

## SPEC BUY

Current Price \$0.36  
Target Price \$0.60

Ticker:	GOR	
Sector:	Materials	
Shares on Issue (m):	594.9	
Market Cap (\$m):	214.2	
Cash Estimate (\$m):	21.3	
Enterprise Value (\$m):	192.9	
52 wk High/Low:	\$0.40	\$0.11
12m Av Daily Vol (m):	1.66	

### Mineral Inventory (100% basis)

	Mt	g/t	Moz	
Reserves	-	-	-	
Resources	123.2	1.3	5.1	
EV / Reserve				\$/oz
EV / Resource				38

### Directors:

Ian Murray	Executive Chairman
Justin Osborne	Executive Director
Russell Davis	Non-Executive Director
Martin Pyle	Non-Executive Director
Kevin Hart	Company Secretary

### Substantial Shareholders:

Van Eck	8.3%
Minco	7.2%
RCF	5.2%

### Share Price Graph



Wednesday, 28 January 2015

## Gold Road Resources

### Cheese matters

Analysts | Patrick Chang | Matthew Keane

### Quick Read

Gold Road (GOR) released a Scoping Study (SS) on the recently discovered 3.8Moz Gruyere deposit. The study appears conservative on several fronts and confirms the project as one of the most promising undeveloped assets in Australia. Its potential scale, geometry, long life, and favourable metallurgical properties combined with a low sovereign risk jurisdiction, will ensure the asset attracts market and corporate attention. The Company is cashed up (A\$21.3m at 31<sup>st</sup> December) and catalyst rich, with a plethora of regional targets being tested in CY15. SPECULATIVE BUY recommendation maintained. Argonaut assigns an A\$0.60 target price.

### Event & Impact | Positive

**Ticking the boxes:** The SS demonstrated a viable project at an A\$1,350/oz gold price, with parameters in-line with Argonaut's expectations. Highlights include:

- A 5Mtpa, low complexity open pit / CIL operation with contract mining
- Supplemented with high grade feed (~10g/t) from Central Bore
- Significant scale and life, ~190kozpa with 11 years LOM
- Favourable geometry (strip ratio of 1.6:1 at a head grade of 1.2g/t)
- High recovery of 95% gold using CIL at a grind size of 106µm
- Opex of <A\$1,000/oz and pre-production capex of A\$360m

**Stacking up:** The modest grades of 1.2g/t at Gruyere is more than compensated by a low strip ratio, the scale of the operation, concentration of ounces (single pit), consistency of the mineralisation (minimal grade control), excellent metallurgy as well as genuine 'blue-sky' exploration upside in the safe jurisdiction of Western Australia. The deposit compares competitively against peer assets (>150koz pa assets, see Page 4, Figure 3). Recent drilling has identified further potential for Resource upgrades and the ability to preferentially treat higher grade material upfront.

**High intensity regional exploration program underway:** Having completed an A\$23m capital raising in September CY13, the stock is cashed up and newsflow rich with a high intensity exploration program underway. Targets to be tested in CY15 include; Sun River – Wanderrrie, Pacific Dunes – Corkwood, South Dorothy Hills and the southern Yamarna JV targets. The Company had early success at Sun River – Wanderrrie with ore grade intersections returned from shallow, reconnaissance drilling, including 7m @ 9.6g/t. This will be followed up by a 1,000m RC program scheduled in the March Q.

### Recommendation

SPECULATIVE BUY recommendation maintained. The stock remains a key pick in the developer / explorer space, offering a promising pre-development asset and genuine 'blue-sky' exploration upside in a safe jurisdiction.

## Valuation

Argonaut's valuation on GOR is A\$0.60...

Argonaut's valuation on GOR is A\$0.60, with key assumption stated in Table 1 below.

*Table 1: Valuation summary and key project assumptions*

Valuation Summary	A\$m	A\$/sh
Gruyere	466.0	0.47
Unmined Resources	30.1	0.03
Yamarna Exploration	100.0	0.10
Corporate	-22.6	-0.02
Cash Estimate	21.3	0.02
Debt	0.0	0.00
<b>Total @7.7% discount rate</b>	<b>594.8</b>	<b>0.60</b>

...with a valuation of A\$466m on Gruyere...

