

## BUY

Current Price \$0.68  
Target Price \$1.00

Ticker: GOR  
Sector: Materials

Shares on Issue (m): 876.0  
Market Cap (\$m): 595.7  
Cash Estimate (\$m): 100.0  
Enterprise Value (\$m): 495.7

52 wk High/Low: \$0.75 \$0.51  
12m Av Daily Vol (m): 1.62

### Mineral Inventory

	Mt	g/t	Moz
Reserves	91.6	1.2	3.5
Resources	156.8	1.3	6.8

	\$/oz
EV / Reserve	141
EV / Resource	73

### Directors:

Timothy Netscher	Non-Executive Chairman
Ian Murray	Managing Director & CEO
Justin Osborne	Executive Director
Martin Pyle	Non-Executive Director
Sharon Warburton	Non-Executive Director

### Substantial Shareholders:

Sun Valley Gold	9.7%
Gruyere Holdings	8.5%
Van Eck	5.0%

### Share Price Graph



Friday, 3 November 2017

## Gold Road Resources

### Cracking the regional code

Analysts | James Wilson | Matthew Keane

#### Quick Read

Gold Road (GOR) released its September Quarterly report with updates on the Gruyere Gold Project. Construction has commenced on the 50:50 Gruyere JV with mining set to commence within 12 months and first gold production in Q1 2019. Running in parallel GOR, is conducting an aggressive \$24-26mpa exploration program on the Yamarna projects with the focus on additional mill feed for the JV or a potential new stand-alone project owned 100% by GOR. The majority of this expenditure is focussing on the North Yamarna tenements. We argue the market is not adequately valuing the exploration portfolio and that the geological understanding is now at a point that successes in regional exploration could translate to meaningful development plays either for mill feed for the JV or as standalone operations.

#### Event & Impact | Positive

**Cracking the code regionally – the battle is half won :** GOR's exploration program in FY18 has focussed on drill testing the targets that have been generated over the last few years. The best example of this is the Ibanez prospect at Corkwood. The geological profile near to surface has been highly leached, meaning that there's not a lot of gold left in the upper areas. Drill testing has returned highly encouraging results including 10m @ 28.67g/t Au (including 2m @ 136.57g/t) and 8.2m @ 11.63g/t Au and 19m @ 2.52g/t Au (400m to the south) over a zone of mineralisation >2km in strike length. We believe the market is ascribing little value to the exploration portfolio outside the GF JV.

**On the road to gold – 13 months:** Construction is scheduled to be completed around December 2018 with commissioning and ramping up to be complete by March 2018. Mining will commence in the late Dec Q CY18 and with clearing already complete on the Gruyere Stage 1 pit (as part of the site preparation by MACA), we believe the initial commissioning phase will be rapid.

**GOR screens cheap on peer metrics:** Argonaut's analysis of the peer group of global producers shows that GOR screens cheaply versus those of similar sized production. We argue that the i) <\$1000/oz forecast production cost ii) increased output from an 8.5Mtpa mill (vs 7.5Mtpa in the DFS) and iii) longer production from additional oxide reserves from YAM-14, Atilla-Alaric satellites, will all serve to underpin improved project economics vs the DFS.

#### Recommendation

Maintain BUY and target price of \$1.00ps.

GOR's work to date has consisted of belt scale aircore and geochemistry programs.....

....but now GOR's \$30m budget is directed towards bedrock testing the numerous targets in North Yamarna

