

Horizon Gold^{1,4}

HRN-ASX

31 January 2017

BUY

Last: **A\$0.37**
Target: **A\$0.77**

Initiating Coverage: Growth on the Horizon

Gold assets offer near term value at current high A\$ gold prices

Last quarter ASX-listed Panoramic Resources (PAN) listed its Gum Creek Gold project through the IPO of Horizon Gold (HRN). HRN listed with a coincident capital raising of A\$15m for 49% ownership in the new company. We believe, HRN offers a near term opportunity to realize value in the favourable Australian gold price and cost environment. The project is located in a very prospective part of the West Australian Goldfields. The geology and likely development strategy are similar to that of nearby A\$225m Blackham Resources (BLK:ASX).

HRN's Gum Creek assets host walk-up exploration targets for near term news

We see considerable exploration upside at the large, relatively untested project already shown to hold 1.3moz of gold resources. The Wilsons South project hosts some very prospective geophysical targets immediately along strike from the high grade Wilsons deposit. We expect the company to drill here shortly and see the potential for additional discoveries as high.

The project offers a two pronged development strategy

The project has potential for open pit free milling gold production as well as high grade refractory underground production. The free gold processing is expected to be straightforward CIL processing. The March 2016 Scoping Study completed by PAN on the 0.7moz free gold resource returned an IRR of 30%.

A low cost refractory circuit is also considered to process high grade ore from the prospective Wilsons Underground resource and would offer considerable upside when combined with free gold processing.

HRN looks undervalued especially after considerable sunk costs

The project also hosts an estimated A\$30m in sunk costs on existing infrastructure that includes, plant, airstrip, camp, tailings dam and haul roads. This will reduce initial capex to an estimated A\$55m. Based on relative valuations against peer's resources, HRN is deemed undervalued.

Initiate with a BUY rating and price target to A\$0.77/share

Our SOTP valuation based price target consists of a combined weighted valuation of an NPV₈ valuation and in-situ resource valuation of the company's 100% ownership of the Gum Creek Gold project as well as exploration and cash.

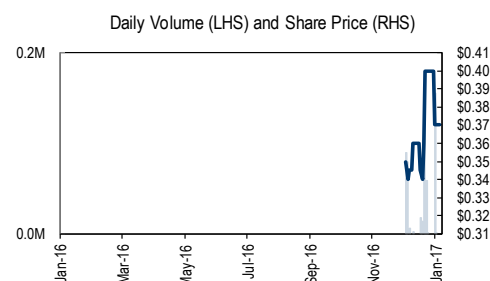
Our model assumes an initial low cost 800ktpa CIL processing plant followed by an additional 400ktpa moderate pressure oxide leach circuit to produce up to 90kozpa over 6 years. Additional exploration success can be viewed as upside.

Rating	BUY
Target (A\$)	\$0.77
Gold Production 2018E (koz)	0.00
Gold Production 2019E (koz)	11.85
Gold Production 2020E (koz)	50.52

Share Data	
Share o/s (current)	76.53
52-week high/low (A\$)	0.4/0.34
52-week average volume ('000)	20.68
Market cap (A\$m)*	\$28.32
EV (A\$m)*	\$13.32
Net debt estimate (A\$m)*	-\$15.00
Projected return*	107%
NAV0%/share	\$0.94
NAV8%/share	\$0.77
P/NAV0%	0.39
P/NAV8%	0.48

Financial Data			
YE Jun. 30	FY18E	FY19E	FY20E
Gold production (k oz)	-	12	51
Cash costs (A\$/oz)	\$0	\$1,099	\$1,113
Capex (A\$m)	\$21	\$20	\$13
EBITDA (A\$m)	-\$7	-\$10	\$25
EPS	-\$0.06	-\$0.10	\$0.14
CFPS	-\$0.06	-\$0.09	\$0.19
P/E	0.0	-3.6	2.7
P/CF	-6.4	-4.0	1.9
EV/EBITDA	-1.9	-1.3	0.5

*A\$ unless otherwise noted.



Source: ASX Warning: Past performance is not indicative of future performance

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See important disclosures on the last page of this report

Investment case

HRN looks undervalued
against peers

HRN looks undervalued by the market when compared to our sum-of-the-parts valuation and also looks undervalued against peers on a relative valuation basis. The company shows strong leverage to a rising gold price as it looks to unlock the value of its Gum Creek Gold project at a time of high Australian gold prices. We value the company at A\$93m or 77c/share; a significant uplift on the current share price of 37c. A summary of our valuation is shown below.

Figure 1. HRN sum of the parts valuation (A\$m)

Asset	Discount rate	NAV "X" Factor	NAV Target (A\$)	Target Price (A\$)
Gum Creek	8%	0.50 X	\$30.0	\$0.25
Resource insitu Valuation	n.a.	0.50 X	\$21.7	\$0.18
Exploration Upside	n.a.	1.00 X	\$5.0	\$0.04
Cash (end qtr)	n.a.	p/nav	\$11.5	\$0.09
Unpaid Capital**	n.a.	1.00 X	\$25.0	\$0.21
Total NAV			\$93.1	\$0.77

Source: Somers & Partners

Now is a good time to
take a look at the sector

In our view, now is a good time to start looking at the gold sector again. After a slight ebb in gold prices post the US federal election, the future looks good for gold again. In our opinion, the new government will look to weaken the US dollar to assist US exports. In addition, we expect a considerable amount of uncertainty surrounding the new administration. All of this should be good for the gold price.

The IPO offers near term
value in a favourable gold
mining environment

The recent IPO of the Gum Creek Gold project offers a near term opportunity to realize value in the favourable Australian gold price and cost environment. We see considerable exploration upside at the large, relatively untested project already shown to hold 1.3moz of gold resources (plus >1moz historic production). The Wilsons South project hosts some very prospective geophysical targets immediately along strike from the high grade Wilsons deposit. We expect the company to drill here shortly and see the potential for additional discoveries as high.

Our analysis shows considerable value at current gold prices. The project is currently relatively high cost and well leveraged to expected rising Australian gold prices. Gum Creek looks considerably undervalued at just A\$12 per resource ounce compared to a sector median of A\$55/oz.

The project has potential for open pit and free-milling gold production as well as high grade refractory underground production. The free-milling gold processing is expected to be straightforward CIL processing. The March 2016 Scoping Study completed by PAN on the 0.7moz free gold resource returned an IRR of 30%. The free gold mining inventory will require considerable cutbacks on the existing Swan Bitter and Swift Pits with the pre-strip included in the projects relatively low initial capital expenditure of A\$55m. We see potential for mining costs to come down considerably from the A\$3.50/t assumed in the Scoping Study given neighbours Blackham Resources expects to spend A\$2.50/t at its Matilda Pits. The relatively high strip ratio means any lowering of mining costs could have a considerable impact on lowering opex and pre-strip capital.

