

Share Price	\$2.20
Valuation	\$2.01
Price Target (12 month)	\$2.50

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

Bank of Nova Scotia	8.2%
Commonwealth Bank of Australia	6.2%
Brian Rodan	5.8%

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

Issued Capital 132.7m
- fully diluted 142.8m

Market Cap A\$291.8m
- fully diluted A\$314.2m

Cash (30 Mar 16a) A\$17.0m

Debt (30 Mar 16a) A\$0.0m

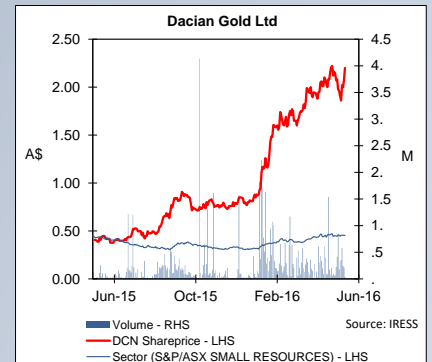
EV A\$274.8m

EV/Resource oz A\$92/oz

EV/Reserve oz A\$3435/oz

	Prelim. (A\$m)	FY17e	FY18e	FY19e
Prod (koz Au)		0.0	25.5	195.8
Op Cash Flw		-2.7	8.0	110.4
Norm NPAT		-6.4	-2.6	103.8
CF/Share (cps)		-5.2	-2.0	57.2
EPS (cps)		-7.4	-2.7	76.4
P/E		-42.5	-112.3	3.8

	Au
Resources (Moz)	3.00
Reserves (Moz)	0.08



Scott Williamson
Resources Analyst
Ph: +61 8 9268 3045
E: scott_williamson@hartleys.com.au

DACIAN GOLD LIMITED (DCN)

Morgans defined, pipeline of strong newsflow to come

Dacian has announced further strong results from the infill drilling program at Morgans underground. The infill drilling will allow the Company to convert the current inferred resource estimate [1.2Mt @ 9.1g/t Au for 344koz] into a higher confidence category and ultimately a maiden reserve estimate. We expect Dacian to announce an updated resource estimate for Morgans, Westralia and Jupiter over the coming months. We estimate an increase in tonnes at Jupiter (highlighted by recent drilling) with a minimal change to the Morgans and Westralia estimates other than an increase in confidence (from majority inferred to measured and indicated).

Morgans underground to "kick start" Westralia into production

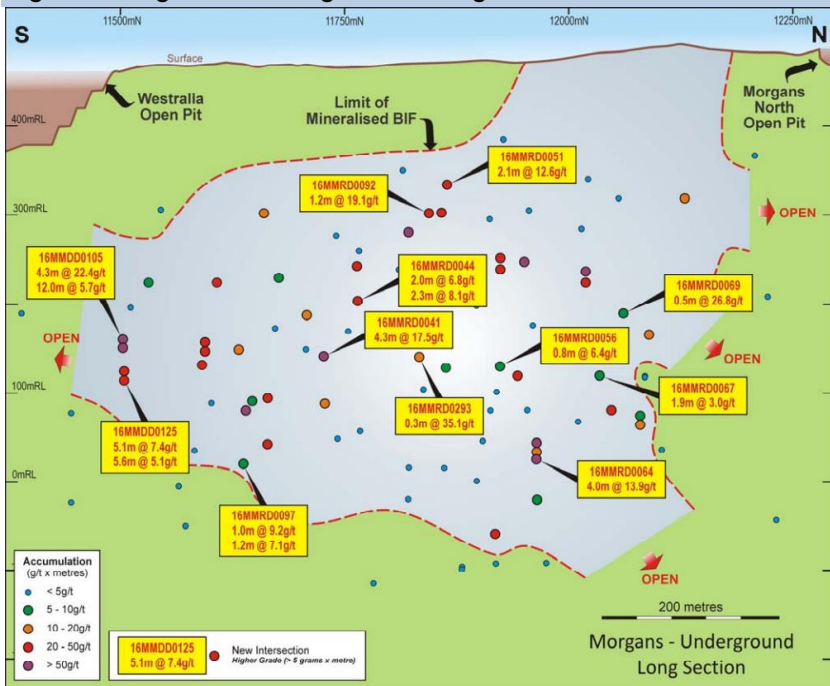
Our modelling suggests the Morgans underground is increasingly likely to be bought online within the first year of operations and should push the initial production towards ~280kozpa earlier than the scoping study estimated (year 3). The high grade at Morgans underground will help payback the initial capex (A\$157m) faster than previously estimated. The scoping study estimates the Morgans underground to contribute production of ~60-90kozpa and we model this to commence from FY19 onwards. We like the potential for Morgans to extend along strike and down plunge and expect the underground mine to extend beyond the initial ~4 years.

