

RAMELIUS RESOURCES LTD (RMS)

RMS gets recognition for good work

In the December 2016 quarter headline AISC for RMS were high at A\$1464/oz due mainly to 5,800 ozs being held over for sale. AISC for the Dec half were \$1131/oz, and RMS expects \$1100/oz in the March 2017 qtr.

RMS' cash and bullion at the end of December 2016 was \$95M (up from \$88M prev qtr), after \$6M Water Tank Hill underground mine development and \$4M exploration spending.

The 2017-2020 production outlook and forecast costs for the Mount Magnet operations remain at 130koz pa at A\$1100/oz AISC. Hartleys' projected cash and bullion balance at June 30 2017 is \$106M, marginally down from our previous projection of \$110M.

Eyes on Vivien and Morning Star Deeps

RMS continues to focus on efforts to extend the Mt Magnet mine life. Strike drives at Vivien have upgraded lode continuity and extent of the Vivien resource, reflected by a net resource increase of 50koz. A reserve upgrade will follow in RMS' mid-year estimates. Drilling down dip at Vivien (4,000m of core from underground) is starting this quarter with the aim of extending the resource from 400m to 700m below surface.

Some planning is also being put into Morning Star Deeps (MSD), which is the principal medium term development prospect on the Mt Magnet field. A drill rig is on site, directed at MSD 1,000m to 1,200m below surface. RMS has an exploration target of 225-275koz on MSD. If drilling is successful MSD could replace or complement Water Tank Hill by mid-2020 with about 50k oz pa. Hartleys' first modelling suggests MSD could add +10cps to the RMS asset valuation.

CY2017 – Expanding underground and perhaps further afield

Together with the Vivien exploration and mine plan revisions due mid-year, Morning Star drilling and studies will most likely shape RMS fortunes this calendar year. Also, as cash continues to build, RMS has the capacity to expand its operating influence with an acquisition.

Tailwind assistance brings RMS to fair value, in a market with momentum

The gold sector in general has been in an uptrend since mid-December 2016. Over the same period Van Eck has built a 16% shareholding in RMS. While the RMS share price has caught up with Hartleys' valuation, the sector carries considerably more optimism now. In the context of the gold equities market the Company now looks a steady hand with an undemanding price.

RMS has been one of the most consistent performers among ASX listed gold producers since 2012. The share price remains within a trading day's distance of Hartleys' 61c NAV and responsive to further fundamental improvement. Hartleys recommends Accumulate to sector weight in RMS.

14 Feb 2017

Share Price	\$0.700
Valuation	\$0.61
Price Target (12 month)	\$0.66

Brief Business Description:

WA based gold producer and explorer.

Hartleys Brief Investment Conclusion

Successful +130,000 ozpa producer with building cash reserves.

Chairman & MD

Robert Kennedy (Chairman)

Mark Zeptner (MD)

Top Shareholders

Van Eck Associates 16.3%

Company Address

Level 1, 130 Royal St

East Perth, WA, 6004

Issued Capital 527m

- fully diluted 527m

Market Cap A\$369m

- fully diluted A\$369m

Cash (31 Dec 16) A\$105m

Debt (31 Dec 16) A\$0m

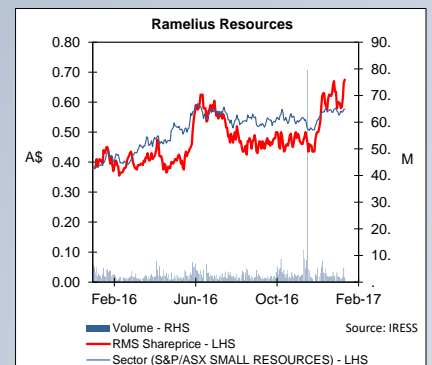
EV A\$263m

EV/Resource oz A\$120/oz

EV/Reserve oz A\$295/oz

	Prelim. (A\$m)	FY17e	FY18e	FY19e
Prod (koz Au)	133	126	129	
Op Cash Flw (A\$m)	83	75	88	
Norm NPAT (A\$m)	54	36	41	
CF/Share (cps)	16	14.2	16.8	
EPS (cps)	10.3	6.8	7.7	
P/E	6.8	10.3	9.1	

	Au
Resources (Moz)	2.2
Reserves (Moz)	0.4



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Hartleys has assisted in the completion of part of capital raisings in the past 12 months for Ramelius Resources Limited ("Ramelius"), for which it has earned fees.