A low cost refractory circuit is also under consideration to process high grade ore from the prospective Wilsons Underground resource and would offer considerable upside when combined with free gold processing. Wilsons shows good grades and widths and looks very mineable as three consistent high grade plunging shoots. Exploration potential along strike and down dip suggest Wilsons could be a long life and profitable operation assuming a viable refractory processing solution is found. Here, initial studies indicate that low cost moderate pressure and temperature oxidation is the solution. Another option could be toll treating a concentrate at the neighbouring Wiluna plant now that neighbour Blackham Resources intends to reinstate the project's refractory circuit.

The project also hosts an estimated A\$30m in sunk costs on existing infrastructure that includes, plant, airstrip, camp, tailings dam and haul roads. This reduces initial capex to just A\$55m in the Scoping Study.

HRN intends to realize value at Gum Creek through the two pronged strategy of continued exploration to grow the existing 1.3moz resource base and studies on the free gold and refractory gold production scenarios.

The company's balance sheet is clean with no debt and the recent cash injection of A\$15m from the IPO. Corporate costs are shared with Panoramic Resources (PAN) and should be y low.

The share register is supportive with PAN escrowed for 2 years. PAN's major shareholders also took up their priority entitlement in the placement. However, the supportive shareholding restricts the number of free float shares available and trading liquidity is restricted.

Horizons' management has the experience when it comes to building projects. The team has also had considerable success in exploration at Panoramic. We consider management well-placed to take the company forward.

In summary, HRN looks undervalued against peers and on our NAV valuation. The Gum Creek project is leveraged to rising gold prices and exploration success.

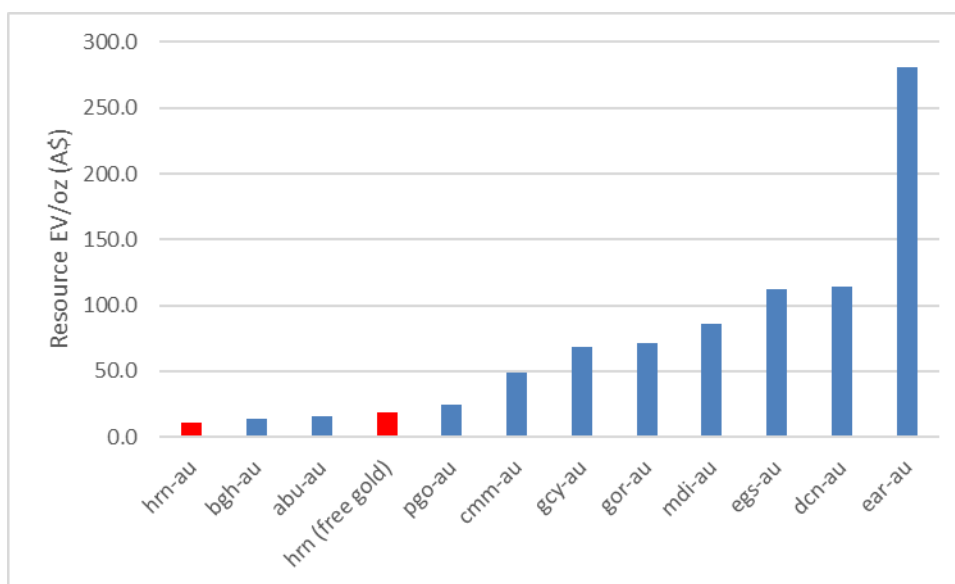
SWOT analysis

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Easy restart potential • Track record of mining & growth • Exploration upside • Undervalued • \$30m in sunk infrastructure capital • No bank debt • Corporate costs shared with PAN 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Expensive diesel power • Relatively small reserve base • Relatively high costs • Large cutbacks • Refractory gold • Limited free float shares
<p><u>Threats</u></p> <ul style="list-style-type: none"> • Gold price volatility • Takeover 	<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Exploration Upside • M&A utilising mining skills • Consolidation in region

Peer Analysis

The following chart compares HRN's gold assets with peers on an in situ resource ounce basis. We have compared the value of the full 1.3moz resource base (A\$10/oz) and just the 0.7moz free gold resources (A\$18/oz). Clearly, the current market valuation undervalues HRN's resources against its ASX peers at a median valuation of A\$55/oz.

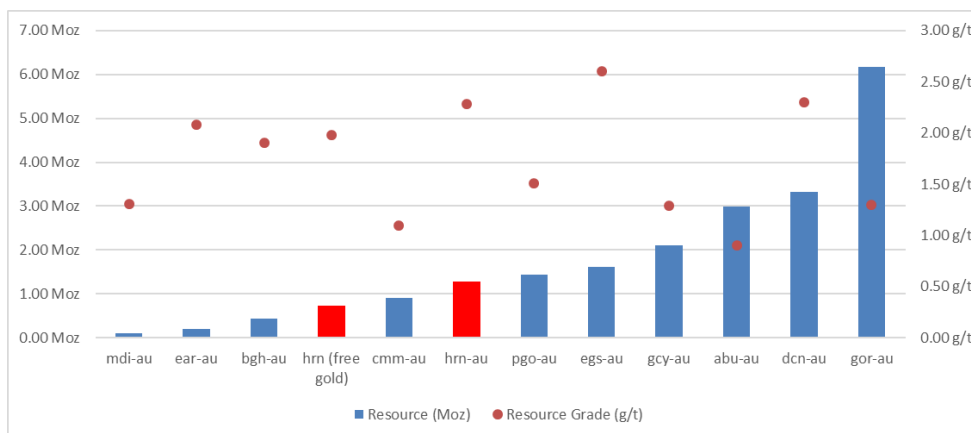
Figure 2. Peer comparisons showing EV/resource



Source: Somers & Partners

The mix of underground and open pit resources compares favourably against peers in terms of grade. HRN is exploring in the expectation of near term additions to resource ounces.

Figure 3. Resource ounces and grade across the ASX listed explorer/developer sector



Source: Somers & Partners

Valuation - Gum Creek Gold Project (100%)

We have modelled Gum Creek to commence production in FY19. We assume a new processing plant is constructed and have modelled production of free milling gold in line with the PAN March 2016 Scoping Study. We also model production from the high grade (but refractory) Wilsons Underground Mine from late FY20 and apply capital to upgrade the plant to support this. We assume a maximum throughput of 1.2mtpa utilizing a 0.8mtpa free gold circuit and a 0.4mtpa refractory circuit to producer a LOM average of 90kozpa.

Figure 4. Gum Creek assumed mine production plan

Mine Plan	FY18	FY19	FY20	FY21	FY22
Total Plant Feed (Kt)	-	200	825	1,150	1,160
Average Head Grade (g/t Au)	-	1.94	2.01	2.71	2.73
Plant Recovery (%)	-	95.0	94.0	89.0	89.0
Gold Produced (koz)	-	11.9	49.9	88.9	90.8

Source: Somers & Partners

We have assumed production efficiency and costs based on the March 2016 Scoping Study but applied our own degree of conservatism to the numbers.

