

18 Feb 2016

Share Price	\$1.20
Valuation	\$1.52
Price Target (12 month)	\$1.61

Brief Business Description:
Gold explorer and developer

Hartleys Brief Investment Conclusion
WA gold explorer / developer focussed on the Mt Morgans project near Laverton

Chairman & MD
Rohan Williams (Executive Chairman)

Top Shareholders

Brian Rodan	7.6%
Colonial First State Asset Management	6.2%

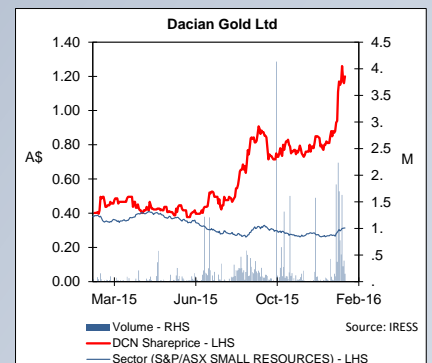
Company Address
14-16, 890 Canning Hwy
Applecross WA, 6153

Issued Capital 132.4m
- fully diluted 142.5m

Market Cap A\$158.8m
- fully diluted A\$171.0m

Cash (31 Dec 15a) A\$24.4m
Debt (31 Dec 15a) A\$0.0m
EV A\$134.4m
EV/Resource oz A\$45/oz
EV/Reserve oz A\$1680/oz

	Prelim. (A\$m)	FY17e	FY18e	FY19e
Prod (koz Au)	0.0	25.5	191.5	
Op Cash Flw	-2.7	8.0	106.1	
Norm NPAT	-6.4	-2.6	98.9	
CF/Share (cps)	-4.8	-1.7	48.4	
EPS (cps)	-6.9	-2.4	64.7	
P/E	-24.9	-69.5	2.5	
				Au
Resources (Moz)				3.00
Reserves (Moz)				0.08



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DACIAN GOLD LIMITED (DCN)

No surprises at Morgans, higher grades from Jupiter

Dacian has announced results from the infill drilling program at Morgans underground in line with previous drilling and the current resource estimate [1.2Mt @ 9.1g/t Au for 344koz]. The Company has also announced results from the Jupiter infill drilling with some of the highest grade results ever drilled at Jupiter. DCN is currently embarking on an 80,000m infill and extensional drilling program at the Mount Morgans project which is estimated to produce 483koz from Jupiter and 745koz from Westralia over an initial minelife of ~7 years. Mt Morgans is estimated to produce ~240kozpa (years 1-4) at LOM AISC of A\$929/oz and C1 cash costs of A\$812/oz.

Morgans drilling shows enough to bring forward in our model

We believe the initial drilling results from the Morgans underground should give the Company confidence to bring it online earlier. By bringing the Morgans underground online sooner the Company will look to push overall production towards ~280kozpa much earlier than the scoping study estimated (year 3). We now model the Morgans underground to commence in late CY18. The improved economics associated with bringing Morgans underground online sooner will help to quickly (~1.5 years) payback the initial capital required (A\$157m). The Morgans underground currently contributes production of 254koz (1.2Mt @ 6.83g/t Au) and pushes the head grade at Westralia from ~4.5g/t Au to ~6g/t Au (contributing ~60-90kozpa).

It's time to drill some Wallaby 'look-a-like' prospects

Dacian has highlighted a number of Jupiter/Wallaby 'look-a-like' syenite related prospects within the region to be drilled over the coming months. We look forward to the Company drilling the Callisto and Cameron Well prospects which show potential to discover syenite related bodies. The Cameron Well prospect exhibits a circular magnetic anomaly with a coincident 2km x 1km +0.5g/t Au soil anomaly. Drilling by previous owners was considered to show poor continuity but included intercepts of 7m @ 15.4g/t Au from 15m, 2m @ 11.2g/t Au from 1m and 2m @ 15.3g/t Au from 7m. Callisto exhibits a similar bulls-eye aeromagnetic anomaly and is also considered to be poorly tested.