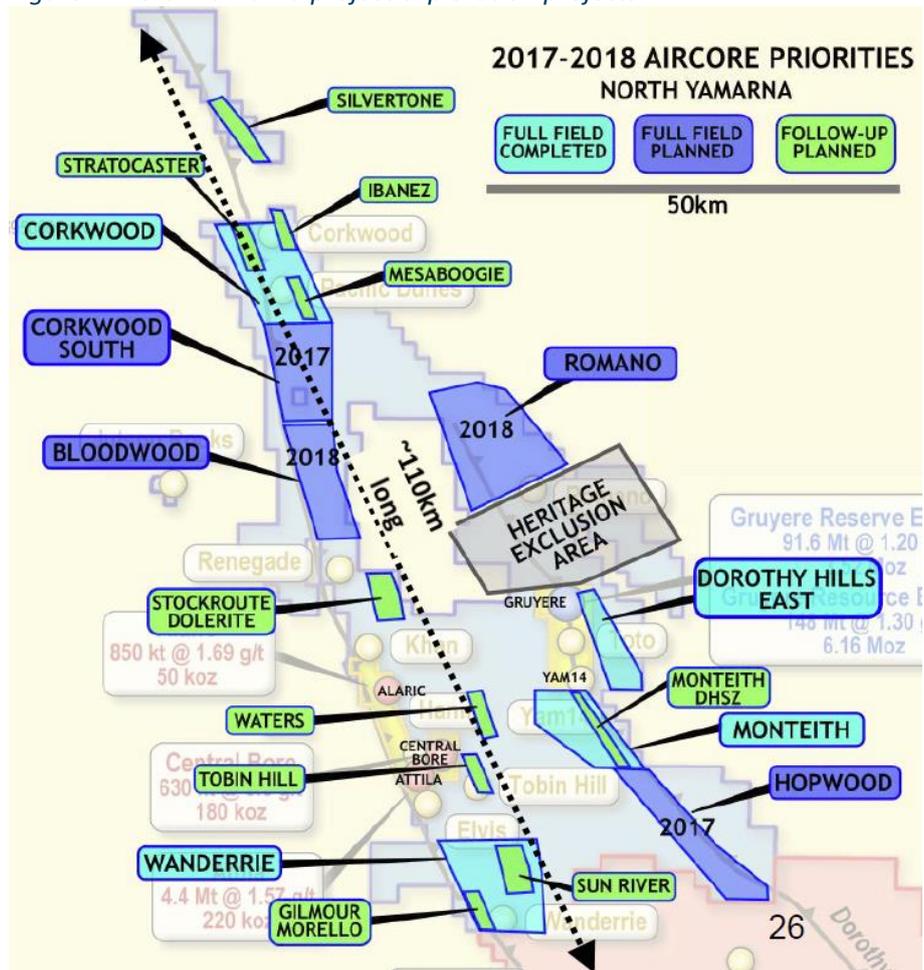
### Cracking the regional code

Exploration for 2017 and 2018 will focus on a number of high priority targets. GOR has completed aircore over three out of seven of its camp scale targets and aims to have all targets covered by 2019.

It is commonly overlooked that North Yamarna has a tenement strike extent of roughly 110km long and that systematic exploration over the last ~four years has resulted in a significant geochemical database which has largely been followed up by initial aircore testing. In simple terms, a lot of the ground work has been completed and GOR can now get on with a significant amount of bedrock testing.

GOR has five targets ready for drilling and aims to progress at least one of these to Resource drilling in 2018. Importantly, any new discoveries within trucking distance of the Gruyere JV offer mine life upside or a potential standalone operation.

Figure 1. North Yamarna project exploration projects



Numerous other high priority targets are due to be tested in 2018 including Romano and Hopwood

Source: GOR

## Corkwood – Ibanez, the first of many targets to test

Adding complexity is the geological profile near to surface has been highly leached, meaning there’s not much gold in the upper areas

Pacific Dunes-Cowkwood sits in the most northern part of the North Yamarna tenement package. Recent bedrock drill testing consisted of a program of RC and diamond drill holes targetting the two shear packages over a 10km strike extent from Ibanez in the north to Mesaboogie in the south.