SUMMARY MODEL

Ramelius Resources						
RMS						
Market Information						
Share price		\$0.70				
Market Capitalisation		\$369m				
Net cash (debt)		\$43m				
Issued Capital (fully diluted)		527m				
EV		\$326m				
Valuation		\$0.61				
12 month price target		\$0.66				
Profit & Loss						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Net Revenue	AS\$M	223	219	233	176	132
Forward sales	AS\$M	-1	-4			
Total Costs	AS\$M	-140	-145	-144	-124	-81
EBITDA	AS\$M	82	71	88	52	51
- margin		37%	32%	38%	29%	39%
Depreciation/Amort	AS\$M	-30	-28	-30	-45	-19
EBIT	AS\$M	52	43	58	6	32
Net Interest	AS\$M	3				
Pre-Tax Profit	AS\$M	54	43	58	6	32
Tax Expense	AS\$M	-7	-7	-17	-2	-10
NPAT	AS\$M	54	36	41	4	23
Abnormal Items	AS\$M					
Reported Profit	AS\$M	54	36	41	4	23
Balance Sheet						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Cash	AS\$M	105	166	243	221	256
Other Current Assets	AS\$M					
Total Current Assets	AS\$M	105	166	243	221	256
Property, Plant & Equip.	AS\$M	113	95	70	82	72
Investments/other	AS\$M					
Tot Non-Curr. Assets	AS\$M	113	95	70	82	72
Total Assets	AS\$M	218	261	313	302	327
Short Term Borrowings	AS\$M					
Other	AS\$M	3	3	3	3	3
Total Curr. Liabilities	AS\$M	3	3	3	3	3
Long Term Borrowings	AS\$M	-1	-1	-1	-1	-1
Other	AS\$M	2	2	2	2	2
Total Non-Curr. Liabil.	AS\$M	1	1	1	1	1
Total Liabilities	AS\$M	4	4	4	4	4
Net Assets	AS\$M	214	257	309	298	323
Cashflow						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Operating Cashflow	AS\$M	83	75	88	52	51
Income Tax Paid	AS\$M			-7	-17	-2
R&D grant	AS\$M					
Interest & Other	AS\$M	3				
Operating Activities	AS\$M	86	75	82	34	49
Property, Plant & Equip.	AS\$M	-39	-10	-5	-57	-9
Exploration	AS\$M	-15				
Asset sales	AS\$M					
Investments	AS\$M					
Investment Activities	AS\$M	-54	-10	-5	-57	-9
Borrowings	AS\$M					
Equity	AS\$M	21	0	0	0	0
Financing Activities	AS\$M	21	0	0	0	0
Net Cash Change	AS\$M	52	65	77	-22	40
Shares						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Ordinary Shares - End	M	527	528	530	532	532
Diluted Shares - Weighted	M	532	532	532	532	532
Ratio Analysis						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
GCFPS	A¢	15.8	14.2	16.8	9.8	9.7
CFR	X	4.4	4.9	4.2	7.1	7.2
EPS	A¢	10.3	6.8	7.7	0.9	4.3
PER	X	6.8	10.3	9.1	82.3	16.3
DPS	%	na	na	na	na	na
Yield	%	na	na	na	na	na
Interest Cover	x	na	-	-	-	-
ROCE	%	46%	45%	83%	8%	45%
ROE	%	25%	17%	19%	2%	10%
Gearing	%	na	na	na	na	na
*All values fully diluted unless otherwise stated						
Debt/Equity		na	na	na	na	na
Directors						
Robert Kennedy (Chairman)			Company Information			
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Kevin Lines (Non-Exec Director)			+61 8 9202 1127			
			+61 8 9202 1138			
			www.rameliusresources.com.au			
Top Shareholders						
				m shares		%
