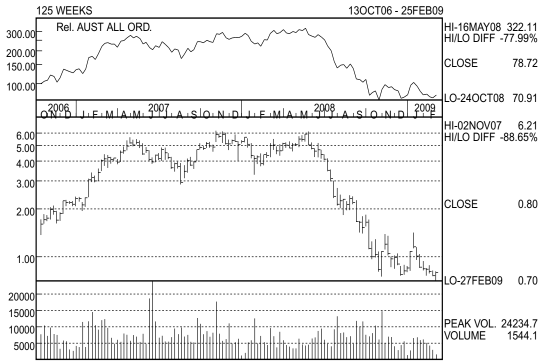
RBC Capital Markets

EQUITY | RESEARCH



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FY Jun	2008A	2009E	2010E	2011E
Adj EPS - FD	0.27	0.13	0.16	0.04
Prev.		0.11	0.15	0.01
P/AEPS	3.0x	6.2x	5.1x	20.2x
Annual Div. - FD	0.12	0.03	0.04	0.01
Prev.		0.04	0.07	0.00
EV/EBITDA	0.5x	1.3x	0.7x	0.9x

All values in AUD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 26, 2009

Panoramic Resources Limited (ASX: PAN)

Deep nickel value

Outperform
Above Average Risk

Price:	0.81	**Price Target:**	1.55
		Implied All-In Return:	95%
Shares O/S (MM):	192.0	**Market Cap (MM):**	156
Dividend:	0.03	**Yield:**	3.7%
NAVPS:	1.69	**P/NAVPS:**	0.5x
Float (MM):	192.0		

Priced at market close as on February 26, 2009 (Australian Eastern Standard time)

Event

- Expected writedowns, underlying NPAT in-line at A$8.9m, 1cps fully franked dividend. Neutral result.

Investment Opinion

- **PP and writedowns.** The reported interim loss of A$8.6m was broadly in-line with previous guidance (A$10m loss). The 1HFY09 result included the expected impacts of significant negative provisional pricing adjustments and a A$17.6m (post-tax) writedown attributable to the Copernicus project and Savannah mine. Stripping out the writedowns, underlying NPAT was A$8.9m (pcp A$24.4m). The result was ahead of expectations at the EBITDA level and the dividend in-line with our forecast (pcp 7cps).
- **Cashflow.** Operating cashflow (A$5m) was impacted by quotational pricing (QP) adjustments and residual tax payments (A$24m) but was still stronger than expected. Capex (A$46m) was in line with expectations and is expected to drop away sharply from this half. We forecast 2H OpCF of A$35-40m (at US$5/lb Ni) and capex of A$20-25m.
- **Balance sheet.** At 31 Dec 2008, PAN held cash of A$50m and total debt of A$5m.
- **The cost spotlight.** As announced with the recent quarterly report, PAN is the latest in a long list of mining players to move aggressively in curtailing spending and trimming cost bases. All discretionary capital projects have been deferred (nothing critical), a 10% salary reduction implemented and Lanfranchi has been shifted from a four to three jumbo operating basis. FY09 equity production guidance is 15.5-16.5kt contained nickel (RBC: 15.4kt, equates to 14.5kt Ni-in-conc).
- **Earnings revisions:** Minor upgrades stemming from Savannah cost improvements and lowered exploration expense estimates. Dividend payout ratio forecast reduced to 25% (from 40%) going forward.
- **Retain Outperform, A$1.55ps target.** Panoramic is well capitalised and the holder of a nickel/currency hedgebook that is A$74m in the money. Additionally, PAN's two operations are operational cashflow positive even at solely current nickel and A$/US$ spot prices. While the outlook for nickel remains subdued in the near term, PAN is our preferred Australian nickel exposure on relative value grounds.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 10.

1H09 result snapshot

The reported interim loss of A$8.6m was broadly in-line with previous guidance (A$10m loss).

Two major earnings impacts (both previously flagged by the company in nature and magnitude):

- **Provisional pricing** – Negative A$6.5m revenue adjustment for the DecQ associated with Lanfranchi sales. Savannah sales incur minimal PP revision as they are based on the average nickel price for the month of shipment, as opposed to the more typical several months later.
- **Asset writedowns** (Copernicus and Savannah) – During the half PAN took the decision to place the marginal Copernicus satellite open pit (PAN 60%, ~1kt attrib nickel-in-conc) on care and maintenance. The total writedown of A$17.6m post-tax was composed of the Copernicus impairment (A$8.6m) and A$9.0m on the Savannah project (a portion of capitalized development costs). However, note that the Savannah writedown was made without reference to the anticipated contribution from PAN's heavily "in-the-money" hedgebook.

We have stripped out solely the asset writedowns in arriving at our A$8.9m underlying earnings result.