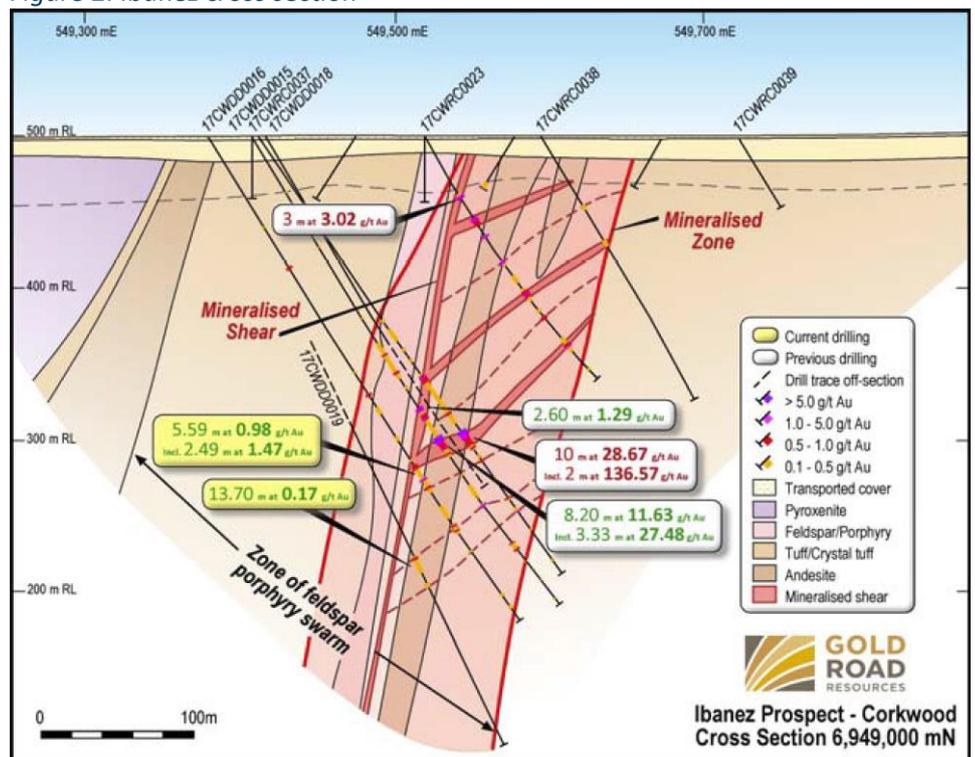
Drilling at Ibanez has returned highly encouraging results including 10m @ 28.67g/t Au (including 2m @ 136.57g/t) and 8.2m @ 11.63g/t Au and 19m @ 2.52g/t Au (400m to the south) over a zone of mineralisation >2km in strike length.

Adding complexity is that the geological profile near to surface has been highly leached, meaning that there’s not a lot of gold left in the upper areas.

Ibanez bedrock testing returned results including 10m @ 28.67g/t Au and 8.2m @ 11.63g/t Au