Further upside with exploration ongoing, maintain Spec Buy

We continue to see the Mt Morgans scoping study as a base case scenario with further upside to be explored at Jupiter and Westralia. We see potential to discover new orebodies within the region particularly given the lack of previous exploration outside of the known deposits. Upside exists with the recent high grade results from Jupiter and potential for further high grades at Westralia similar to the Morgans underground. We continue to see some geological risk around the Westralia drill-out although believe this risk has been reduced with the initial positive results.

We believe the Morgans underground is increasingly likely to hang together and will now become the priority mining area for the Mt Morgans project. The Company will now look to bring forward the higher grades from the Morgans underground and consequently we see further upside to the share price as the market factors in the improved economics associated with this significant change to the mine plan.

We maintain our Speculative Buy recommendation and a price target of \$1.61, NAV of \$1.52, spot NAV of \$1.92.

SUMMARY MODEL

Dacian Gold Ltd DCN		Share Price \$1.200						Speculative Buy															
Key Market Information												Directors						Company Information					
Share Price												Rohan Williams (Executive Chairman)						14-16, 890 Canning Hwy					
Market Capitalisation - ordinary												Barry Patterson (Non-Exec Director)						Applecross WA, 6153					
Net Debt (cash)												Robert Reynolds (Non-Exec Director)						+61 8 9226 4622					
Market Capitalisation - fully diluted																		+61 8 9226 4722					
EV																		www.daciangold.com.au					
Issued Capital																							
Options																							
Issued Capital (fully diluted inc. all options)																							
Issued Capital (fully diluted inc. all options and new capital)																							
Valuation																							
12month price target																							
P&L												Top Shareholders						Reserves & Resources					
Unit												m shares						%					
30 Jun 15												Brian Rodan						TOTAL RESOURCE (inclusive of Reserve)					
30 Jun 16												Colonial First State Asset Management						Measured					
30 Jun 17																		Indicated					
30 Jun 18																		Inferred					
30 Jun 19																		Total					
30 Jun 15																		Reserve					
30 Jun 16																							
30 Jun 17																							
30 Jun 18																							
30 Jun 19																							
Net Revenue																							
Total Costs																							
EBITDA																							
- margin																							
Depreciation/Amort																							
EBIT																							
Net Interest																							
Norm. Pre-Tax Profit																							
Reported Tax Expense																							
Normalised NPAT																							
Abnormal Items																							
Reported Profit																							
Minority																							
Profit Attrib																							
Balance Sheet												Production Summary						Costs					
Unit												Unit						Unit					
30 Jun 15												Jun 15						Jun 15					
30 Jun 16												Jun 16						Jun 16					
30 Jun 17												Jun 17						Jun 17					
30 Jun 18												Jun 18						Jun 18					
30 Jun 19												Jun 19						Jun 19					
Cash												Mt						\$/t					
Other Current Assets												x						\$/oz					
Total Current Assets												g/t						\$/oz					
Property, Plant & Equip.												%						\$/oz					
Exploration												%						\$/oz					
Investments/other												%						\$/oz					
Tot Non-Curr. Assets												%						\$/oz					
Total Assets												yr						\$/oz					
Short Term Borrowings																							
Other																							
Total Curr. Liabilities																							
Long Term Borrowings																							
Other																							
Total Non-Curr. Liabil.																							
Total Liabilities																							
Net Assets																							
Net Debt																							
Cashflow												Price Assumptions						Hedging					
Unit												Unit						Unit					
30 Jun 15												Jun 15						Jun 15					
30 Jun 16												Jun 16						Jun 16					
30 Jun 17												Jun 17						Jun 17					
30 Jun 18												Jun 18						Jun 18					
30 Jun 19												Jun 19						Jun 19					
Operating Cashflow												AUD/USD						No					
Income Tax Paid												US\$/oz						No					
Interest & Other												Gld						No					
Operating Activities												\$/oz						No					
Property, Plant & Equip.												AUD/USD											
Exploration and Devel.												US\$/oz											
Other												Gld											
Investment Activities												\$/oz											
Borrowings																							
Equity or "tbc capital"																							
Dividends Paid																							
Financing Activities																							
Net Cashflow																							
Shares												Sensitivity Analysis						Unpaid Capital					
Unit												Valuation						Year Expires					
30 Jun 15												Base Case						30-Jun-16					
30 Jun 16												Spot Prices						30-Jun-17					
30 Jun 17												1.92 (26.5%)						30-Jun-18					
30 Jun 18												108.3 (0.6%)						30-Jun-19					
30 Jun 19												1.14 / 1.97 (-24.6% / 29.8%)						30-Jun-20					
Ordinary Shares - End												Gold +/-10%						TOTAL					
Ordinary Shares - Weighted												1.92 / 1.10 (26.9% / -27.1%)						10.2					
Diluted Shares - Weighted												1.73 / 1.30 (14.3% / -14.3%)						7.3					
												Operating Costs +/-10%						0.72					
												98.7 / 116.5 (-8.3% / 8.3%)						8%					
Ratio Analysis												Share Price Valuation (NAV)						Risked Est. A\$/m					
Unit												100% Jupiter (pre-tax NAV at disc. rate of 14%)						Est. A\$/share					
30 Jun 15												100% Westralia (pre-tax NAV at disc. rate of 14%)											
30 Jun 16												Other Exploration											
30 Jun 17												Forwards											
30 Jun 18												Corporate Overheads											
30 Jun 19												Net Cash (Debt)											
Cashflow Per Share												Tax (NPV future liability)											
Cashflow Multiple												Options & Other Equity											
Earnings Per Share												Hedging											
Price to Earnings Ratio												Total											
Dividends Per Share																							
Dividend Yield																							
Net Debt / Net Debt + Equity																							
Interest Cover																							
Return on Equity																							
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																							
												Last Updated: 18/02/2016											