Exhibit 1: Interim result snapshot

Earnings snapshot

EARNINGS		1H09	1H08
Total Revenue	**A$m**	**112**	**105**
Operating costs	A$m	(67)	(55)
Operational EBITDA	**A$m**	**45**	**50**
Exploration Expense/Write-offs	A$m	(6)	(0)
Corporate & Other Costs	A$m	(2)	(2)
EBITDA	**A$m**	**37**	**48**
D&A	A$m	(27)	(16)
EBIT	**A$m**	**10**	**31**
Net Interest	A$m	2	2
Profit Before Tax	**A$m**	**12**	**34**
Tax Expense	A$m	(3)	(9)
Underlying NPAT	**A$m**	**9**	**24**
Significant Items (post tax)	A$m	(18)	0
Reported NPAT	**A$m**	**(9)**	**24**

Cashflow snapshot

CASHFLOW		1H09	1H08
Operational Cash Flow	**A$m**	**27**	**25**
Net Interest	A$m	2	3
Tax Paid and Other	A$m	(24)	(22)
Net Operating Cashflow	**A$m**	**5**	**6**
Exploration and Evaluation	A$m	(7)	(3)
Capital Expenditure	A$m	(46)	(31)
Net Investing Cashflow	**A$m**	**(53)**	**(34)**
Dividends Paid	A$m	(10)	(23)
Debt	A$m	(4)	(4)
Equity Issuance	A$m	0	1
Net Financing Cashflow	**A$m**	**(13)**	**(25)**
Net change in cash	**A$m**	**(61)**	**(53)**

Source: Company data, RBC Capital Markets estimates

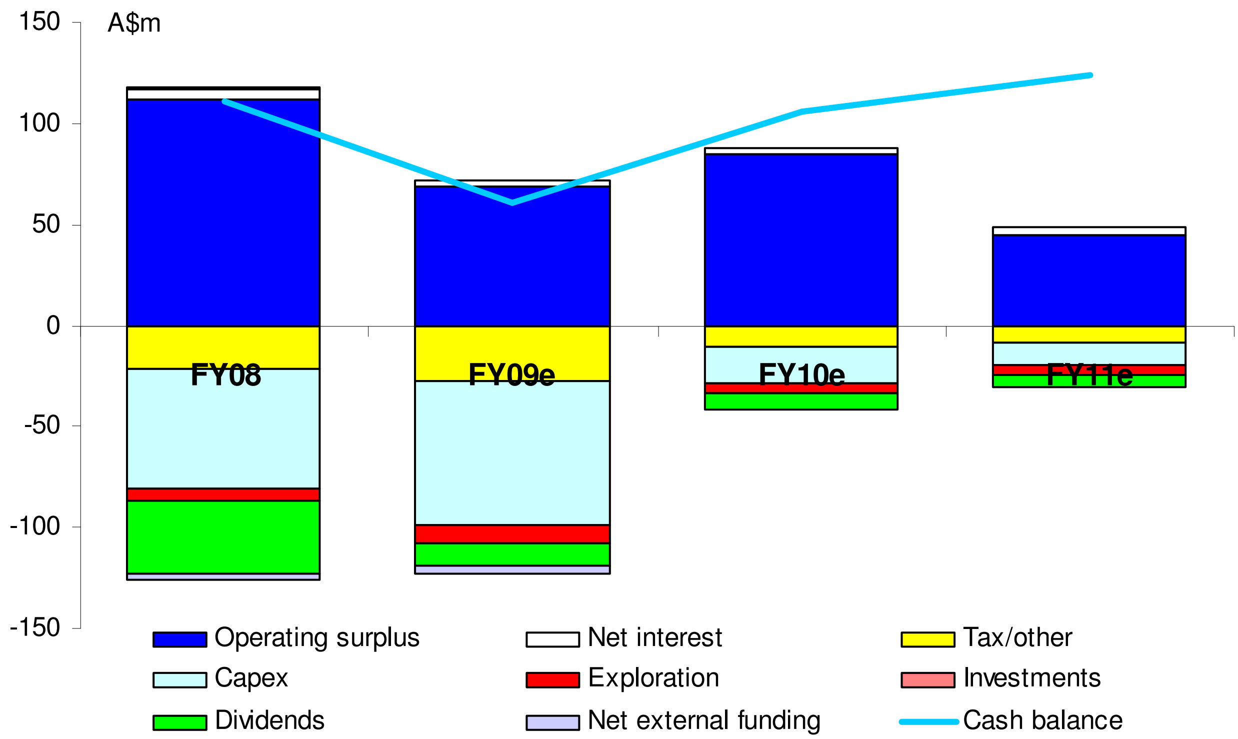
Operating cashflow (A$5m) was impacted by QP adjustments and residual tax payments (A$24m) but was still stronger than expected. Capex (A$46m) was in line with expectations and is expected to drop away sharply from this half (Deacon ventilation complete, reduced Savannah UG development, etc).

The outlook for 2009

At 31 December 2008, PAN held **cash of A$50m** and total debt of A$5m (finance leases). We currently **forecast 2HFY09 operating cashflow of A$35-40m and capex of A$20-25m**.

RBC's present forecasts for nickel and A$/US$ in 2009 are US$5/lb and 0.67, respectively. Spot prices currently reside at US$4.50/lb and 0.65, respectively.