Figure 5. Gum Creek modelling assumptions

Assumption	Life of Mine
Open Cut Mining Cost (A\$/t rock)	3.50
Underground Mining Cost (A\$/t ore)	80.00
Free Gold Processing Cost (A\$/t ore)	28.00
Combined Gold Processing Cost (A\$/t ore)	34.50
G&A Cost (A\$/t ore)	4.00
Sustaining Capex (A\$m pa)	1.00
Free Gold Circuit Initial Capex (A\$m pa) **	55.00
Refractory Circuit Initial Capex (A\$m pa)	15.00
Exploration (A\$m pa)	2.00
Debt Funding (A\$m)	50.0
Equity Funding (A\$m) *	35.0
Government Royalty (%)	2.5
Average LOM Vendor Royalty (%)	1.25
Corporate Tax (% p.a)	30.0
Depreciation rate (% p.a)	LOM
LOM cash cost (A\$/oz)	1,100
LOM All in sustaining cost (A\$/oz)	1,460
LOM Average Gold Price (A\$/oz)	1,735
A\$/US\$ (Long term)	0.75

Source: Somers & Partners * Equity funding for construction of CIL circuit. ** includes pre-strip

We value HRN's 100% interest in the Gum Creek project on a post-tax basis, calculating an NPV_{8%} of A\$60m.

However, given the relatively early stage of the project and the large exploration portfolio we have also chosen to value the project on an average in situ resource valuation basis. We value free gold ounces of 709koz at the exploration sector median of A\$55/oz. We have heavily discounted refractory resources of 549koz at 0.25x the median (A\$14/oz). Our in situ resource valuation for Gum Creek is A\$43m (709koz x A\$55/oz + 549koz x A\$14/oz).

Our valuation of Gum Creek is A\$52m

We have weighted our final NAV as follows;

In situ valuation 0.5x = A\$21.7m

NPV valuation 0.5X = A\$30.0m

Total NAV = A\$51.7m

Exploration tenure

Our valuation of exploration upside is A\$5m

We value exploration upside at a conservative A\$5m.

Cash, corporate costs, unpaid capital and investments

We assume cash of A\$11.5m

We assume cash at 31 March 2017 of A\$11.5m and value it at face value. Corporate costs, including potential future debt financing costs are factored into the project model. We assume initial funding for the operation comes from a combination of debt (\$40m) and equity (\$25m).

HRN does not have any significant additional investments.

Total valuation

Our total discounted NAV valuation is A\$93m or 77c/share

Our total sum-of-the-parts valuation for HRN is A\$93m or A\$0.77/share.

The following table summarises our target price at various long term gold prices. In our model we assume a long term price of US\$1,300/oz.

Figure 6. Target price at various long term prices.

Long term price (US\$/Oz)	1150	1200	1250	1300	1350	1400
Target price (A\$)	0.52	0.65	0.71	0.77	0.83	0.88

Source: Somers & Partners

Company overview

In December 2016 Panoramic Resources (PAN:ASX) listed its Gum Creek Gold assets on the ASX as Horizon Gold. Details of the IPO are shown below;

- PAN retains ~51% shareholding
- IPO placement of ~49% of company for A\$15m at 40c/share
- Priority entitlement to existing PAN shareholders
- Funding to support exploration and development studies on existing 1.3moz resource

Corporate summary

The company has 77m shares on issue and is listed on the ASX. HRN has no options on issue.

We estimate a cash position of A\$11.5m for 31 March 2017. HRN is bank debt free. Corporate costs are expected to be relatively high as it shares management and infrastructure with PAN.

Corporate strategy and work programme

HRN intends to realize value at Gum Creek through the two pronged strategy of continued exploration to grow the existing 1.3moz resource base and studies on the free gold and refractory gold production scenarios. This process is expected to last up to two years, but can be fast tracked if necessary.

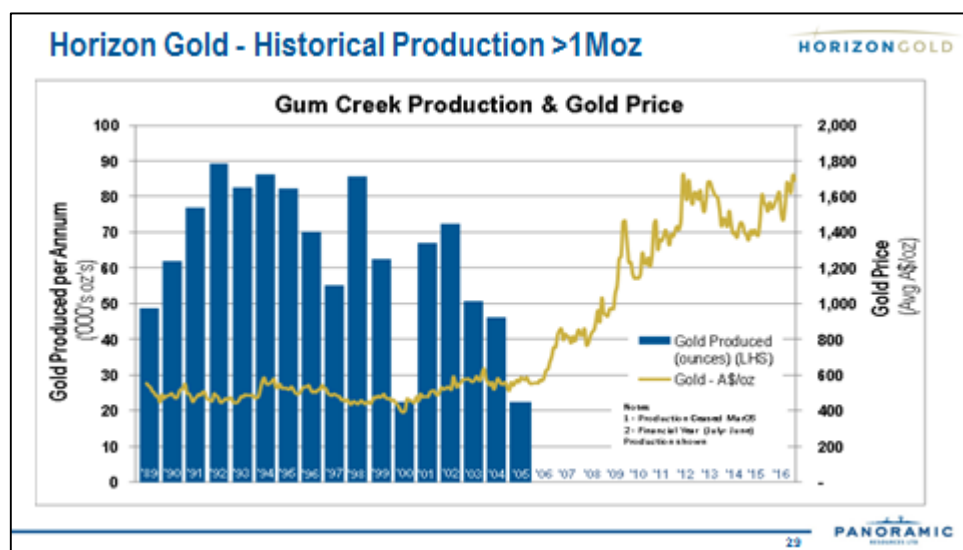
HRN carries no debt
and cash of A\$12m

Gum Creek Gold Project, WA (100%)

Background

The Gum Creek project was acquired by Panoramic resources (PAN:ASX) from Apex Minerals for A\$15.5m in 2011. The Wilsons Project was acquired in 2012 for an additional A\$8m. Gold was previously mined at the project between 1987 and 2005 under various owners including Australian Resources Ltd, Abelle Ltd, Harmony Gold and Legend Mining. Over one million ounces of gold was mined from 20 open pits and three underground mines at gold prices that average a third of current prices.

Figure 7. Gold production from the Gum Creek project and recent gold price appreciation



Source: HRN

Since acquiring the project PAN has added 0.64moz in resources, completed a scoping study on a combined free milling and refractory operation in 2012 and completed a follow up scoping study on just the free milling portion of the resource base in 2016. PAN has spent ~A\$50m on the project since 2011 (including acquisition costs).

HRN now holds the project and has commenced exploration programs this quarter.