With 19m @ 2.52g/t Au from drillholes 400m to the south of the high grade hits

Figure 2. Ibanez cross section



Source: GOR

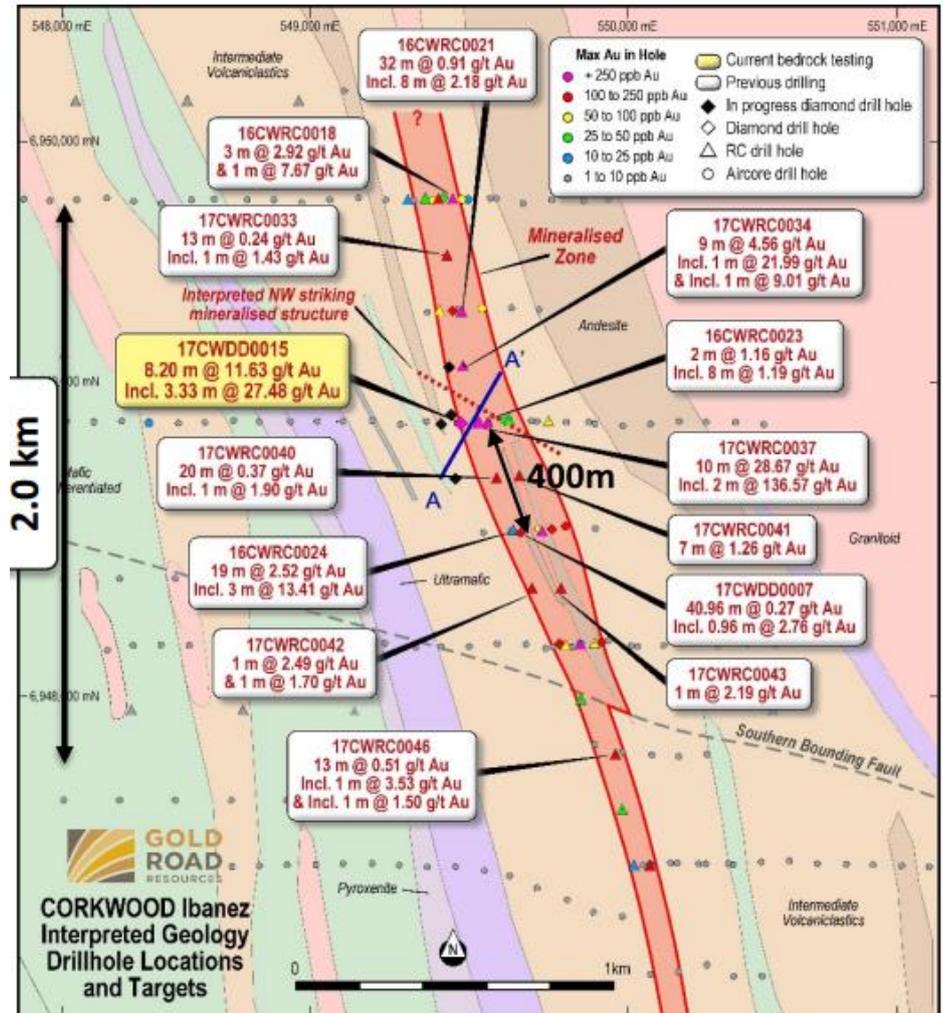
Its clear that a better understanding on the controls of mineralisation is required

GOR believes further drilling is required to get a better understanding of the structural controls at Ibanez. With other results including 19m @ 2.52g/t Au in RC holes on the next section 400m to the south, we expect GOR will conduct additional infill holes in the near term.

Figure 3. Ibanez drilling plan

Drill testing at Ibanez returned high grade intercepts of 10m @ 28.67g/t Au....