Exhibit 2: Panoramic forecast cashflow outlook



Source: Company data, RBC Capital Markets estimates

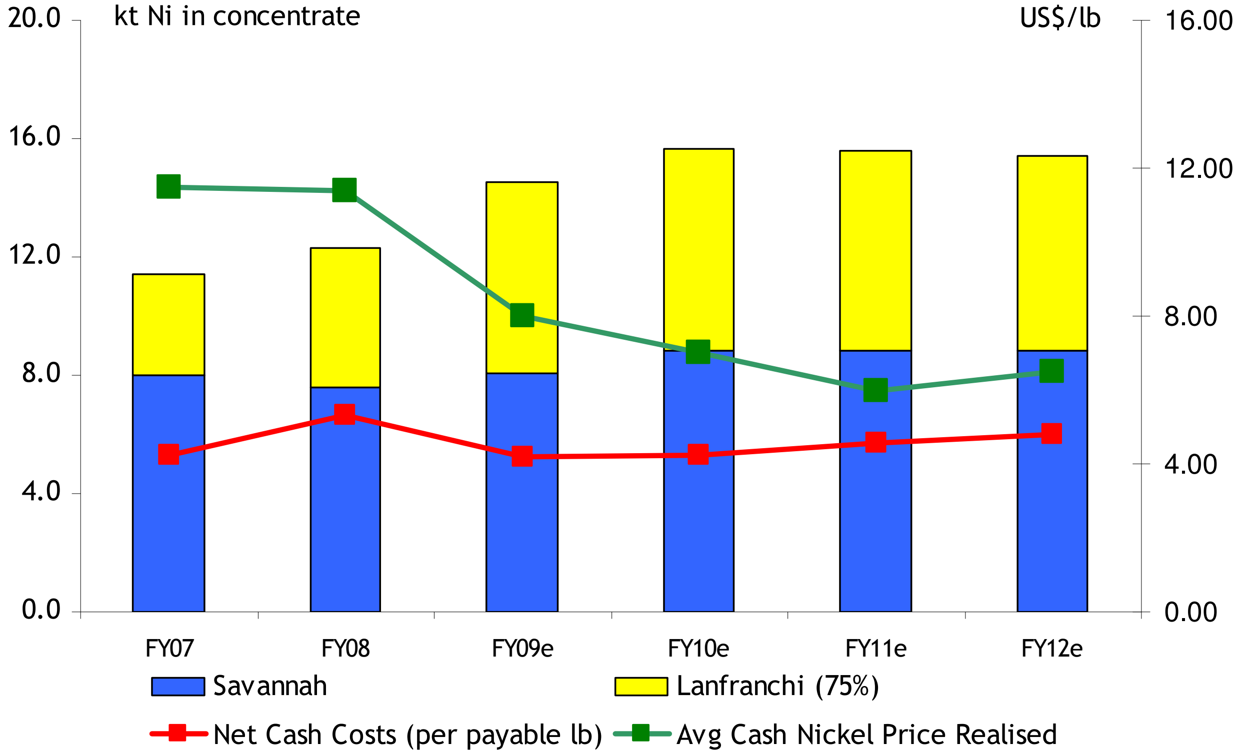
Panoramic is well capitalized and the holder of a nickel/currency hedgebook that is A$74m in-the-money. Additionally, PAN's two operations are operating cashflow positive even at solely current nickel and A$/US$ spot prices.

PAN's hedgebook is particularly attractive at present in the sense that it has US$ Ni forwards at +US$11/lb but the great majority of its currency hedging is in the form of bought US$ puts, thus providing it with the upside leverage to the recent A$ depreciation. On our production estimates, PAN is around 45% hedged on payable nickel in FY09 and around 25% in FY10.

As highlighted in the recent quarterly report, PAN is the latest in a long list of mining players who have moved aggressively in recent months to curtail spending and trim cost bases. Management has instituted a limited number of redundancies and implemented a 10% salary reduction across all employees. All **discretionary capital projects have been deferred** (the reality is that post recent Deacon ventilation and Savannah decline works, there was nothing further of great significance in the short term) and **exploration spend has been reduced** and more sharply focused. Following optimization studies, it was also decided to move Lanfranchi from a four to a three jumbo operating basis – this trimmed forecast Lanfranchi production (100% basis) by 1.0-2.0kt nickel-in-ore this half.

Management affirmed recently revised FY09 equity production guidance of 15.5-16.5kt contained nickel. We are forecasting 15.4kt contained nickel production (this equates to 14.5kt Ni-in-conc). The ~9% production growth forecast for FY10 (see Exhibit 3) is solely the result of a full year's contribution from the now developed Deacon deposit.