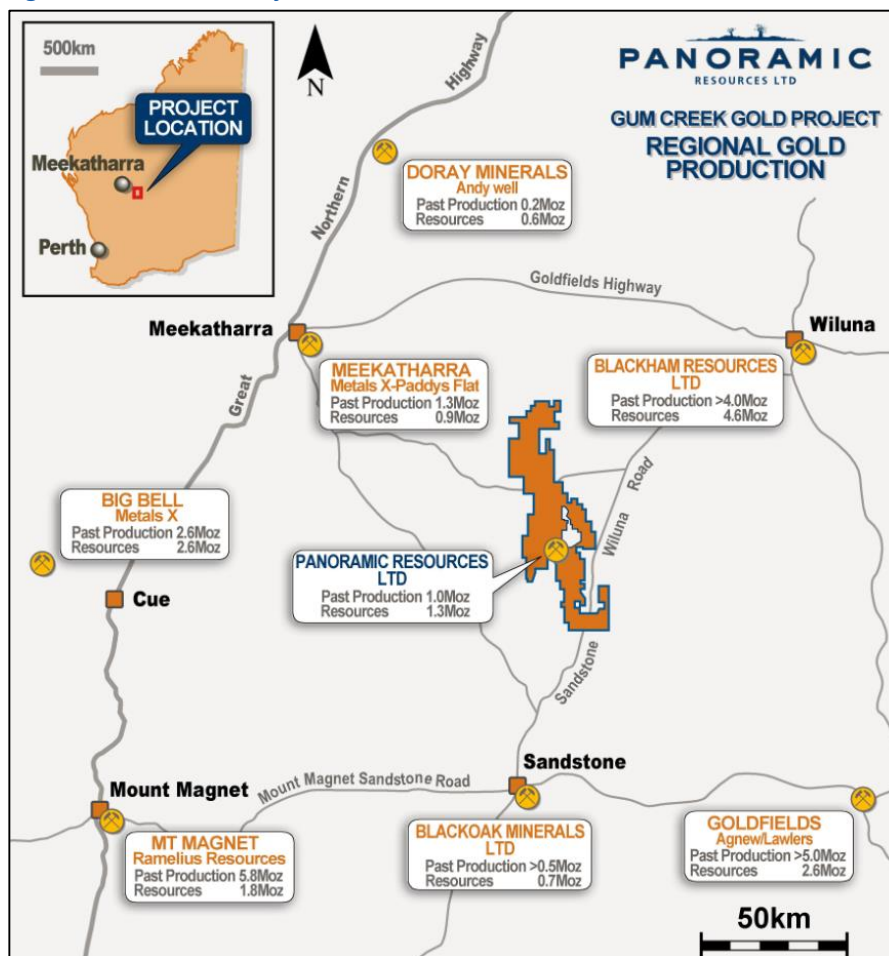
Location, infrastructure and environment

The Gum Creek Project is a large project of 724km² over 110km of strike of fertile greenstone belt in the Goldfields of Western Australia. The project is located 70km north of Sandstone and 120km south of Wiluna.

The project hosts existing mine infrastructure including a 110 room camp, tailings dam, 600ktpa processing plant, airstrip and haul roads with replacement costs estimated at ~A\$30m. All planned mining operations are on granted mining licenses with no Native Title claims. The project covers three pastoral stations with good relations reported. Water will be sourced from existing open pits and is of good quality for processing. Power will be diesel.

Environmental surveys have been completed in this historically active mining area with no issues highlighted. However, the proposed Howards operation is located on the edge of the Lake Mason nature reserve, whilst no significant issues are expected and none have been experienced in drilling the resource, the permitting process may be more demanding than at the pre-existing open pits.

Figure 8. Gum Creek Project location

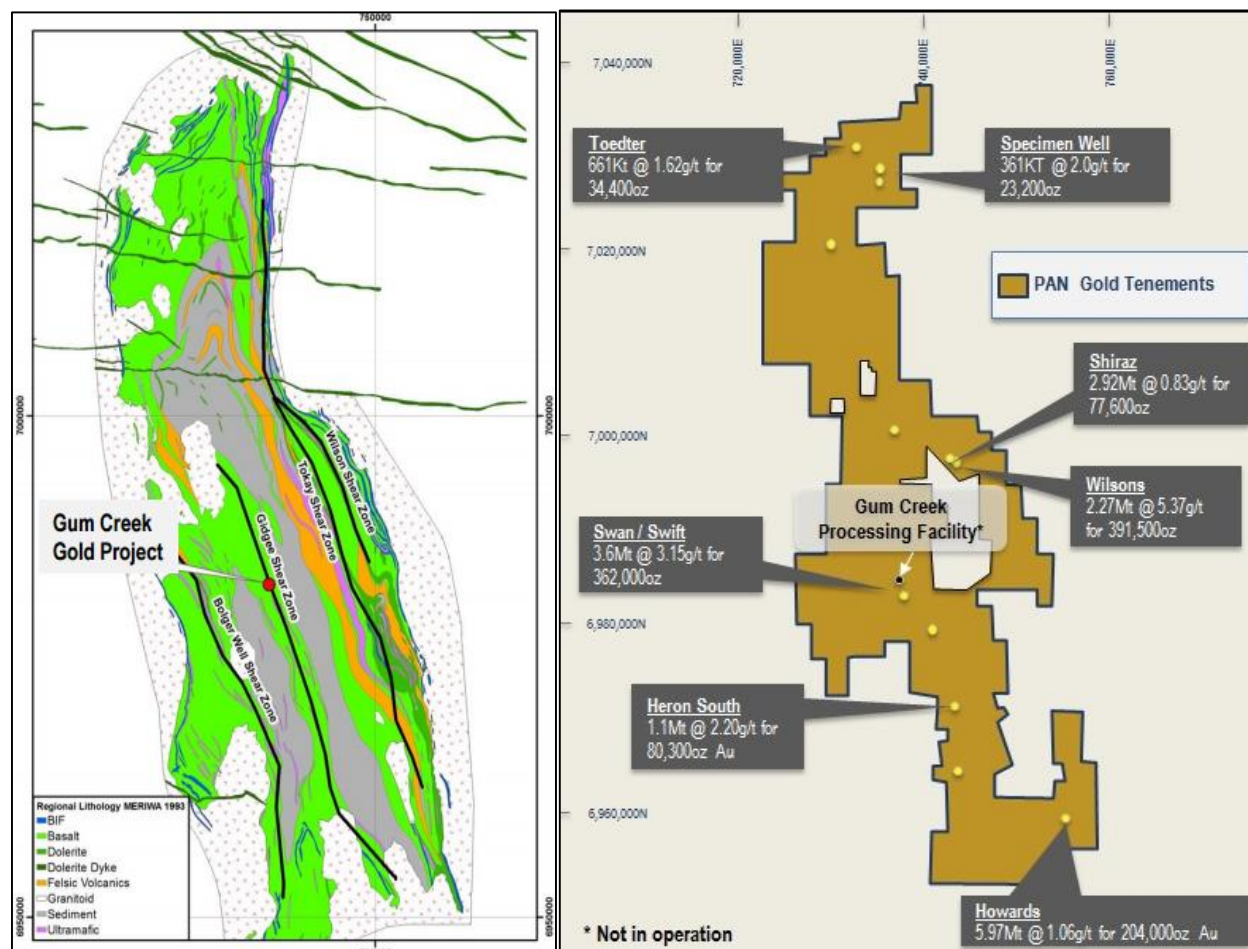


Source: HRN

Geology, resources and reserves

The project is hosted in the Gum Creek Greenstone belt, the host to a number of gold bearing shear zones including the Gidgee Shear and Wilsons Shear. Mineralisation styles are typical of elsewhere in the goldfields. The dominant host for free milling gold is quartz veining in regional shear zones within medium grained mafic rocks (dolerite). Mineralisation is enriched where these NW trending shears are intersected by later NE trending shears. The other main style is quartz-pyrite-arsenopyrite veining again associated with the intersection of the same structures in mafic and sedimentary rocks. With this latter style the gold is fine grained and locked up within arsenopyrite crystals and consequently refractory when in fresh rock.