....with results 400m to the south of 19m @ 2.52g/t Au



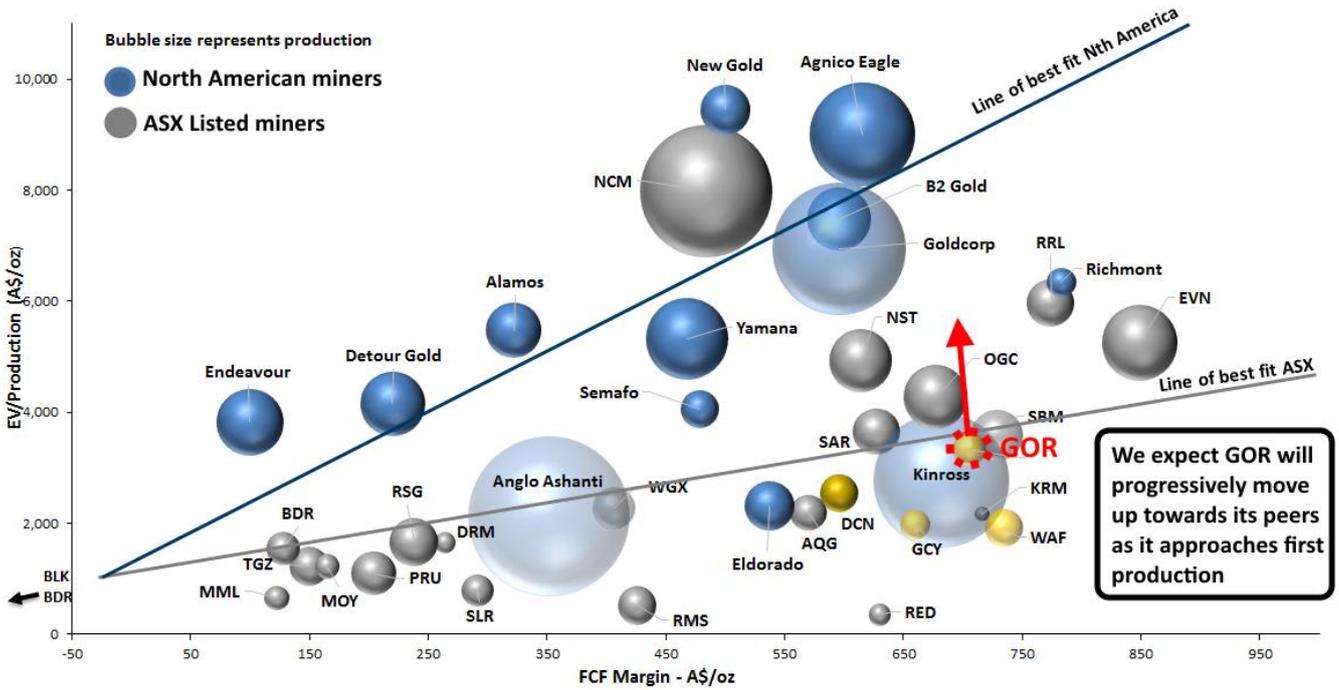
Source: GOR

### Peer comparisons

On a peer group basis, GOR is cheap and largely de-risked due to its JV with Gold Fields.

On a peer group basis, GOR is cheap and largely de-risked due to its partnership with Gold Fields Australia: We base our FCF and EV/production assumptions on the likelihood of GOR reaching >300kozpa production via the up-scaling of the Gruyere processing plant to 8.5Mtpa and the additional treatment of near mine oxide resources which should see output grow to >9-9.5Mtpa in the early years. As a result, we expect GOR's position on Figure 4 will move into line with its production peers such as RRL, NST and EVN. The project is fully financed, with insulation against cost over-runs.