Exhibit 3: The Panoramic production outlook



Source: Company data, RBC Capital Markets estimates

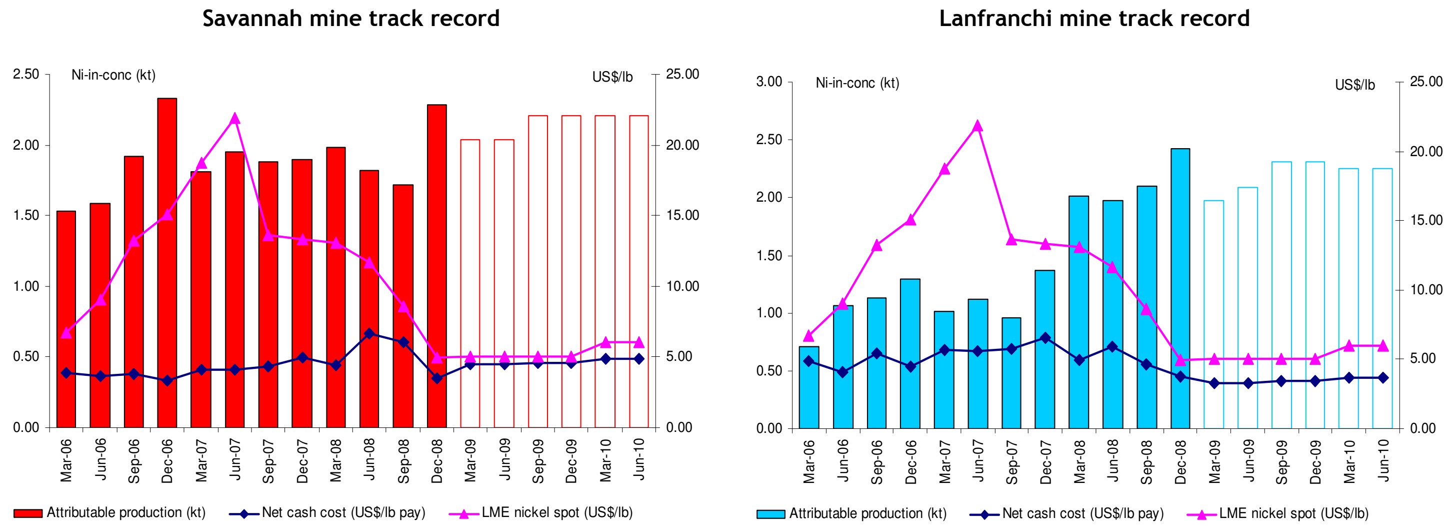
We certainly do not dismiss the recent capex/exploration deferral measures as having no future negative impact – indeed, in the case of a relatively shorter mine life operator such as PAN, exploration spend and success is a lifeblood and significant share price driver. However, relative to many of its more development-intensive base metal peers, these measures are expected to have significantly lesser impacts on future operating outcomes.

Strong operating performance

The DecQ 08 saw record attributable quarterly nickel production of 4.40kt nickel (SepQ 3.52kt). **Savannah** nickel-in-concentrate production of 2.28kt at a cash cost of A$5.07/lb payable nickel (**US$3.45/lb**). **Lanfranchi** (PAN 75%) nickel-in-ore production of 2.82kt at a cash cost A$5.47/lb payable nickel (**US$3.72/lb**).

The increases in nickel head grade at Savannah and ore throughput at Lanfranchi were the key drivers of the strong production result. The Savannah grades are expected to remain at these higher levels (~1.4% Ni) for at least the current quarter. The higher nickel volumes contributed to the **overall reduction in group cash costs of ~15%** from A$6.06/lb (SepQ) to A$5.25/lb (DecQ).

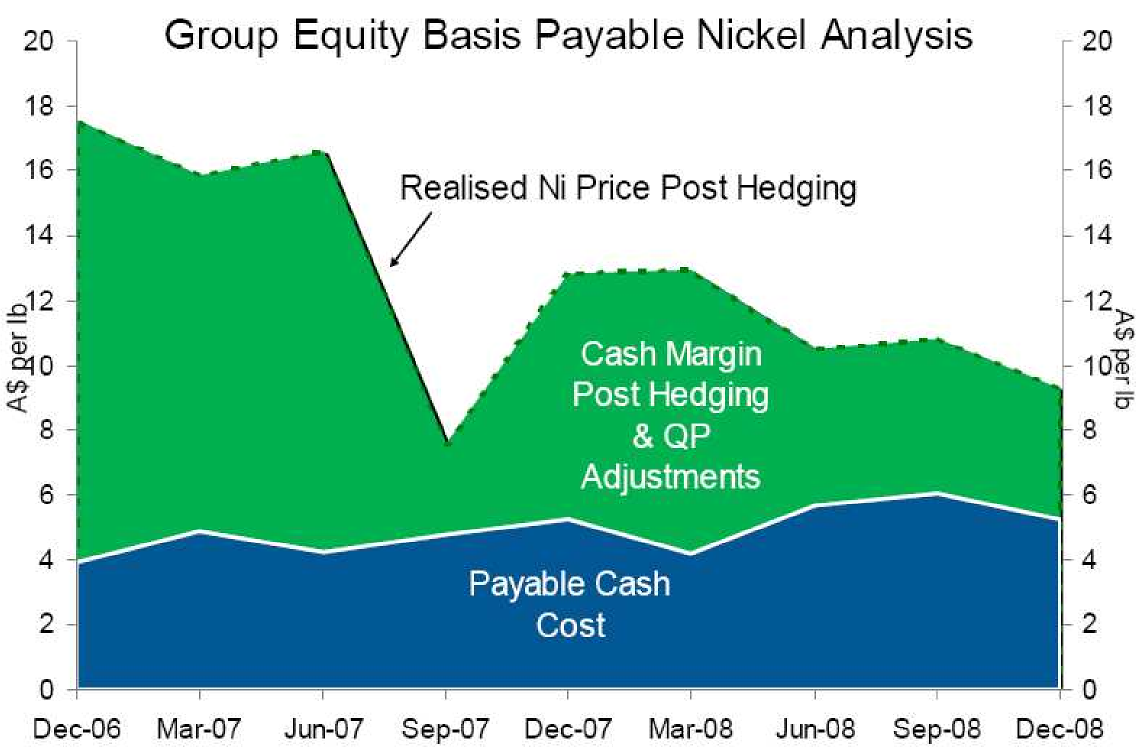
Exhibit 4: Strong DecQ production result