Where's Wallaby? Downgrade to Accumulate (from Spec Buy)

We continue to wait patiently for the Company to drill the Callisto and Cameron Well prospects over the coming months. We like the potential for Callisto, Cameron Well and other prospects to deliver syenite related mineralisation similar to Jupiter and the nearby Wallaby deposit.

Based on our valuation, we downgrade to an Accumulate recommendation (from Speculative Buy) with a price target of \$2.50, NAV of \$2.01, spot NAV of \$2.67.

Fig. 1: Morgans Underground long section



Source: Dacian Gold Limited

SUMMARY MODEL

Dacian Gold Ltd DCN		Share Price \$2.200						Accumulate															
Key Market Information												Directors						Company Information					
Share Price												Rohan Williams (Executive Chairman)						14-16, 890 Canning Hwy					
Market Capitalisation - ordinary												AS\$292m						Applecross WA, 6153					
Net Debt (cash)												-\$17.0m						+61 8 9226 4622					
Market Capitalisation - fully diluted												AS\$314m						+61 8 9226 4722					
EV												AS\$297m						www.daciangold.com.au					
Issued Capital												132.7m											
Options												10.2											
Issued Capital (fully diluted inc. all options)												142.8m											
Issued Capital (fully diluted inc. all options and new capital)												200.1m											
Valuation												\$2.01											
12month price target												\$2.50											
P&L												Top Shareholders						Reserves & Resources					
Unit												m shares						%					
30 Jun 15												Bank of Nova Scotia						Mt					
30 Jun 16												Commonwealth Bank of Australia						g/t Au					
30 Jun 17												Brian Rodan						Moz					
30 Jun 18																		TOTAL RESOURCE (inclusive of Reserve)					
30 Jun 19																		Measured					
Net Revenue												4.1						1.2					
Total Costs												15.7						2.0					
EBITDA												22.0						2.6					
- margin												41.7						2.2					
Depreciation/Amort												0.28						9.2					
EBIT																		0.1					
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												%						\$/oz					
Short Term Borrowings												%						\$/oz					
Other												%						\$/oz					
Total Curr. Liabilities												%						\$/oz					
Long Term Borrowings												%						\$/oz					
Other												%						\$/oz					
Total Non-Curr. Liabil.												%						\$/oz					
Total Liabilities												%						\$/oz					
Net Assets												%						\$/oz					
Net Debt												%						\$/oz					
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												G/oz						No					
Operating Activities												AUD/USD						No					
Property, Plant & Equip.												G/oz						No					
Exploration and Devel.												G/oz						No					
Other												G/oz						No					
Investment Activities												G/oz						No					
Borrowings												G/oz						No					
Equity or "tbc capital"												G/oz						No					
Dividends Paid												G/oz						No					
Financing Activities												G/oz						No					
Net Cashflow												G/oz						No					
Shares												Sensitivity Analysis						Unpaid Capital					
Unit												Valuation						FY19 NPAT					
30 Jun 15												2.01						112.5					
30 Jun 16												2.67 (32.8%)						115.1 (2.4%)					
30 Jun 17												2.67 (32.8%)						115.1 (2.4%)					
30 Jun 18												2.67 (32.8%)						115.1 (2.4%)					
30 Jun 19												2.67 (32.8%)						115.1 (2.4%)					
Ordinary Shares - End												2.67 (32.8%)						115.1 (2.4%)					
Ordinary Shares - Weighted												2.67 (32.8%)						115.1 (2.4%)					
Diluted Shares - Weighted												2.67 (32.8%)						115.1 (2.4%)					
Ratio Analysis												Share Price Valuation (NAV)						Risked Est. A\$m					
Unit												Risked Est. A\$m						Est. A\$/share					
30 Jun 15												131						0.92					
30 Jun 16												284						1.42					
30 Jun 17												50						0.25					
30 Jun 18												0						0.00					
30 Jun 19												-22						-0.11					
Cashflow Per Share												17						0.09					
Cashflow Multiple												-113						-0.57					
Earnings Per Share												3						0.02					
Price to Earnings Ratio												0						0.00					
Dividends Per Share												0						0.00					
Dividend Yield												0						0.00					
Net Debt / Net Debt + Equity												0						0.00					
Interest Cover												0						0.02					
Return on Equity												0						0.00					
Total												350						2.01					