VALUATION

Our sum of parts valuation for Dacian assumes a 2.5Mtpa project and we model in line with the Mt Morgans scoping study. We assume a pre-production capex requirement of A\$160m in FY17 to build the 2.5Mtpa plant.

Fig. 1: Mt Morgans model assumptions

	Jupiter	Westralia	Mt Morgans
Capex - Total (\$m)			160
Life of mine Strip Ratio (x)	6.5x	na	na
Life of mine average head grade	1.7g/t	5.8g/t	2.8g/t
LOM avg mill feed (mt pa)	1.5mt pa	1.1mt pa	2.5mt pa
LOM Gold eq recovered grade g/t	1.5g/t	5.2g/t	2.5g/t
LOM Au combined recovery & payability	90%	90%	90%
Total Gold Sold	0.50Moz	0.91Moz	1.41Moz
Total Gold Sold pa	72k oz pa	181k oz pa	253k oz pa
Current Assumed Mine Life (yrs)	7yrs	5yrs	7yrs
Commencement Date (qtr)	Mar-18	Sep-18	Mar-18
LOM avg selling price (AUD/gold oz)	A\$ 1522 /oz	A\$ 1525 /oz	A\$ 1522 /oz
LOM avg C1 cash costs (AUD/gold oz)	A\$ 947 /oz	A\$ 626 /oz	A\$ 813 /oz
LOM avg all in site costs (AUD/gold oz)	A\$ 1025 /oz	A\$ 779 /oz	A\$ 922 /oz
Life of mine annual net cash flow (A\$m pa)	A\$ 26m pa	A\$ 73m pa	A\$ 99m pa
Spot pre-tax NPV (AUDm), unfunded	A\$ 109.1m	A\$ 172.0m	A\$ 281.1m

Source: Hartleys Estimates

We assume a 2.5Mtpa project producing ~1.5Mtpa from Jupiter and ~1Mtpa from Westralia

We assume a LOM head grade of 1.7g/t Au from Jupiter and 5.8g/t Au from Westralia in line with the Mt Morgans scoping study. We model a nominal A\$50m (\$0.22/share) value for exploration upside potential which is equal to ~1 year of free cashflow from Mt Morgans once in production. We believe DCN is well positioned for brownfield exploration success at Mt Morgans and \$A50m is conservative given the potential to discover further multi-million ounce deposits within the tenement package. We see upside potential within and around the Westralia and Jupiter prospects and throughout the regional BIF hosted and syenite related prospects.