Source: Company data, RBC Capital Markets estimates

At the critical Deacon deposit (Lanfranchi), raise boring activities have been completed and vent fan construction commenced with commissioning expected in late February 2009 (delayed from mid-January). Deacon is now set to become the flagship ore source for the Lanfranchi operation.

Exhibit 5: Historical cash margin analysis



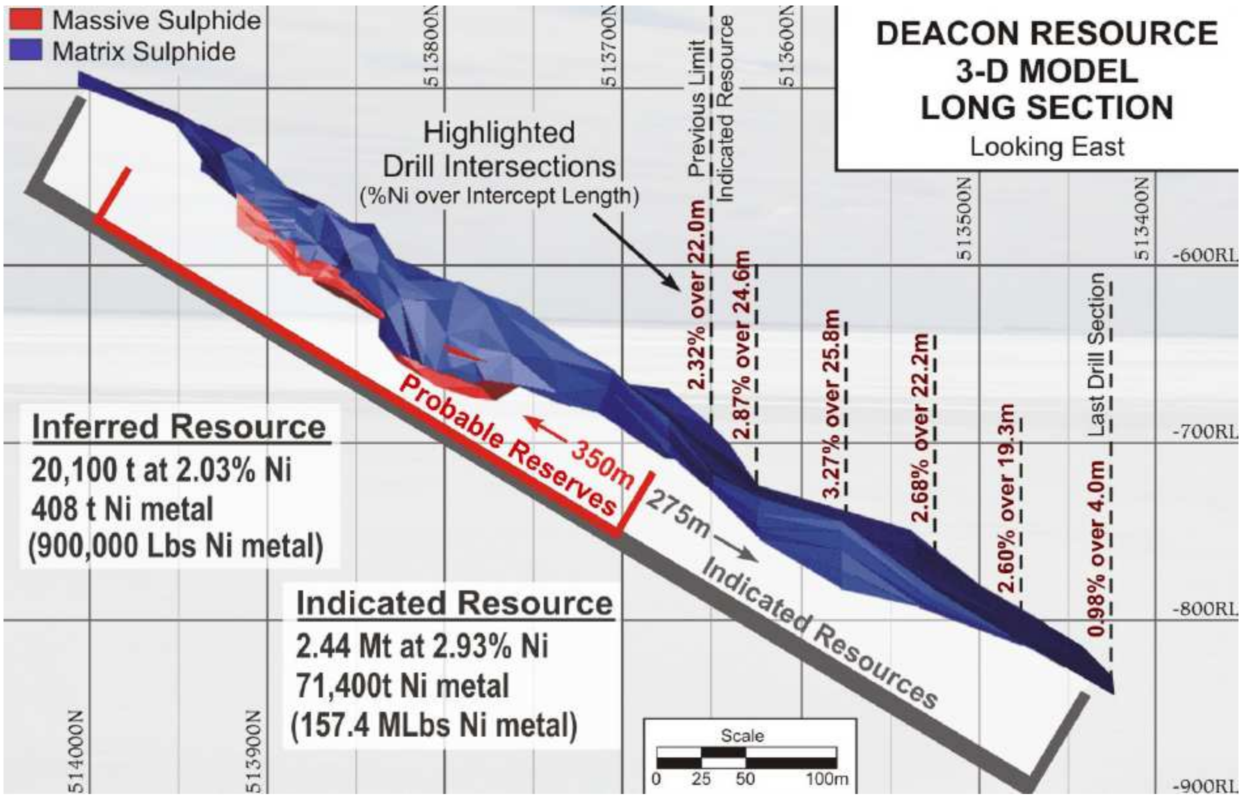
Source: Company reports

Deacon upgrade

Down-plunge drilling of Deacon was completed during the DecQ and resulted in a recently increased resource of 2.46mt at 2.92% Ni for 71.8kt contained nickel – a 13% increase on the earlier resource estimate. Critically, the increased drill density also enabled the Indicated component of the resource to increase from 51.4kt to 71.4kt.

However, drill results from the three holes completed effectively at the down-plunge extent of the revised resource indicate either **a change in channel geometry or structural dislocation**. Nonetheless, additional down-plunge drilling is planned to be undertaken during 2009 in search of further extensions to the Deacon orebody.