Analyst: Scott Williamson

+61 8 9268 3045

"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: 06/06/2016

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	1.8g/t	5.8g/t	3.3g/t
LOM avg mill feed (mt pa)	1.5mt pa	1.1mt pa	2.5mt pa
LOM Gold eq recovered grade g/t	1.6g/t	5.2g/t	3.0g/t
LOM Au combined recovery & payability	90%	90%	90%
Total Gold Sold	0.76Moz	0.90Moz	1.67Moz
Total Gold Sold pa	76k oz pa	181k oz pa	257k oz pa
Current Assumed Mine Life (yrs)	10yrs	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\$ 629 /oz	A\$ 814 /oz
LOM avg all in site costs (AUD/gold oz)	A\$ 1025 /oz	A\$ 780 /oz	A\$ 922 /oz
Life of mine annual net cash flow (A\$m pa)	A\$ 19m pa	A\$ 80m pa	A\$ 99m pa
Spot pre-tax NPV (AUDm), unfunded	A\$ 142.8m	A\$ 232.7m	A\$ 375.5m

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 1.8g/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 (\$0.25/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

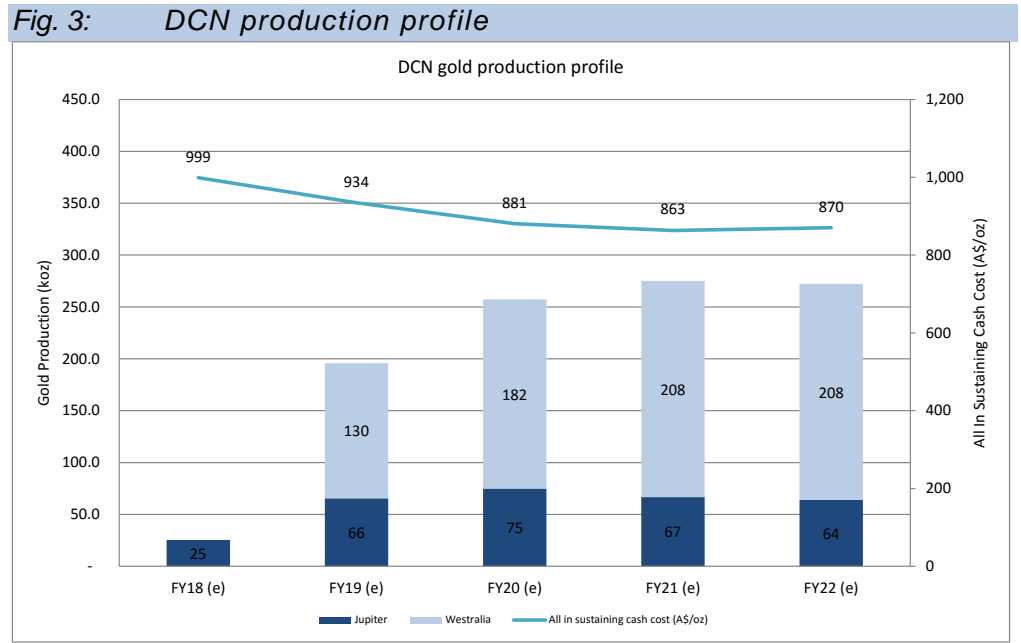
Fig. 2: Hartleys Sum of Parts Valuation for DCN

	A\$m	A\$/share
100% Jupiter (pre-tax NAV @ 14%)	130.8	0.92
100% Westralia (pre-tax NAV @ 14%)	283.9	1.42
Other Exploration	50.0	0.25
Forwards	0.0	0.00
Corporate Overheads	-21.7	-0.11
Net Cash (Debt)	17.0	0.09
Tax (NPV future liability)	-113.3	-0.57
Options & Other Equity	3.3	0.02
Hedging	0.0	0.00
Total	350.0	2.01

Source: Hartleys Estimates

Hartleys sum of parts valuation for DCN is A\$2.01/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 \$2.50/share