Van Eck Associates				85.9		16.3
Production Summary						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Underground ore mined	Mt	0.21	0.33	0.34	0.26	0.50
UG ore grade	g/tAu	7.6	5.6	5.6	5.8	5.4
Open pit ore mined	Mt	1.25	1.28	1.28	1.08	
Open pit ore grade	g/tAu	1.6	1.8	1.8	1.8	
Mill Throughput	Mt	1.86	1.61	1.62	1.34	0.50
Head grade	g/t	2.4	2.6	2.6	2.6	5.4
Met recovery	%	94%	94%	94%	94%	94%
Gold	(koz)	133	126	129	105	82
ASC	US\$/oz	1,103	1,152	1,108	1,172	997
Mine Life	yr	3.7	3.3	2.3	1.8	3.8
Costs						
		Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Cost per milled tonne	\$/t	64	82	83	86	145
EBITDA / tonne milled ore	\$/t	44	44	55	39	102
Total cash costs	\$/oz	1055	1143	1122	1179	993
C1: Operating Cash Cost = (a)	\$/oz	898	1045	1038	1089	891
(a) + Royalty = (b)	\$/oz	946	1103	1084	1131	932
C2: (a) + depreciation & amortisation = (c)	\$/oz	1126	1270	1274	1521	1122
(a) + actual cash for development = (d)	\$/oz	1195	1126	1079	1632	1000
C3: (c) + Royalty	\$/oz	1174	1328	1319	1563	1163
(d) + Royalty	\$/oz	1243	1185	1124	1674	1041
All in sustaining costs (AISC)	\$/oz	1103	1152	1108	1172	997
Price Assumptions						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
AUDUSD		0.74	0.75	0.76	0.76	0.77
Gold	US\$/oz	1246	1300	1375	1275	1250
Gold	\$/oz	1681	1733	1809	1671	1619
Hedging						
	Unit	Jun 17	Jun 18	Jun 19	Jun 20	
Hedged sales	koz	55	54			
Hedged price	\$/oz	1666	1666			
Sensitivity Analysis						
		Valuation		FY18 NPAT		
Base Case		0.61		35.8		
US Gold price +/-10%	Sens	-10%	+10%	Sens	-10%	+10%
AUDUSD +/- 10%	23%	0.47	0.75	13%	31.1	40.4
Production +/-10%	22%	0.48	0.75	12%	31.5	40.1
Operating Costs +/-10%	12%	0.54	0.69	18%	29.3	42.2
	16%	0.52	0.71	14%	30.8	40.8
Unpaid Capital						
	Expiry year	No. (M)	\$M	Avg. ex.	% ord.	
	30-Jun-18	2	0.4	0.30	0.3%	
	30-Jun-19	2	0.3	0.15	0.4%	
	30-Jun-20	2	0.3	0.20	0.3%	
Total		5	1.0	0.21	0.9%	
Reserves & Resources June '16						
		Mt	g/t Au	Koz	Mkt cap/oz	
TOTAL RESOURCE		29.2	2.3	2,188	1965	
Measured		2.3	2.3	170		
Indicated		15.7	2.5	1,262		
Inferred		11.2	2.1	756		
INCLUDES TOTAL RESERVE		5.3	2.4	408	10542	
Open pit		4.5	1.8	256		
Underground		0.7	6.6	152		
Stockpile		0.3	0.9	9		
Hartleys model June '16						
		Mt	g/t Au	Koz	Mkt cap/oz	
TOTAL INVENTORY		8.1	3.4	875	4912	
Open pit		4.9	1.8	281		
Underground		3.2	5.7	594		
Share Price Valuation (NAV)						
		Risked Est. A\$/share				
100% Mt Magnet after tax 7% DR		209				
Exploration		42				
Corporate overheads		-34				
Net cash (debt)		105				
Tax benefit		6				
Hedging		-3				
Option/equity dilution		-2				
Total		323				
		0.61				

Vivien comprises 30% of the gold in Hartleys' modelled inventory for RMS. Drilling at Vivien to define resources beneath 350 m depth is starting in the March 2017 quarter.