Exhibit 6: The Deacon resource… increased but down-plunge potential now more muted



Source: Company reports

Australian nickel sector comparative

Exhibit 7: RBC Australian nickel coverage universe comparative

Company	ASX Code	Share Price	Diluted capital	Market cap	Net debt	Current EV	Year end	Reserve	Resource	Attributable nickel production (kt)			EPS (A$ps)			EBITDA (A$ps)			NAV
		A$ps	m	A$m	A$m	A$m		kt attrib	kt attrib	2008e	2009e	2010e	2008e	2009e	2010e	2008e	2009e	2010e	A$ps
Albidon	ALB	0.07	217	16	56	72	Dec	82	109	1.0	4.8	6.5	-0.09	-0.18	-0.06	-0.08	-0.08	0.08	nmf
Independence	IGO	2.35	114	268	-113	155	Jun	37	76	8.6	7.9	8.1	0.44	0.13	0.20	0.62	0.24	0.32	3.69
Minara	MRE	0.35	1169	409	-143	267	Dec	942	2031	18.3	18.8	18.7	-0.02	-0.06	-0.03	0.04	-0.04	0.00	0.29
Mincor	MCR	0.63	196	123	-54	69	Jun	68	146	17.0	15.4	14.1	0.29	-0.10	0.00	0.68	0.25	0.26	1.34
Panoramic	PAN	0.81	192	155	-45	110	Jun	93	170	12.3	14.5	15.7	0.27	0.13	0.16	0.55	0.41	0.43	1.69
Western Areas	WSA	3.50	172	600	181	782	Jun	17	95	3.7	8.7	14.2	-0.33	-0.10	0.18	-0.24	0.12	0.57	4.52

Company	ASX Code	Share Price	Diluted capital	Market cap	Net debt	Current EV	Year end	EV / Reserve	EV / Resource	EV / Production (A$/kt pa)			P / E			EV / EBITDA			P / NAV
		A$ps	m	A$m	A$m	A$m		A$'000/t	A$'000/t	2008e	2009e	2010e	2008e	2009e	2010e	2008e	2009e	2010e	x
Albidon	ALB	0.07	217	16	56	72	Dec	**0.9**	**0.7**	70	15	11	**-0.8**	**-0.4**	**-1.3**	-4.2	-5.5	5.8	**nmf**
Independence	IGO	2.35	114	268	-113	155	Jun	**4.2**	**2.0**	18	19	19	**5.4**	**17.7**	**12.0**	1.7	5.8	4.0	**0.64**
Minara	MRE	0.35	1169	409	-143	267	Dec	**0.3**	**0.1**	15	14	14	**-20.7**	**-5.8**	**-11.2**	6.2	-6.1	-72.1	**1.20**
Mincor	MCR	0.61	196	123	-54	69	Jun	**1.0**	**0.5**	4	5	5	**2.1**	**-6.0**	**186.6**	0.1	1.2	0.8	**0.46**
Panoramic	PAN	0.81	192	155	-45	110	Jun	**1.2**	**0.6**	9	8	7	**3.0**	**6.3**	**5.0**	0.5	1.3	0.6	**0.48**
Western Areas	WSA	3.50	172	600	181	782	Jun	**47.2**	**8.3**	212	90	55	**-10.6**	**-35.0**	**19.1**	-16.8	41.3	8.5	**0.78**

Source: Company data, RBC Capital Markets estimates

Exhibit 8: Summary financials

Panoramic Resources

ASX: PAN	Share Price: (A$ps)	0.81	Year end:	Jun	Stock Rating:	**Outperform**	Price Target:	**A$1.55**
	Mkt Cap: (A$MM)	157	Issued shares (m)	193.7	Risk Qualifier:	**Above Average**	NAV:	**A$1.69**

ASSUMPTIONS		FY07	FY08	FY09e	FY10e	FY11e
Exchange Rate	A$/US$	0.79	0.90	0.73	0.69	0.72
Spot Nickel Price	**US$/lb**	**17.24**	**12.92**	**5.89**	**5.50**	**6.00**
Spot Cobalt Price	US$/lb	23.39	39.32	21.41	13.00	12.75
Spot Copper Price	US$/lb	3.20	3.53	2.15	1.70	1.73

RATIO ANALYSIS		FY07	FY08	FY09e	FY10e	FY11e
Diluted share capital	MM	194.5	193.7	192.0	192.0	192.0
EPS (diluted and pre sig. items)	A¢	45.7	27.3	12.9	16.3	4.3
P/E	**x**	**1.8x**	**3.0x**	**6.3x**	**5.0x**	**18.9x**
CFPS	A¢	106.0	49.5	23.3	39.8	20.6
P/CF	x	0.8x	1.6x	3.5x	2.0x	3.9x
DPS	A¢	12.0	12.0	3.0	4.0	1.0
Dividend yield	**%**	**14.8%**	**14.8%**	**3.7%**	**4.9%**	**1.2%**
Franking Level	%	100%	100%	100%	100%	100%
Book value per share		0.63	1.20	1.30	1.42	1.44
P/Book value	x	1.3x	0.7x	0.6x	0.6x	0.6x
R.O.E. (pre sig items)	%	72%	23%	10%	11%	3%
R.O.A. (pre sig items)	%	44%	20%	9%	11%	2%
Interest Cover	x	252.2x	-14.4x	-10.5x	-17.8x	-2.2x
EBITDA per share	A$ps	0.86	0.55	0.41	0.43	0.22
EV/EBITDA	**x**	**0.3x**	**0.5x**	**1.3x**	**0.7x**	**0.9x**