Figure 9. Gum Creek geology and major resources



Source: HRN

Refractory gold represents 44% of the resource base at Gum Creek and a processing solution would unlock significant value here.

Figure 10. Gum Creek mineral resources (30 June 2016)

Category	Tonnes (Kt)	Grade (g/t Au)	Contained gold (oz))
Measured	-	-	-
Indicated	14,084	2.32	1,050,520
Inferred	3,274	2.12	222,580
Total	17,360	2.28	1,273,100

Source: HRN

Refractory gold represents 44% of the resource base at Gum Creek and a processing solution would unlock significant value here.

The project does not host mineral reserves but as part of the March 2016 Scoping Study a mining inventory was determined on pit designs as outlined below. The mining inventory below is only for free milling gold, we model ore from the refractory Wilsons mine in addition to this.

Figure 11. Gum Creek free-milling mineral inventory (March 2016 Scoping Study)

Category	Tonnes (Kt)	Grade (g/t Au)	Contained (oz)
Indicated	3,939	1.9	240,770
Inferred	997	2.12	67,885
Total	4,936	1.94	308,655

Source: HRN

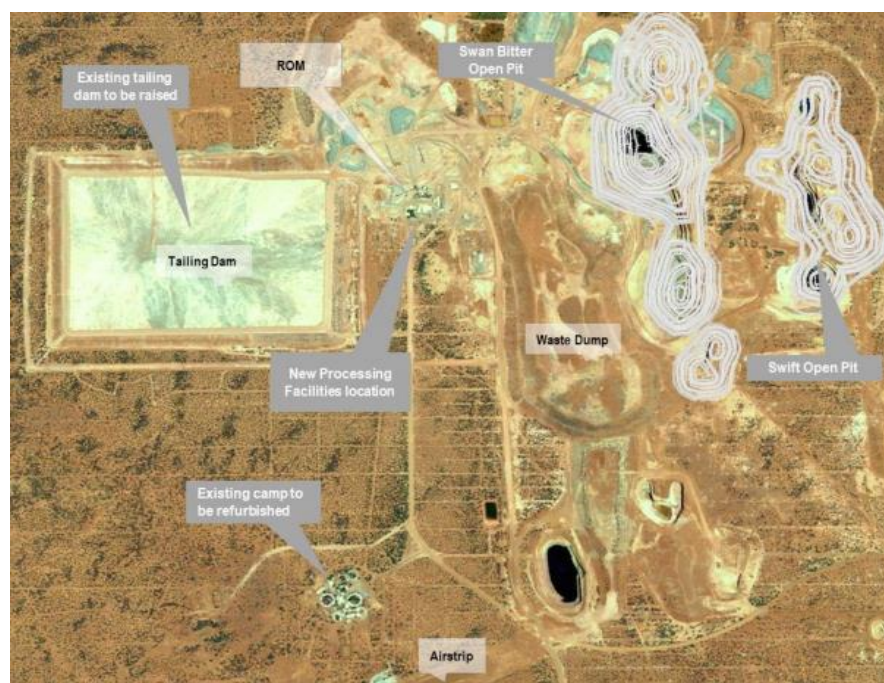
Mining and processing options

Of the 1.3moz resource at Gum Creek, 0.7moz is free milling gold and 0.6moz is refractory gold. As a consequence, two processing routes are required, a simple free milling flow sheet and a separate refractory processing route.

Free milling gold

A scoping study was completed on the free milling gold resources in 2016 that outlined plans to contract mine the Swan and Swift open pits at Gidgee and the untouched Howards deposit to the south at a rate of 800ktpa over 6 years centered around the existing infrastructure for pre-production capital expenditure of A\$62m and an IRR of 30% (pre-tax NPV₁₁ of A\$37m).

Figure 12. Gum Creek Central Infrastructure



Source: HRN

IRR of 30%

The planned Swan open pit is a sizeable cutback on a 1.9mt @ 2.3g/t Au for 138koz mining inventory beneath and between several existing pits. The cutback involves a considerable amount of capitalized pre-strip and an estimated life of mine strip ratio of 15:1 (including capitalized pre-strip). This operation will be highly leveraged to gold price movements given the relatively high operating costs expected. Managing working capital during the cutback will be a major consideration. Ground conditions are good and should support the steep pit slope angles used in the study.

However, the March 2016 Scoping Study assumes mining costs of A\$3.50/t (as we do) but Blackham Resources believe they can mine similar material at nearby Wiluna at just A\$2.50/t. We believe these costs are a tad optimistic, but potential for lower costs than those assumed in the study and our model exist and represent considerable upside on our valuation.

Figure 13. Swan Bitter open pit (LHS) and Wilsons open pit (RHS)



Source: Somers & Partners

Fortunately, a grade of 2.3g/t Au and good recoveries of circa 96% compensate somewhat for the large amount of material mined. This is a genuine bulk tonnage operation with gold hosted in locally unpredictable brittle fractures. Grade control will be the key to mining this deposit economically.

A similar situation exists at the planned Swift open pit where mining inventory of 1.2mt @ 2.4g/t Au for 92koz is planned with an estimated strip ratio of 17:1 with similar recoveries expected.

The Howards mining inventory of 1.9mt @ 1.3g/t @ 79koz is yet to be mined. The relatively low grade is compensated for by good widths of mineralisation (~40m) and very consistent mineralisation over 1km of strike that results in a more favourable strip ratio of 3.5:1. Processing recoveries are expected to be 91%.

Processing will utilize a standard CIL processing plant capable of 800ktpa. The March 2016 Scoping Study assumes a cost of A\$36m for a new plant. We had assumed this cost would be higher but the low cost may well reflect the benefits of existing infrastructure as well as the relatively small size of the plant. The ore is relatively hard (BWI of 20-22) and requires a reasonably fine grind to 75 microns and consequently milling costs are moderate to high despite the favourable fresh and abundant processing water at site.