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

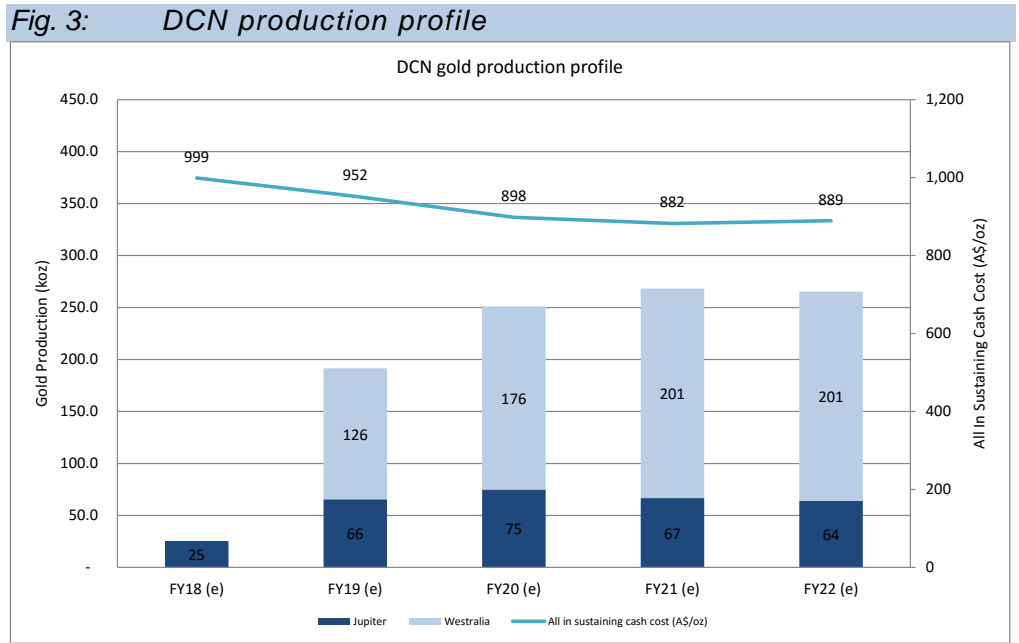
Fig. 2: Hartleys Sum of Parts Valuation for DCN

	A\$m	A\$/share
100% Jupiter (pre-tax NAV @ 14%)	101.1	0.71
100% Westralia (pre-tax NAV @ 14%)	227.9	1.01
Other Exploration	50.0	0.22
Forwards	0.0	0.00
Corporate Overheads	-21.7	-0.10
Net Cash (Debt)	24.4	0.11
Tax (NPV future liability)	-102.1	-0.45
Options & Other Equity	3.3	0.01
Hedging	0.0	0.00
Total	283.1	1.52

Source: Hartleys Estimates

Hartleys sum of parts valuation for DCN is A\$1.52/share

DCN has potential to produce ~250kozpa from FY20 onwards



Source: Hartleys Estimates

PRICE TARGET

Our price target is based on modelling in line with the Mt Morgans scoping study. We have included weighting for the base case at consensus and spot pricing and a small weighting for the current net cash backing.