Key project assumptions		
<b>Gruyere</b>		
Ownership	%	100
Ore milled	Mtpa	5.0
Head grade	Au g/t	1.2
Recovery	%	95
Production	koz Eq pa	190
Mine Life	yrs	11.0
Strip ratio	:	1.6
"All-in" sustaining cost	A\$/oz	1064
Pre-production Capex	A\$m	400
Sustaining Capex	A\$m pa	20
<b>Long term Pricing</b>		
Gold price	US\$/oz	1350
Exchange rate	:	0.85
<b>Fiscal</b>		
Government royalty	%	2.5
Tax Rate	%	30
Discount Rate	%	7.7
Debt / Equity	:	60/40

...assuming a debt / equity split of 60 / 40...

Source: Argonaut

...a long term gold price of US\$1350/oz and AUDUSD of 0.85

Argonaut is conservatively modelling an AISC of A\$1,064/oz and a pre-production capex of A\$400m.

Given the prospective geology and GOR's dominant land position in the Yamarna Belt, Argonaut assigns an A\$100m valuation on the exploration upside. We recognise the Yamarna Greenstone Belt as one of the few remaining frontiers in Australia where multi-million ounce discoveries are possible through the follow up of shallow, reconnaissance drilling.

Exploration upside at Yamarna valued at A\$100m

Unmined Resource ounces were given a nominal valuation of ~A\$10/oz.

## Getting bigger

The study was completed with inputs from consultants including...

The Study was managed by GOR with a number of external consultants contributing inputs including GR Engineering (Process Plant and associated infrastructure), Coffey Mining (Tailings Storage Facility), ALS (Sample Analysis) and Terry Weston (Metallurgical Studies). A PFS (deliverable in two stages) is anticipated by H2 CY15. Given the conservative nature of the SS and ongoing drilling, the PFS is likely to feature higher production rates and lower unit costs.

...GR Engineering, Coffey Mining and ALS

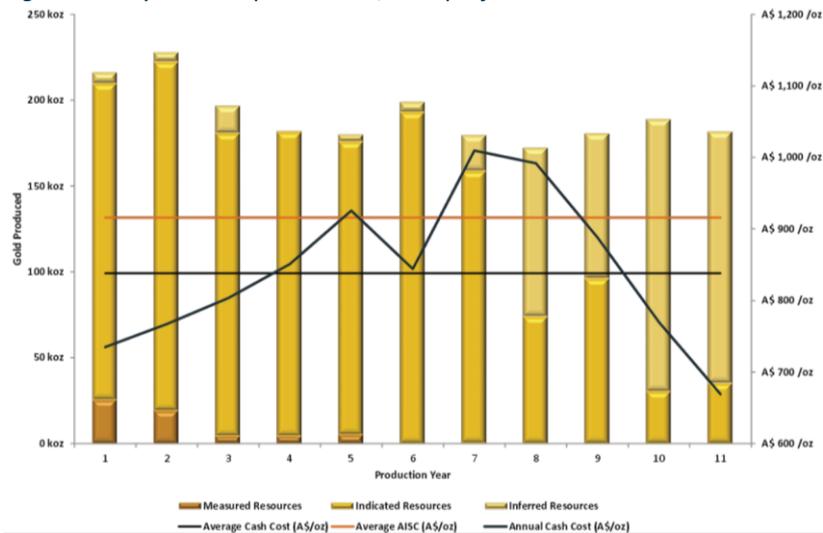
## Mining

The study assumed a 5Mtpa operation under a contract mining scenario. The vast majority of the ore will be sourced from a single open pit (Gruyere) with 'top up', high grade feed (0.15Mtpa @ ~10g/t) from Central Bore for the first 3 years. Mining cost is estimated at A\$11.50/t milled (or ~A\$4.00/t mined).

