

BUY

Current Price **\$0.49**
Target Price **\$0.84**

Ticker: **GOR**
Sector: **Materials**

Shares on Issue (m): **868.2**
Market Cap (\$m): **425.4**
Cash Estimate (\$m): **100.8**
Enterprise Value (\$m): **324.6**

52 wk High/Low: **\$0.54** **\$0.29**
12m Av Daily Vol (m): **1.59**

Mineral Inventory

	Mt	g/t	Moz
Reserves	81.1	1.2	3.2
Resources	153.6	1.3	6.6

	\$/oz
EV / Reserve	102
EV / Resource	49

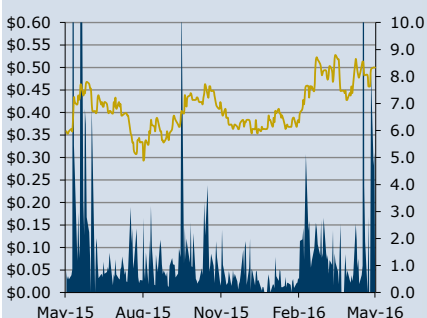
Directors:

Ian Murray	Executive Chairman
Justin Osborne	Executive Director
Russell David	Non-Executive Director
Timothy Netscher	Non-Executive Director
Martin Pyle	Non-Executive Director
Sharon Warburton	Non-Executive Director

Substantial Shareholders:

Platypus	8.0%
Van Eck	6.0%
RCF	10.0%

Share Price Graph



Wednesday, 4 May 2016

Gold Road

The Road to Milestone

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Gold Road (GOR) announced the signing of a Native Title Agreement with the Yilka People and the Cosmo Newberry Aboriginal Corporation. This is the first native title agreement entered into by the Yilka People, and paves way for Mining Leases for Gruyere and Central Bore. Last week, the Company announced a A\$74m @ 44c capital raising and entitlement offer, which will see its cash balance increasing to ~A\$100m. This places GOR in an enviable financial position and enhances future funding flexibilities on the Gruyere project. Recent technical work completed, including an in-fill drilling program which saw the ore from the first ~two years upgraded to Measured Category, continue to demonstrate the technical rigour of the in-house evaluation and development team. Our TP is unchanged at A\$0.84 as we had factored in equity dilutions near the raising price.

Event & Impact | Positive

Native title paving way for Mining Lease: The company delivered another milestone today by announcing the signing of a native title agreement with the Yilka People. This puts the Company on track for obtaining Mining Leases for Gruyere and Central Bore in the coming months. Based on the current schedule, Gruyere is expected to be in production H2 2018. An expedient finalisation of licensing should see this timeline achieved or potentially brought forward.

Enviably financial position: Completion of the announced equity raise and entitlement offer will see GOR's cash balance increasing to ~A\$100m. The proceeds will be used for:

- Long lead items (A\$32m)
- Early works and front end engineering and design (A\$18m)
- Potential drill-out of the Gruyere open pit depth extension (A\$5m)
- Yamarna exploration (A\$5m)
- General working capital, corporate expenditure and transaction costs (A\$14m)

Further upside: A recently completed PFS and 3.2Moz maiden Reserve re-affirmed Gruyere's status as one of the best undeveloped gold projects in Australia. Further upside includes potential increase in pit wall angles, incorporating regional satellite deposits (Central Bore, Attila), as well as further exploration success.

Regional upside: GOR's exploration program will see numerous camp scale targets tested in CY16. Prospective geology, a systematic approach, generous budget and GOR's track record of discovery could translate to the discovery additional multi-million ounce deposits within the under-explored Yamarna Belt.

Recommendation

BUY and A\$0.84 target price maintained.

Funding update

GOR announced an A\$74m equity raise at 44c...

...which will enable ordering of long lead items and early works to commence...

...this will in turn ensure GOR can lock in competitive rates

Further upside includes steepened pit wall angles

Based on the current schedule, Gruyere is expected to be in production in H2 2018

Placement and Entitlement Offer

GOR recently announced an A\$74m @ 44c equity raise consisting of

- A Placement raising A\$43m
- A 1 for 10 pro-rata accelerated non-renounceable Entitlement Offer to raise ~A\$31m

The bulk of the proceeds will be used to advance Gruyere. Detailed breakdown includes:

- Long lead items (A\$32m)
- Early works and front end engineering and design (A\$18m)
- Potential drill-out of the Gruyere open pit depth extension (A\$5m)
- Yamarna Exploration (A\$5m)
- General working capital, corporate expenditure and transaction costs (A\$14m)

Further upside

The announced funding will allow the GOR team to commence early works and ordering long lead items in advance to facilitate a smooth construction / ramp up period. Importantly, this will allow GOR to take advantage of the current tender rates and lock in competitive contracts.

There is significant scope for steepened pit wall angles following further geotechnical work, potentially translating to:

- A deeper open pit with a similar strip ratio but more ounces and longer life, or
- A pit with lower strip ratio and AISC, with every degree of increase adding LOM FCF of ~A\$50m

Given the robust economics, Argonaut believes the former is more likely, and this would require some drilling to convert of some Inferred Material below the current pit design.

In addition, further evaluation work is likely to result in some of the satellite deposits (e.g. Central Bore, Attila) incorporated into Gruyere's future feed.

Time to production

Based on the current schedule, Gruyere is expected to be in production H2 2018. An expedient finalisation of licensing should see this timeline achieved or potentially brought forward.

Figure 1: Timeline to production

	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	H2 2018
Scoping Study	★	5Mtpa CIL; Diesel fired power; 11 year LOM ¹ → Progress to PFS						
Pre-feasibility Options		★	7.5Mtpa SABC CIL; Gas fired power; 10-15 year LOM ² → Chosen option for PFS					
Pre-feasibility Study			★	Positive PFS ³ → Progress to FS				
Feasibility Study					★	Positive FS → Seek Funding		
Funding and FEED					★	Funding secured		
Construction					★	Commence Construction		
Operations							★	★

Handover to operations (between H1 2018 and H2 2018)

FS Technical work commenced (between H1 2015 and H2 2015)

Commence Mining (between H1 2018 and H2 2018)

Source: GOR

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Important Disclosure

Argonaut acted as Joint Lead Manager to the Placement to raise up to \$40M in June 2015 and received fees commensurate with this service. Argonaut acted as Joint Lead Manager to the Placement to raise up to \$74M in April 2016 and will receive fees commensurate with this service.

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