Hartleys 12 month price target is \$1.61/share

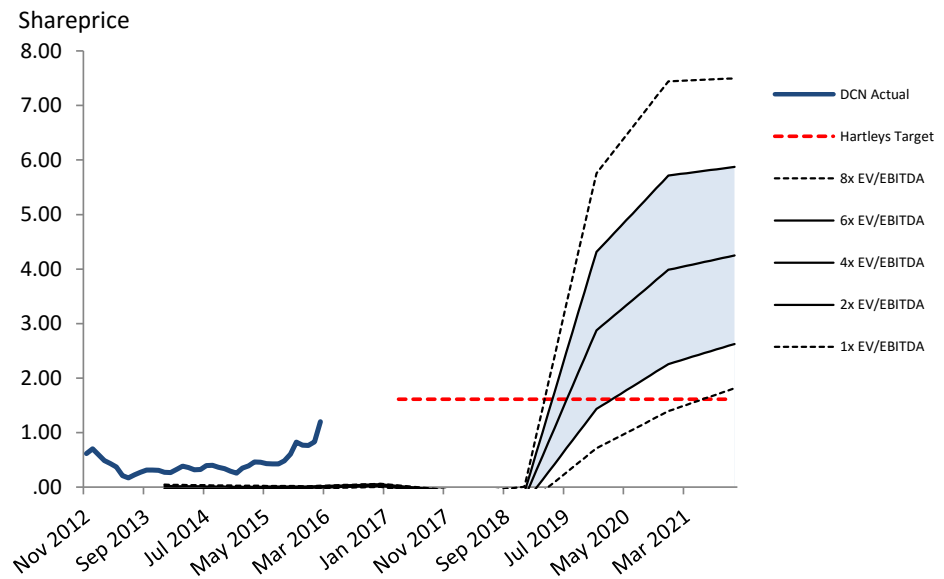
Fig. 4: DCN Price Target Methodology

DCN Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	60%	\$1.52	\$1.61
NPV at spot commodity and fx prices	30%	\$1.92	\$2.09
Net cash backing	10%	\$0.17	\$0.17
Risk weighted composite			\$1.50
12 Months Price Target			\$1.61
Shareprice - Last		\$1.20	
12 mth total return (% to 12mth target)			34%

Source: Hartleys Estimates

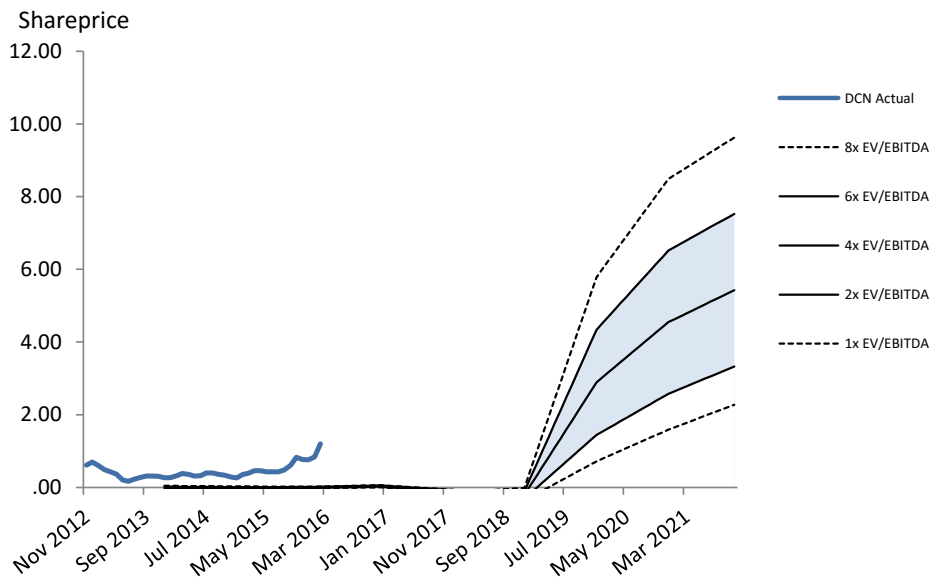
EV/EBITDA BANDS

Fig. 5: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 6: Using spot commodity prices



Source: Hartleys Estimates, IRESS

RISKS

Fig. 7: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
2.5Mtpa Mt Morgans Project	Moderate	Meaningful	DCN is leveraged to the success of the Mt Morgans project. We model a 2.5Mtpa project for 7 years with ~1.5Mtpa from Jupiter and ~1.0Mtpa from Westralia, in line with the Mt Morgans scoping study. If the project varies largely from the scoping study our valuation will be at risk
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of DCN, changes in these assumptions can change our valuation to both the upside and downside
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at Westralia and Jupiter and throughout the regional prospects. Some downside risk to our valuation exists if DCN has no further exploration success
Geological Risk	Moderate	High	The current Westralia resource estimate is majority inferred status and therefore requires further drilling, if the updated resources change considerably our valuation will be at high risk to the downside
Funding Risk	Moderate	High	We assume a ~60:40 debt:equity funding scenario to develop the Mt Morgans project, if this funding scenario is not achievable our valuation will be at risk, equity dilution is the highest risk to our valuation

Conclusion

At this early stage 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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