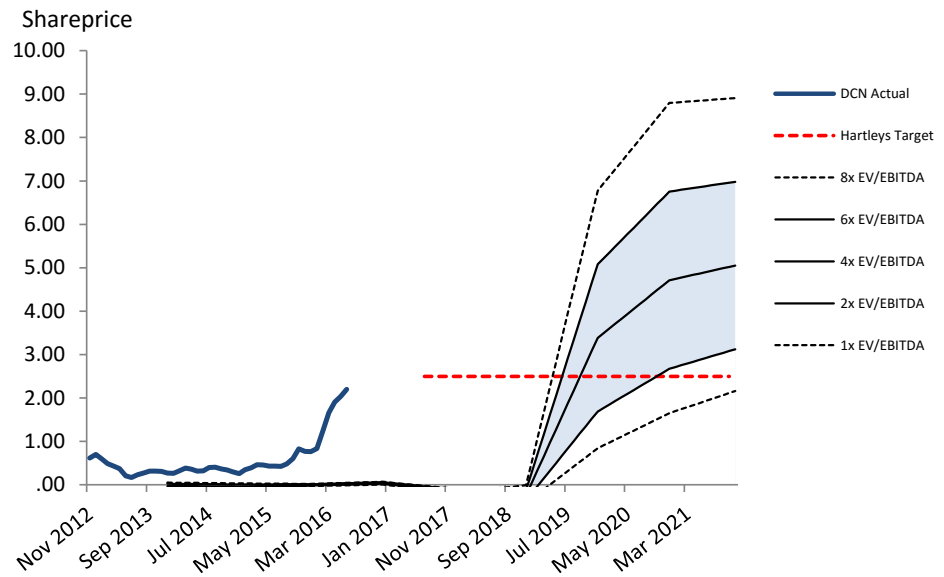
Fig. 4: DCN Price Target Methodology

DCN Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	60%	\$2.01	\$2.18
NPV at spot commodity and fx prices	40%	\$2.67	\$2.97
Risk weighted composite		\$2.28	
12 Months Price Target		\$2.50	
Shareprice - Last		\$2.20	
12 mth total return (% to 12mth target)		14%	

Source: Hartleys Estimates

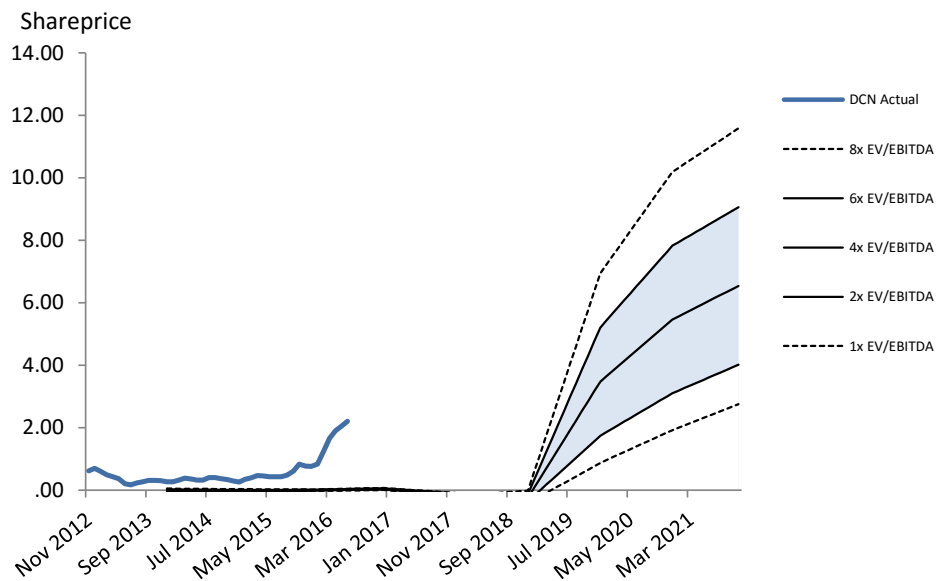
EV/EBITDA BANDS

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 10 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

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Scott Williamson	Resources Analyst	+61 8 9268 3045
Simon Andrew	Energy Analyst	+61 8 9268 3020
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Paul Fryer	Director	+61 8 9268 2819
Ben Wale	Associate Director	+61 8 9268 3055
Ben Crossing	Associate Director	+61 8 9268 3047
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821
Rhys Simpson	Manager	+61 8 9268 2851

Registered Office

Level 6, 141 St Georges Tce Postal Address:

PerthWA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner:firstname_lastname@hartleys.com.au

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.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Digby Gilmour	+61 8 9268 2814
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
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Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Conlie Salvemini	+61 8 9268 2833
Mark Sandford	+61 8 9268 3066
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041
Jayme Walsh	+61 8 9268 2828

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