Figure 4. EV/Production vs FCF – Global gold producers and developers

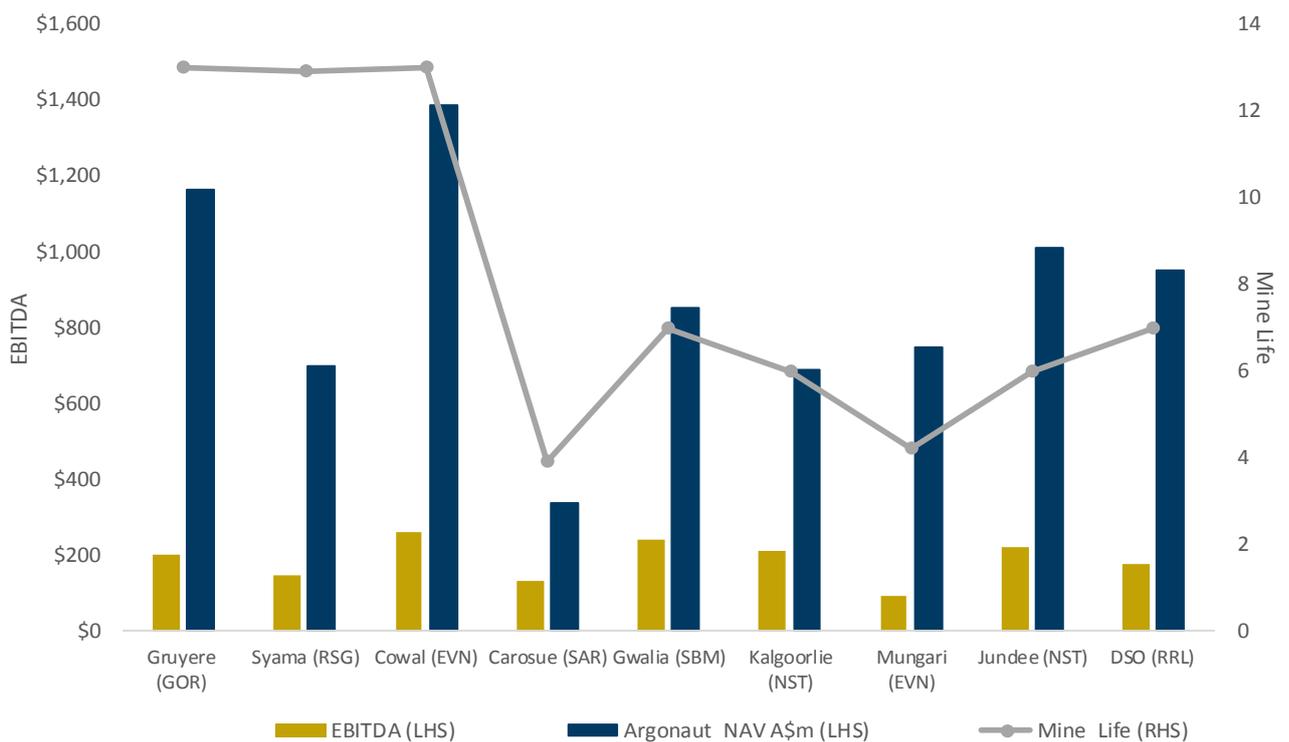


Source: Argonaut

**Relative EBITDA basis valuation**

The peer group analysis suggests that assets with EBITDA of ~\$175-\$200m/pa and production higher than 200kozpa are valued at a NPV of ~\$1bn

Figure 5. Peer group EBITDA vs NAV vs Mine Life



Source: Argonaut

## Valuation

**As construction continues, we believe the discount on the stock will unwind**

**Our valuation of the Gruyere JV largely back-fills the current share price....**

**....with little value ascribed to exploration upside in GOR's share price**

**Gruyere JV:** With construction on the processing plant infrastructure underway, we argue that the risk perception on the stock will continue to unwind. We expect newsflow from construction and continued exploration success within the Gruyere JV. We see strong potential to build a sizeable resource inventory in the Yamarna regional satellites which will see conversion of the existing 600koz resources at Attila, Alaric and Central Bore into reserves that will adding supplemental ores to the early years of production. With the addition of a maiden resource at YAM-14 in 2017-18 and other discoveries at South Yamarna JV we expect the regional resources inventory will grow which will ultimately feed into the Gruyere long term mine plan.

Our Gruyere 50% JV valuation of \$0.61ps which back-fills the current share price. We note that our valuation does not include production upside via the use of an 8.5Mtpa mill which will result in larger output than the Gruyere DFS.

Valuation Summary	A\$m	A\$/sh
Gruyere 50% JV with Gold Fields	536	<b>0.61</b>
Unmined Resources	111	<b>0.13</b>
Yamarna Exploration	220	<b>0.25</b>
Corporate	-40	<b>-0.05</b>
Cash Estimate (postconstruction)	50	<b>0.06</b>
Debt	0	<b>0.00</b>
<b>Total @8% discount rate</b>	<b>\$877</b>	<b>\$1.00</b>

**Exploration valuation:** We argue that the market is not adequately valuing the North and South Yamarana exploration tenure and it is Argonaut's view that conservatively these areas host in excess of 2-3Moz of additional resources. As a result we value the exploration tenure at \$220m or an EV/Resource metric of \$70/oz.

Argonaut maintains a BUY recommendation with a revised target price of \$1.00ps.

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