EARNINGS		FY07	FY08	FY09e	FY10e	FY11e
Sales Revenue	A$MM	299	232	227	251	214
Other Revenue	"	0	0	1	0	0
Total Revenue	"	**299**	**232**	**228**	**251**	**214**
Operating costs	"	(88)	(108)	(137)	(158)	(161)
Operational EBITDA	"	**211**	**125**	**92**	**93**	**53**
Exploration Expense/Write-offs	"	(2)	(2)	(6)	(2)	(3)
Corporate & Other Costs	"	(42)	(15)	(7)	(8)	(8)
EBITDA	"	**167**	**107**	**79**	**83**	**42**
D&A	"	(42)	(40)	(47)	(42)	(35)
EBIT	"	**125**	**67**	**31**	**41**	**8**
Net Interest	"	(0)	5	3	2	4
Profit Before Tax	"	**125**	**71**	**34**	**43**	**11**
Tax Expense	"	(36)	(18)	(9)	(12)	(3)
Minorities	"	0	0	0	0	0
Net Profit After Tax	"	**88**	**53**	**25**	**31**	**8**
Significant Items (post tax)	"	0	0	(18)	0	0
Reported NPAT	"	**88**	**53**	**7**	**31**	**8**

CASHFLOW		FY07	FY08	FY09e	FY10e	FY11e
Operational Cash Flow	**A$MM**	**206**	**112**	**69**	**85**	**45**
Net Interest	"	(0)	5	3	2	4
Tax Paid and Other	"	0	(22)	(27)	(11)	(9)
Net Operating Cashflow	"	**206**	**96**	**45**	**76**	**39**
Exploration	"	(7)	(6)	(9)	(5)	(5)
Capital Expenditure	"	(34)	(59)	(71)	(18)	(11)
Investments	"	0	0	0	0	0
Sale of PPE and Other	"	0	0	0	0	0
Net Investing Cashflow	"	**(41)**	**(65)**	**(80)**	**(23)**	**(16)**
Dividends Paid	"	0	(36)	(12)	(8)	(6)
Debt	"	(37)	(7)	(4)	0	0
Equity Issuance	"	4	4	0	0	0
Other	"	(44)	0	0	0	0
Net Financing Cashflow	"	**(77)**	**(39)**	**(15)**	**(8)**	**(6)**
Net change in cash	"	**89**	**(9)**	**(51)**	**46**	**18**

BALANCE SHEET		FY07	FY08	FY09e	FY10e	FY11e
Cash & Equivalents	A$MM	120	111	60	106	124
PP&E & Mine Development	"	112	136	136	111	88
Exploration	"	7	13	18	21	23
Total Assets	"	**284**	**332**	**336**	**360**	**357**
Debt	"	13	8	5	5	5
Total Liabilities	"	**162**	**100**	**86**	**87**	**81**
Total Net Assets / Equity	"	**122**	**232**	**250**	**273**	**276**
Net Debt / (Cash)	"	(106)	(103)	(56)	(102)	(119)
Gearing (net debt/(nd + equity)	%	(694%)	(79%)	(29%)	(59%)	(76%)
Gearing (net debt/equity)	%	(87%)	(44%)	(22%)	(37%)	(43%)

ATTRIBUTABLE MINE STATS		FY07	FY08	FY09e	FY10e	FY11e
Nickel Production (equity)						
Savannah	kt	8.01	7.58	8.07	8.82	8.82
Lanfranchi (75%)	kt	3.42	4.74	6.43	6.84	6.76
Nickel in Concentrate	**kt**	**11.43**	**12.32**	**14.51**	**15.66**	**15.58**
Payable Nickel Production	**kt**	**7.40**	**7.96**	**9.37**	**10.11**	**10.06**
Payable Nickel Sales Hedged	%	63%	30%	44%	25%	0%
Avg Cash Nickel Price Realised	**US$lb**	**11.50**	**11.38**	**7.98**	**7.02**	**6.00**
Net Cash Costs (per payable lb)	**US$/lb**	**4.24**	**5.32**	**4.18**	**4.22**	**4.55**
Cash Margin	US$/lb	7.26	6.05	3.80	2.81	
Operational EBIT Contribution (pre hedging)						
Savannah	A$MM	173	70	-13	-13	-1
Lanfranchi (75%)	"	59	39	12	17	20

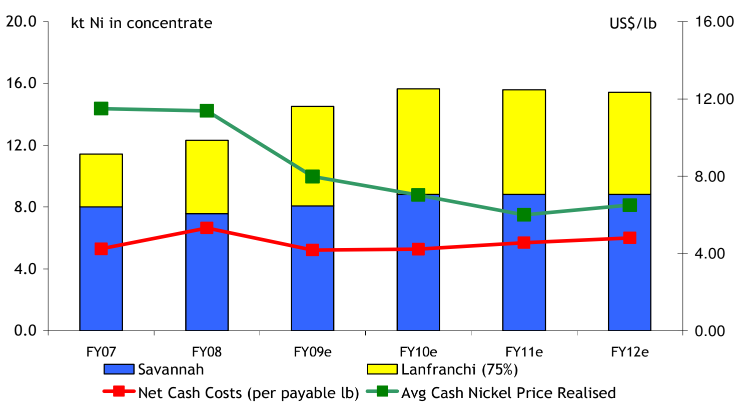
RESERVES AND RESOURCES (ATTRIBUTABLE)