Potential for lower costs than those assumed in the study

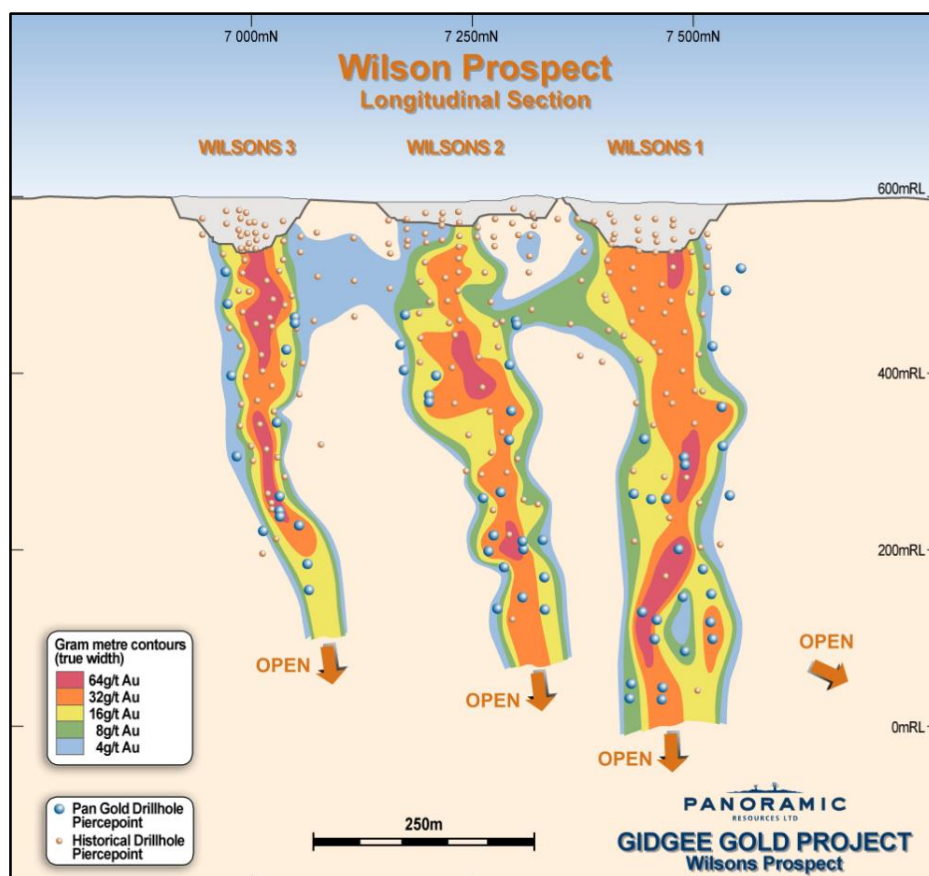
Processing will utilize a standard CIL processing plant capable of 800ktpa.

There is an existing process plant on site and parts of it may be salvageable. However, the study (and Somers) assume a new plant is constructed. The free milling processing is relatively straightforward. The tailings dam will require three lifts over the 6-year mine life. This capital is included in the study.

Refractory gold

The refractory gold option is driven by the Wilsons Underground resource. The 2.3mt @ 5.4g/t Au for 392koz resource at Wilsons is confined to three very consistent steeply plunging shoots that look ideal for underground mining. Ground conditions look good in drill core and the resource is predominately at the JORC 2012 Indicated level. The resource has been defined down to 500m and remains open at depth. A long hole open stoping operation drawing from three separate high grade shoots is envisaged. Capital could be saved if mining equipment is used from Lanfranchi or Savannah.

Figure 14. Wilsons long section showing high grade steeply plunging shoots



Source: HRN

The company has explored a number of processing options for this high grade ore that could include a combination of the following.

- Moderate temperature and pressure oxidation – 87-90% recoveries in test work

- Albion process – 88% recovery in test work
- Ultra-Fine Grinding– 87% recovery in test work
- BIOX (bacterial oxidation) – 84% recoveries in test work after 43 days
- Roasting – 79% recovery in test work

Preferred path is
 moderate temperature
 and pressure oxidation

The company's preferred path is moderate temperature and pressure oxidation. Pressure oxidation is relatively common and is being used by Oceana Gold, Agnico Eagle, Barrick Gold and Petropavlosk. We envisage a 400ktpa circuit where refractory material would be ground to 75 microns and the sulphides recovered from a flotation circuit to recover 91% of the gold and approximately 10% of the material (~40ktpa). The tails would then be sent to the CIL circuit whilst the sulphides would be reground to 10 microns utilizing a small Isa Mill and then treated with acid within a small autoclave and heated to oxidize the sulphides and release the gold. The gold would then be treated in the CIL circuit. This additional infrastructure is estimated to cost ~A\$15m including underground mine capital to access ore.

Most autoclaves in use tend to run at higher temps and / or pressures, however PAN's test work suggests this can be run more economically at moderate pressures and temperatures. Importantly, test work suggests that flotation is able to generate a good mass pull (~10%) so there would be a relatively small quantity of material to treat. This could reduce costs.

Concentrate sales option

This concentrate could
 be on sold

Another option is to produce a 50 g/t Au concentrate from the refractory material utilizing a 75-micron grind that would require minimal additional expenditure on the plant. This concentrate could be on sold with a likely customer being Blackham Resources' BIOX plant at Wiluna some 120km away.

We assume Wilsons is mined once the free milling operation is generating cash flow in late FY19. We model the operation processing the ore through the company's preferred path to produce gold dore.