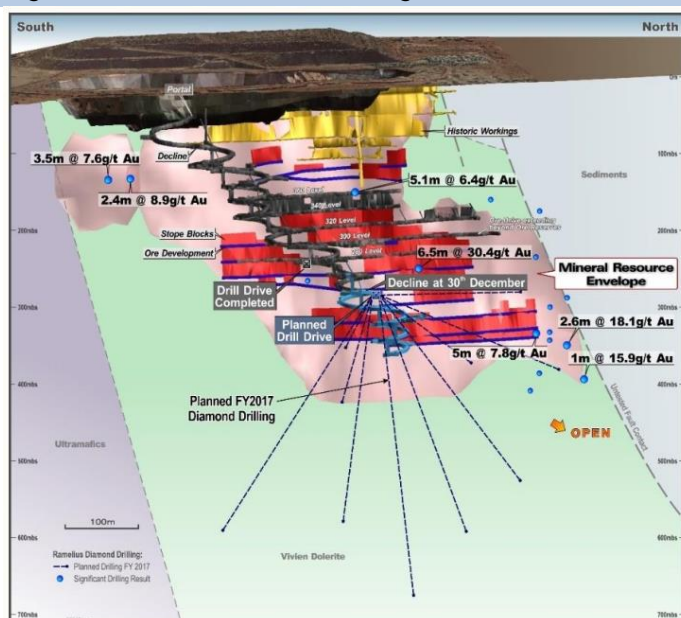
VALUATION

The accompanying Ramelius model takes into account publicly available information including Ramelius' projected group production profile and production guidance given periodically.

At Vivien Hartleys' modelled inventory is 200,000 ounces higher than Ramelius' June 2016 reserve of 98,000 ounces. An average of 600 ozs/vm is assumed down to 600 metres vertical depth, in contrast to the Ramelius June 2016 reserve, which estimates reserves to 350 metres vertical depth. Additional exploration, development and mining costs are taken into account. Ramelius has limited drill information from Vivien below 350 metres vertical depth.

Projected costs at Vivien and Mt Magnet are estimated according to information supplied by Ramelius and reconciliation against past accounts.

Fig. 1: Schematic Vivien long section



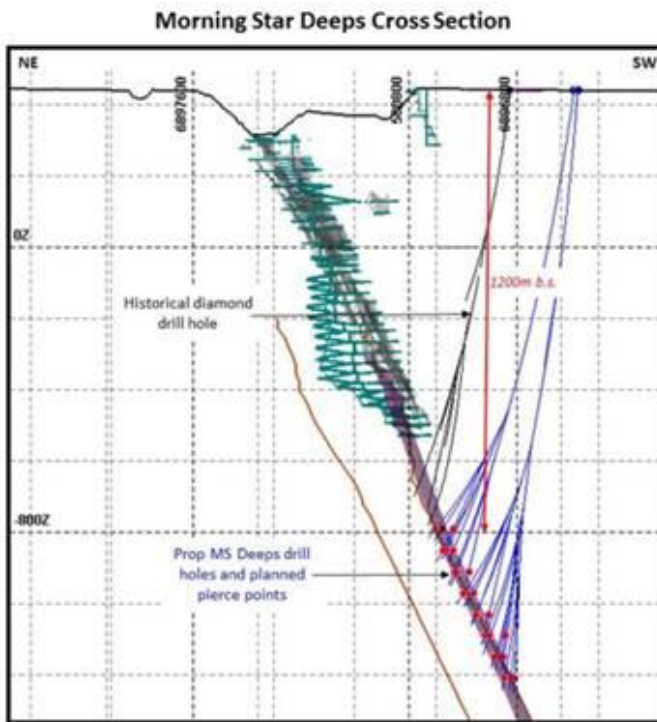
- **Infill drilling completed**
 - New resource model generated
 - Dec-16 Mineral Resource 854kt @ 7.2g/t for 198koz
 - (Jun-16 Mineral Resource 791kt @ 7.1g/t for 180koz)
 - Additional ounce conversion, above 33koz mined
- **New Ore Reserve being generated**
 - (Jun-16 Ore Reserve 382kt @ 8.0g/t for 98koz)
- **Bottom drill cuddy (247mRL)**
 - Currently being developed
 - ~4,000m diamond drilling to commence in the current Quarter
 - Exploring for extensions outside current Resource