The open pit will feature three-staged cut-backs. 96% of the gold produced in the first seven years is sourced from Measured and Indicated material.

Mining is via conventional truck and shovel...

Figure 1: Gruyere LOM production / cost profile



Source: GOR

...with mining costs estimated at A\$11.5/t of ore

## Processing

...processing is via a 'vanilla' CIL operation

The study assumed a conventional 5Mtpa CIL with two stage crushing and two stage ball milling. Annual production variability is low due to the homogeneity of the Gruyere deposit. Further metallurgical work is being completed and Argonaut is anticipating ~50% gravity recoveries. Milling cost is estimated at A\$19.90/t.

## Capital Expenditure

Total pre-production capex estimated at A\$360m inclusive of contingencies

Total capex, inclusive of pre-strip, is estimated at A\$360m, including:

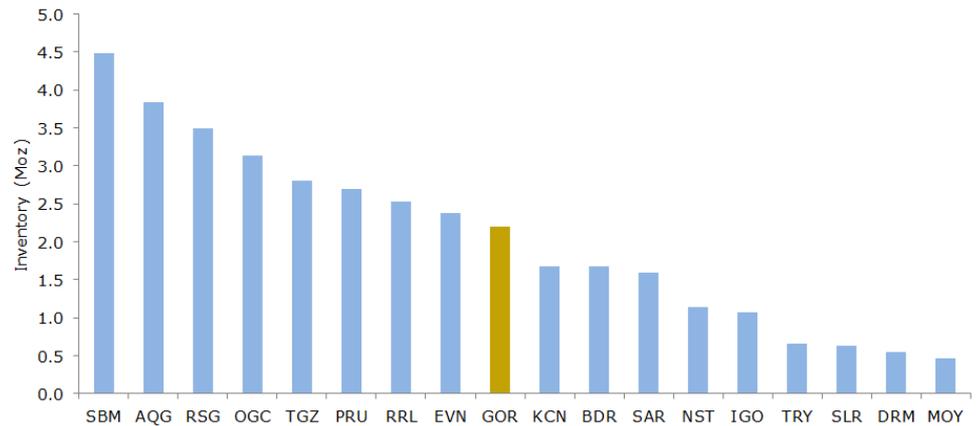
- Process plant A\$190m (8% contingency)
- Tailings Storage Facility A\$13m (8% contingency)
- Systems and Infrastructure A\$85m (8% contingency)
- Gruyere Mining (including pre-stripping) A\$52m (15% contingency)
- Central Bore (including site and U/G capital development) A\$20m (15% contingency)

## Benchmarking the project

The inventory, from a single pit, already exceeds the average attributable Reserve...

The inventory of 2.2Moz puts GOR in an enviable position. This figure, predominantly consisting of ore sourced from a single pit (Gruyere), has already exceeded the average attributable Reserve of established ASX gold producers (see list below).

Figure 2: Gruyere in-pit Resource vs ASX gold producer group Reserves



Source: Argonaut

...of ASX gold producers (ex-NCM)

...anticipated to further expand from drilling at Gruyere and regional exploration

The Company's inventory is anticipated to expand further with:

- Discoveries from regional prospects
- Extensional drilling at Gruyere

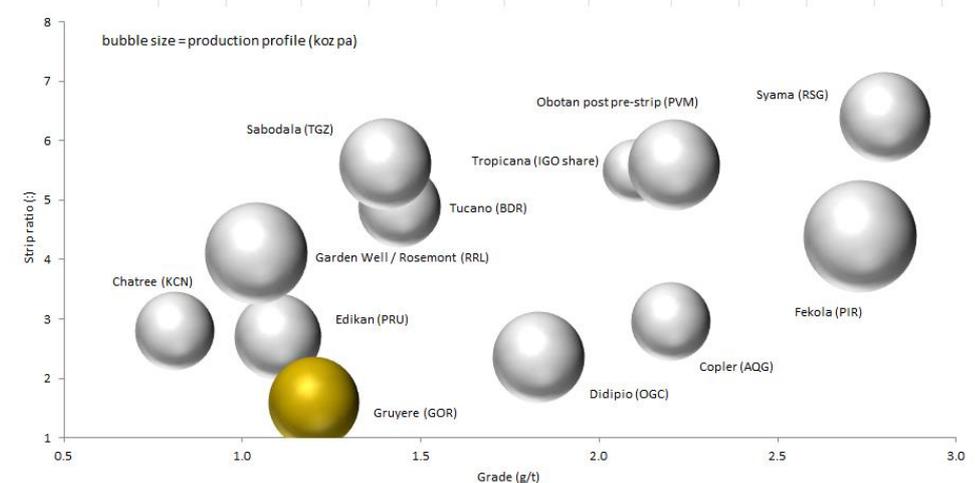
### Lowest strip

Gruyere benchmarks favourably against peer ASX producing and development assets:

- Lowest strip ratio at 1.6:1 vs peer average of 4.0:1.0
- Long life of 11 years v peer average of 8
- Average production of 190koz pa v peer average of 188koz pa

The project benchmarks well against peers...

Figure 3: Gruyere vs selected ASX gold production / development asset (>150koz pa)



Source: Argonaut

...given scale, geometry, continuity and favourable metallurgy

## Uncovering Yamarna

### Regional exploration pipeline

Having completed a A\$23m capital raising in September CY14, the stock is cashed-up and newsflow rich with a high intensity exploration program underway. Targets to be tested in CY15 include (in addition to near mine targets at Gruyere):

- Sun River – Wanderrie
  - An in-fill program planned to follow up four gold anomalies
  - An ~1,000m RC program to test encouraging early hits
- Pacific Dunes – Corkwood
  - An in-fill program to follow up six coherent anomalies
  - Likely to be in H2 CY15
- South Dorothy Hills
  - Covers ~20km strike, extension of the Gruyere trend
  - Potential thrust complex likely tested in H2 CY15
- Yamarna JV targets

**GOR is well cashed up with a plethora of targets to test...**

**...including Sun River – Wanderrie, Pacific Dunes – Corkwood, South Dorothy Hills, Yamarna JV**

### Wanderrie showing potential

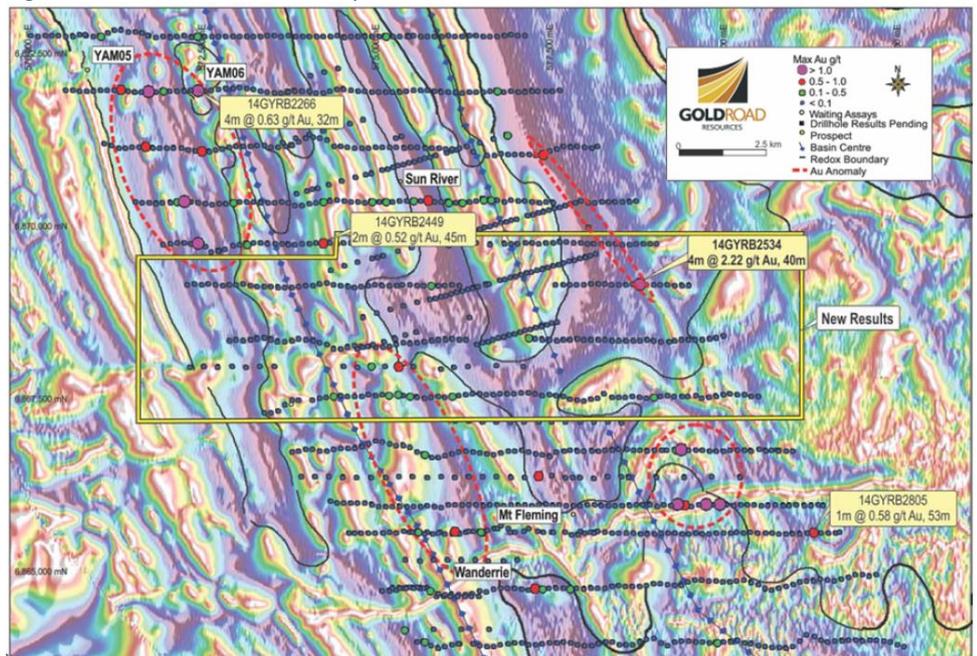
The Company had early success at Sun River – Wanderrie with ore grade intersections returned from shallow, reconnaissance drilling, including:

- 7m @ 9.6g/t from 44m
- 15m @ 1.5g/t from 60m
- 11m @ 1.7g/t from 48m

**Wanderrie is showing good early potential...**

**...with ore grade mineralisation intersected in early reconnaissance drilling...**

Figure 4: Sun River – Wanderrie plan view



Source: GOR

**...which will be followed up with RC drilling**

These hits will be followed up by a 1,000m RC program scheduled in the March Q.

**RESEARCH:**

**Ian Christie** | Director, Industrial Research  
+61 8 9224 6872 ichristie@argonaut.com

**Philipp Kin** | Analyst, Oil & Gas Research  
+61 8 9224 6864 pkin@argonaut.com

**Patrick Chang** | Analyst, Metals & Mining Research  
+61 8 9224 6835 pchang@argonaut.com

**Emily Reilly** | Analyst, Industrial Research  
+61 8 9224 6809 ereilly@argonaut.com

**Matthew Keane** | Analyst, Metals & Mining Research  
+61 8 9224 6869 mkeane@argonaut.com

**Helen Lau** | Analyst, Metals & Mining Research  
+852 3557 4804 hlau@argonaut.com

**INSTITUTIONAL SALES - PERTH:**

**Chris Wippl** | Executive Director, Head of Sales & Research  
+61 8 9224 6875 cwippl@argonaut.com

**John Santul** | Consultant, Sales & Research  
+61 8 9224 6859 jsantul@argonaut.com

**Troy Irvin** | Director, Institutional Research Sales  
+61 8 9224 6871 tirvin@argonaut.com

**Bryan Johnson** | Director, Institutional Research Sales  
+61 8 9224 6834 bjohnson@argonaut.com

**Damian Rooney** | Senior Institutional Dealer  
+61 8 9224 6862 drooney@argonaut.com

**Ben Willoughby** | Institutional Dealer  
+61 8 9224 6876 bwilloughby@argonaut.com

**INSTITUTIONAL SALES - HONG KONG:**

**Travis Smithson** | Managing Director - Asia  
+852 9832 0852 tsmithson@argonaut.com

**Glen Gordon** | Institutional Research Sales  
+852 3557 4874 ggordon@argonaut.com

**CORPORATE AND PRIVATE CLIENT SALES:**

**Glen Colgan** | Executive Director, Desk Manager  
+61 8 9224 6874 gcolgan@argonaut.com

**Kevin Johnson** | Executive Director, Corporate Stockbroking  
+61 8 9224 6880 kjohnson@argonaut.com

**James McGlew** | Executive Director, Corporate Stockbroking  
+61 8 9224 6866 jmcglew@argonaut.com

**Geoff Barnesby-Johnson** | Senior Dealer, Corporate Stockbroking  
+61 8 9224 6854 bj@argonaut.com

**Rob Healy** | Dealer, Private Clients  
+61 8 9224 6873, rhealy@argonaut.com

**Cameron Prunster** | Dealer, Private Clients  
+61 8 9224 6853 cprunster@argonaut.com

**James Massey** | Dealer, Private Clients  
+61 8 9224 6849 jmassey@argonaut.com

**Mark Sandford** | Dealer, Private Clients  
+61 8 9224 6868 msandford@argonaut.com

**Important Disclosure**

Argonaut acted as Sole Lead Manager & Exclusive Bookrunner to the Placement that raised \$23.3M in September 2014 and received fees commensurate with this service. Argonaut acted as Joint Lead Manager to the Placement that raised \$10M in March 2014 and received fees commensurate with this service. Argonaut currently holds or controls 150,000 GOR shares.

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