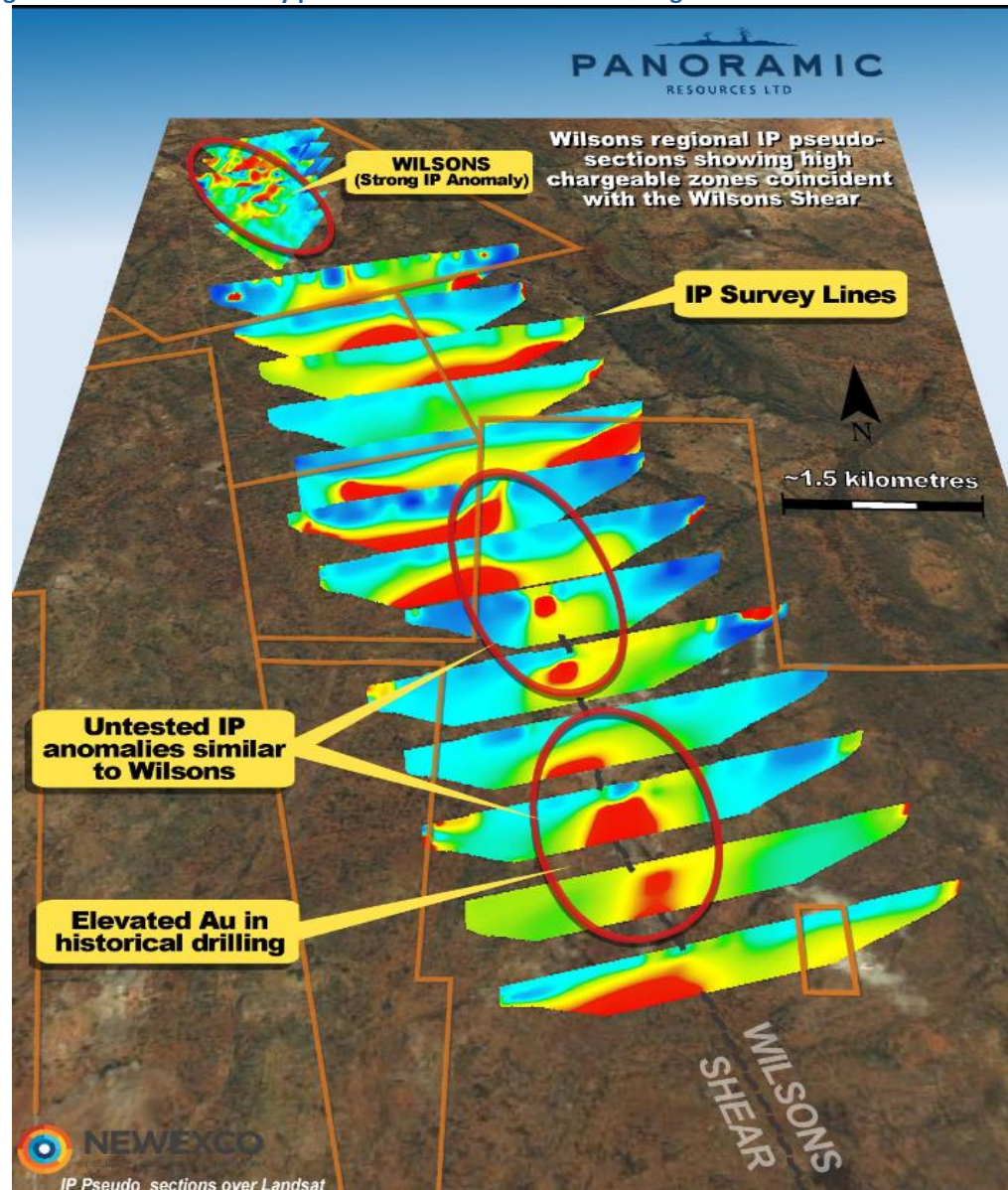
Exploration Upside

We view Gum Creek as possessing considerable exploration upside as it has received very limited exploration attention since mining ceased in 2005 at a considerably lower gold price. The company has a strong regional dataset of geochemistry, drilling, magnetics and gravity surveys. The bulk of previous drilling was shallow (65% of drilling was <50m deep) and focussed on oxide caps above refractory ore bodies.

Assuming a refractory processing solution is found the best target is down dip of the Wilson's underground resource and along strike from Wilsons where a small induced polarisation (IP) survey has returned a number of conductive anomalies along strike from the Wilsons resource that could well be associated with the sulphide horizon known to host gold at Wilsons. We expect these encouraging targets to be drill tested in FY17.

Other targets include a potential offset of the Howards mineralisation along strike as well as reviewing previous free milling underground operations at Swan (86koz resource) and Kingfisher (85koz resource). The company is expected to focus on exploration during FY17 and FY18.

Figure 15. Wilsons IP survey pseudo-sections over Landsat image.



Source: HRN

Board and Management

Non- Executive Chairman – Peter Harold is a Process Engineer with over 26 years of corporate experience in the minerals industry, specialising in Financing, Marketing, Business Development and general corporate activities. Peter has extensive experience within the development and operation of both Sulphide and Laterite Nickel projects. Having been responsible for metals marketing and various corporate functions, Peter has been involved in the following projects; Scuddles / Golden Grove (Copper, Lead and Zinc) Mine, Cawse Nickel Laterite Project, Silver Swan and Mt Keith Nickel Sulphide Projects. Prior to founding Panoramic Resources in March 2001, Peter held various senior management positions with Shell Australia, Australian Consolidated Minerals Limited, Normandy Mining Limited, MPI Mines Limited and the Gutnick network of companies.

Non-Executive Director – Paul Bennet is a Mining Engineer with an MBA who has extensive experience in the operation, development and financing of resource companies and projects over a 20 year period. Paul has worked in technical, management and business development roles for Newcrest, Western Metals and Panoramic Resources and holds a WA First Class Mine Manager's Certificate. For nine years, Paul was a senior executive at RMB Resources, the resources investment banking business of Rand Merchant Bank (RMB). During Paul's time at RMB, he specialised in the provision of equity, quasi-equity/mezzanine and debt financing for small to mid-sized resource companies across a wide variety of commodities and jurisdictions.

Non-Executive Director – Peter Venn is a Geologist with over 30 years of experience and achievement in the global resources sector. After commencing his career in the WA Goldfields as a consultant he held senior and executive roles with Resolute Mining Limited in Africa and Australia for more than 20 years. Peter has established and led highly successful teams and has been closely involved in the exploration, acquisition, evaluation and development of more than ten gold mines, including; Syama, Golden Pride, Obotan in Africa and Ravenswood, Chalice, Higginsville, Marymia and Mertondale in Australia. Peter is a Member of the Australian Institute of Geoscientists and Australian Institute of Company Directors.

Chief Financial officer – Trevor Eton is an Accountant with over 25 years of experience in corporate finance within the minerals industry. Trevor was the Company Secretary and Group Financial Controller of MPI Mines Limited for 10 years. Trevor commenced his career in 2003 with Panoramic Resources as the Chief Financial Officer and Company Secretary. Trevor previously held various corporate financial positions at North Kalgurli Mines Limited, Metals Exploration Limited and Australian Consolidated Minerals Limited.

Exploration Manager – John Hicks is a Geologist with 30 years' experience in the Australian mining and exploration industry. From 1998 John was an independent Geological Consultant. John commenced his position with Panoramic Resources in 2001 as an independent Geological Consultant, before progressing in 2005 to the Exploration Manager. John has since accepted the position as the General Manager Exploration. John has previously held various geological positions with several Australian resource companies, including Hamersley Iron, Australian Consolidated Minerals, WMC and Mining Project Investors.