Reserves	Mt	% Ni	Ni (kt)		
Savannah	2.9	1.3%	38		
Copernicus satellite (60%)	0.5	1.1%	5		
Lanfranchi (75%)	2.1	2.4%	50		A$/t
Total reserves (kt)			**93**	EV / Reserves	587

Resources	Mt	% Ni	Ni (kt)		
Savannah	4.7	1.5%	70		
Copernicus satellite (60%)	0.5	1.2%	6		
Lanfranchi (75%)	4.0	2.4%	94		A$/t
Total resources (kt)			**170**	EV / Resources	319

EPS SENSITIVITIES		FY09e	FY09e	FY10e	FY10e
				Acps	%
Nickel Price (US$/lb)	+10%			5.0	31%
	-10%			(5.0)	-31%
A$/US$ (USc)	+10%			(7.8)	-48%
	-10%			9.5	58%

ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE



EQUITY DCF VALUATION			
Projects	**A$MM**	**A$ps**	
Savannah	92	0.48	
Lanfranchi (75%)	110	0.57	
Projects and Exploration	40	0.21	
Hedging	63	0.33	
Corporate	(26)	-0.14	
Net Cash / (Debt)	45	0.23	**P / NPV**
Net Equity Value (@ 8% real d.r.)	**324**	**1.69**	0.5x

Source: Company data, RBC Capital Markets estimates

Valuation

RBC's price target of A$1.55 is based on 2.5-3.0x estimated FY10 EBITDA. These multiples are broadly in-line with the presently wide range of Australian junior nickel peer comparables.

Price Target Impediment

Potential impediments to our price target include: (1) Nickel price risk - a weakening in nickel prices would adversely affect earnings; (2) Currency risk - a strengthening of the A$/US$ rate would adversely affect earnings; (3) Development risk – there are risks in the development of both new and existing orebodies; (4) Operating cost risk - increases in key operating inputs (energy and labour costs) would adversely affect earnings.

Company Description

Panoramic owns and operates two nickel operations in Western Australia and produced 11.4kt attributable nickel-in-concentrate in FY07. The Sally Malay underground mine (100%) is located in the Kimberley region and produced over 8.0kt nickel-in-concentrate in FY07. It is a nickel-copper-cobalt ore-body with significant by-product cost credits and solid extension potential at depth. The nickel concentrate product is currently sold to Chinese nickel producer, Jinchuan. The Lanfranchi underground mine (75%) is located near Kambalda and produced 3.4kt nickel-in-concentrate in FY07. Ore is mined and sold directly to BHP Billiton, inclusive of a toll treatment arrangement at BHP Billiton's Kambalda nickel concentrator.

We expect Sally Malay's attributable nickel production base to grow from 11.4kt in FY07 to over 15.5kt in FY10, predominantly driven by mining of the recently discovered Deacon ore-body at Lanfranchi. Significant further exploration potential remains at Lanfranchi (and the Tramways tenements) and Sally Malay (at depth and satellite ore-bodies).

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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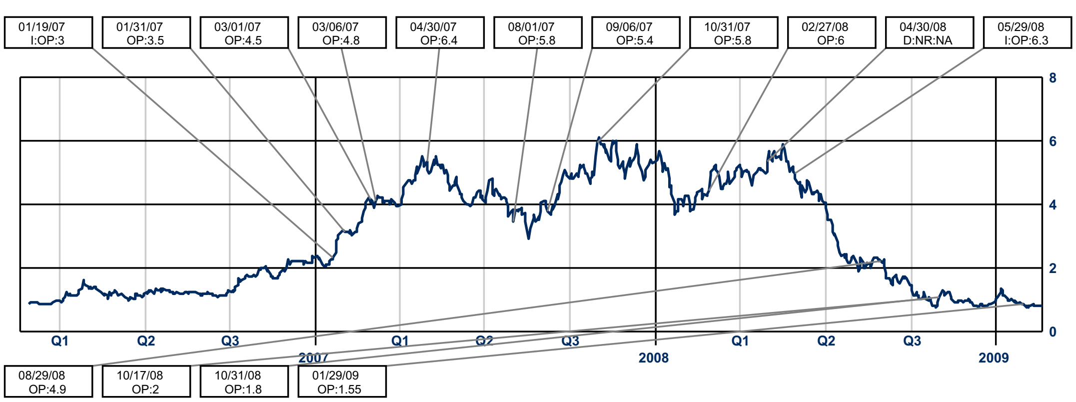
Distribution of Ratings
RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	488	44.30	107	21.93
HOLD[SP]	506	46.00	86	17.00
SELL[U]	106	9.60	11	10.38

Rating and Price Target History for: Panoramic Resources Limited as of 02-19-2009 (in AUD)



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