Source: RMS

The pit inventory at Mt Magnet is modelled here at 4.9Mt at 1.8 g/t (280koz) compared to 4.5Mt at 1.8g/t (255koz) in reserve at the end of June 2016. Waste:ore is modelled at a constant 7:1 over the forward mine plan. The modelled Mt Magnet underground inventory matches reserves of 335kt at 4.9 g/t (53koz).

Morning Star Deeps has been included in the model for the first time. An inventory of 1.5Mt at 5 g/t is assumed with a \$50M set up cost and average mining costs of \$110/t. Mine output of 300ktpa from June 2020 is assumed. The net effect on the RMS valuation of including Morning Star Deeps is about 10cps, part of which is offset by reduced exploration value.

Fig. 2: Morning Star Deeps cross section



2017 Plan

- **Current Resource 79koz (from 980–1,200mbs)**
- **Exploration Target of 225-275koz @ 4-6g/t²**
 - > Based on 500ovm between 1,000–1,500mbs
 - > Diamond drill rig on site, commenced 1st hole
- **Mine re-entry costs to be based on WTH actuals**
 - > A\$400/oz margin returns A\$100M operating cashflow
 - > Historical production rate ~50koz/year



Source: RMS

PRICE TARGET

The price target is based on a discounted cash flow valuation of the Mt Magnet and Vivien operations, an informal estimate of exploration assets value and nominal assessment of Ramelius' other assets and liabilities projected forward to June 30 2017. Hedging arrangements are valued separately from the mining assets. A real, after tax discount rate of 7% is used in net present value estimations. Hartleys base case commodity and currency forecasts, set out in the summary table, are used to estimate the base case NAV. For Ramelius the 12 month share price target is based on the base case NAV.

RISKS

Fig. 3: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Gold price, currency	High	Industry ave. - high	Ramelius' forward looking AISC production cost of about A\$1100/oz is close to the Australian industry average, and hedging (40% of 2 yrs) is modest.
Exploration, re-investment	Medium	High	Like most of its peers Ramelius plans to invest most of its cash and future free cash flows in exploration and/or other mineral asset acquisitions. Valuation assumes that future exploration and investments achieve acceptable returns.
Vivien, Morning Star Deeps extension	High	Medium	Extensions to the Vivien and Morning Star Deeps deposits are assumed here, before drilling or feasibility studies have been conducted to estimate resources, reserves or costs.
Exploration asset value	Medium	Medium	Subjective value is attributed to exploration assets at Mt Magnet and Vivien.
Costs	Medium	High	All publicly available information has been used in forecasting Mt Magnet and Vivien operating and capital costs. Some cost assumptions are based on incomplete information or informal estimates.

Conclusion

Mining projections post 2020 remain high risk. Ramelius faces industry average risks with respect to gold price and currency. As a cash surplus/income generating company, major recommendation risks relate to future re-investment and exploration returns.

Source: Hartleys Research

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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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