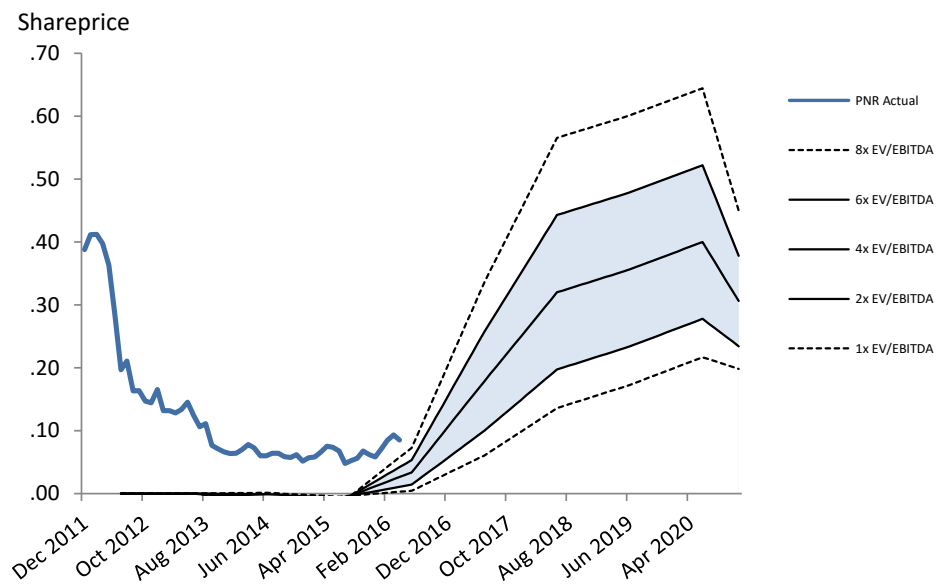
EV/EBITDA BANDS

Fig. 4: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 5: Using spot commodity prices



Source: Hartleys Estimates, IRESS

RISKS

Fig. 6: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
200ktpa Halls Creek Project	Moderate	Meaningful	PNR is leveraged to the success of the Halls Creek project. We model Nicolsons ramping up to 200ktpa for 5 years and achieving up to ~50kozpa @ AISC of ~A\$800/oz
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of PNR, changes in these assumptions can change our valuation to both the upside and downside
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at the Halls Creek project. Some downside risk to our valuation exists if PNR has no further exploration success
Geological Risk	Moderate	High	The current Nicolsons resource estimate has been drilled predominantly with RC drilling, if the further resources and reserves change considerably our valuation will be at high risk to the upside and downside

Conclusion

We have made significant assumptions but believe these are achievable.

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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