<div>TickerHRN-AU</div> <div>RecommendationBUY</div> <div>Target Share price (A\$)0.77</div> <div>Current Share price (A\$)0.37</div> <div>Implied Return (%)107%</div> <div>P/NAV (x)0.48</div>					<div>Shares on issue (m)76.5</div> <div>Shares on issue incl.unpaid capital (m)121.6</div> <div>Market Cap (A\$)28.3</div> <div>Enterprise Value (A\$)13.3</div> <div>Cash assumed end qtr (A\$)15.0</div> <div>Debt(A\$)0.0</div>				
Valuation					Financials (A\$)				
Asset	Discount rate	NAV "X" Factor	NAV Target (A\$)	Target Price (A\$)	YE 30 June	FY2018	FY2019	FY2020	FY2021
Gum Creek	8%	0.50 X	\$30.0	\$0.25	Profit & Loss (A\$m)				
Resource insitu Valuation	n.a.	0.50 X	\$21.7	\$0.18	Revenue	\$0.0	\$20.5	\$87.6	\$157.0
Exploration Upside	n.a.	1.00 X	\$5.0	\$0.04	Cost of Sales	\$0.0	\$26.3	\$56.4	\$98.2
Cash (end qtr)	n.a.	p/nav	\$11.5	\$0.09	Gross Profit	\$0.0	(-\$5.7)	\$31.2	\$58.8
Unpaid Capital**	n.a.	1.00 X	\$25.0	\$0.21	EBITDA	(-\$7.0)	(-\$10.2)	\$25.0	\$50.9
Total NAV			\$93.1	\$0.77	Profit before tax	(-\$7.0)	(-\$12.6)	\$16.5	\$37.0
<div>Valuation Split (%)</div> <div>■ Gum Creek</div> <div>■ Resource insitu Valuation</div> <div>■ Exploration Upside</div> <div>■ Cash (end qtr)</div>					Tax Payable	\$0.0	\$0.0	\$0.0	(-\$2.6)
					Profit after tax	(-\$7.0)	(-\$12.6)	\$16.5	\$34.5
					Balance Sheet				
					Assets				
Cash & Liquid assets					\$44.7	\$10.9	\$10.9	\$38.5	
Total Current Assets					\$44.7	\$10.9	\$10.9	\$38.5	
PPE & Exp. & Dev.					\$26.5	\$45.1	\$51.6	\$48.5	
Total Non Current Asset:					\$26.5	\$45.1	\$51.6	\$48.5	
Total Assets					\$71.2	\$56.0	\$62.5	\$87.0	
Liabilities									
Debt					\$40.0	\$37.5	\$27.5	\$17.5	
Total Current Liabilities					\$40.0	\$37.5	\$27.5	\$17.5	
Total Non Current Liabili					\$0.0	\$0.0	\$0.0	\$0.0	
Total Liabilities					\$40.0	\$37.5	\$27.5	\$17.5	
Cashflow Generation									
Operating cashflow					(-\$7.0)	(-\$11.1)	\$23.5	\$47.3	
Debt Funding					\$40.0	\$0.0	\$0.0	\$0.0	
Equity Placement					\$25.0	\$0.0	\$0.0	\$0.0	
Capital Expenditure					\$21.5	\$20.2	\$13.5	\$9.7	
Debt Repayments					\$0.0	(-\$2.5)	(-\$10.0)	(-\$10.0)	
Free cashflow					\$36.6	(-\$33.8)	\$0.0	\$27.5	
Reserve and Resources Statement (100% of Project)									
Status	Tonnes (Mt)	Grade Au (g/t)	Contained Au (koz)	EV / oz	EPS (AUDc)	-5.8c	-10.3c	13.6c	28.4c
M&I only	14.0	2.30	1,035.4	\$13	CFPS (AUDc)	-5.8c	-9.1c	19.3c	38.9c
Total Resource	17.3	2.27	1,258.3	\$11	FCFPS (AUDc)	30.1c	-27.8c	0.0c	22.7c
Production	6.4	2.52	515.4	\$26	P/E ratio (x)	-6.43 X	-3.58 X	2.73 X	1.30 X
Production Profile (OzAu)					P/CF (x)	-6.43 X	-4.05 X	1.91 X	0.95 X
					P/FCF (x)	1.23 X	-1.33 X	1,219.14 X	1.63 X
					EV/EBITDA (x)	-1.90 X	-1.30 X	0.53 X	0.26 X
					Current ratio (x)	1.1	0.3	0.4	2.2
Operation	FY2018	FY2019	FY2020	FY2021	Shares on Issue (M)	121.6	121.6	121.6	121.6
Gum Creek	0	11,851	50,517	90,573	Gold price (US\$/oz)	N.A	\$1,300	\$1,300	\$1,300
Total	0	11,851	50,517	90,573	FX (AUD:USD)	N.A	\$0.75	\$0.75	\$0.75
Cash Cost (A\$)					Directors & Management				
AUD / oz	FY2018	FY2019	FY2020	FY2021	Exec. Chairman	Peter Harold	Major Shareholders		
Gold Price	\$0	\$1,733	\$1,733	\$1,733	Non Exec. Director	Peter Venn	Panoramic	51.0%	
C1 Cash costs*	\$0	\$1,099	\$1,113	\$1,084	Non Exec. Director	Paul Bennett	Zeta Resources	12.0%	
AISC*	\$0	\$1,347	\$1,539	\$1,315				Colonial First	2.6%
								P Harold	0.5%
								Total	66.1%
Gold Price and Discount Rate Matrix					Group Gold Production and AISC per Financial Year				
Disc. Rate / Gold Price	\$1,200	\$1,250	\$1,300	\$1,350					
20%	\$0.56	\$0.60	\$0.63	\$0.67					
15%	\$0.59	\$0.63	\$0.68	\$0.72					
12%	\$0.61	\$0.66	\$0.71	\$0.76					
10%	\$0.63	\$0.68	\$0.74	\$0.79					
8%	\$0.65	\$0.71	\$0.77	\$0.83					
5%	\$0.68	\$0.75	\$0.82	\$0.89					
0%	\$0.76	\$0.85	\$0.94	\$1.03					
Source: Company data, Somers estimates									
* expensing & capitalising of cash costs will vary and consequently may differ from management guidance									
** assume equity raised at 60c									

About the analysts

Duncan Hughes, Director, Mining and Metals analyst

Duncan has over 17 years' experience in the mining sector. Duncan joined Somers and Partners in July 2014 from RFC Ambrian where he was Head of Research based in London and Perth. At RFC Ambrian Duncan was focussed on small to mid-cap mining stocks. Duncan holds a first class honours degree in Geology and worked for 10 years as a geologist in Western Australia. As Exploration Superintendent at Jubilee Mines, he was actively involved in the discovery of a number of high grade nickel sulphide ore bodies that have since been mined. He has also spent time exploring for base metals and gold with Lion Ore Australia and was involved in the discovery of the Deep South Gold Mine whilst at Sons of Gwalia.

On completion of an MBA on investment and risk from Imperial College London, Duncan spent three years as a fund manager investing in small cap resources companies in Australia with the LinQ Resource fund and in London at CD Capital.

Conrad Mulherin, Equities Research analyst

Conrad joined Somers and Partners in 2012 as an Equities Research Analyst covering Mining and Emerging Technology Companies.

Conrad has an Honours degree in Geological Sciences from Queen's University in Canada and a MSc in Resources Management from the University College London in the U.K.

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