

Gold Road Resources Limited

They call it a Royale with cheese

February 2016

Recommendation: BUY

- **Australia's largest undeveloped gold project at Gruyere**
- **IRR estimated at >20%: lower grade vs. scale and long mine life**
- **Gruyere would be the 10th largest Australian gold operation today**

ASX: GOR

Share Price: \$0.46

Target Price: \$0.55

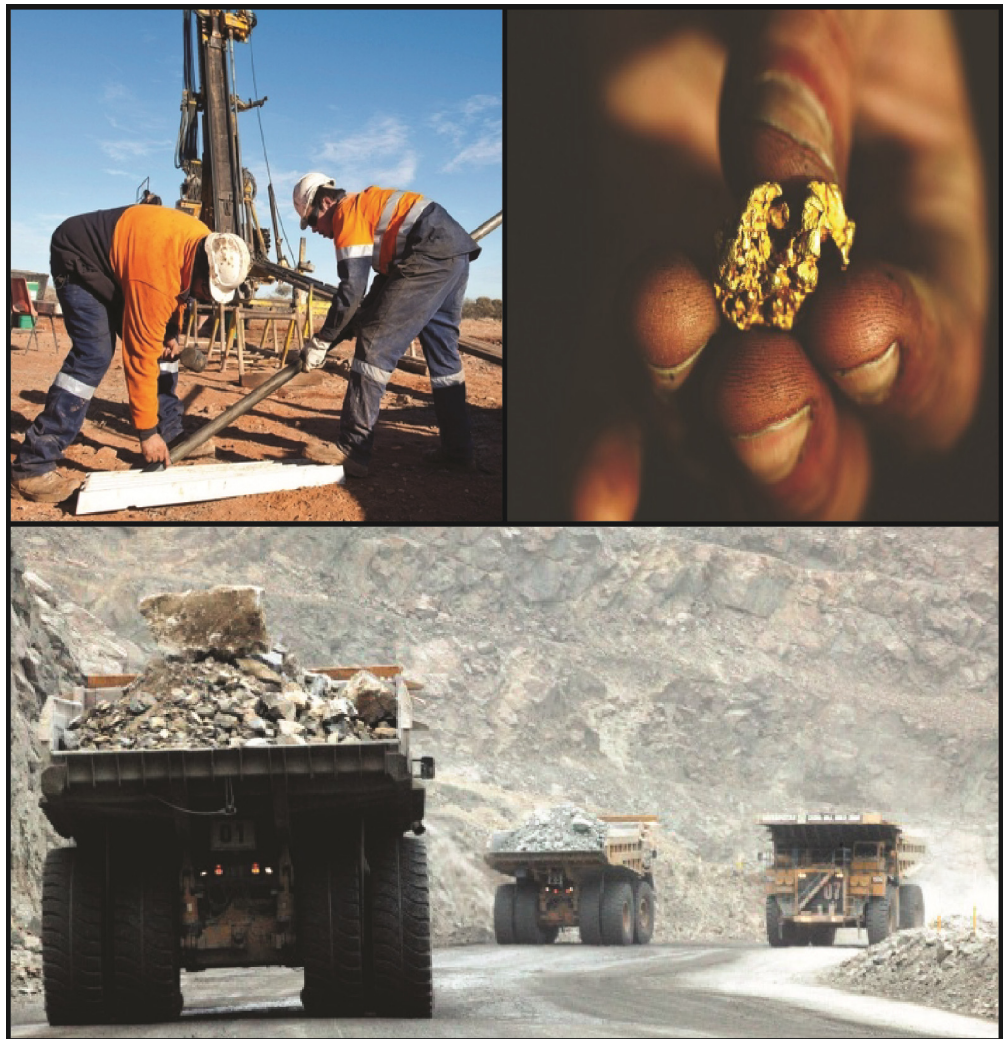
M/Cap.: \$327M

Valuation: A\$0.50/share

Valuation: A\$575M

Shares: 700M

Monthly T/over: A\$8M



David Radclyffe

+61 2 9239 9605

dradclyffe@petracapital.com.au

David Cotterell

+61 2 9239 9630

dcotterell@petracapital.com.au

Petra Capital Pty Ltd

Contents

Executive Summary.....	4
Targeting to be permitted and funded in 12 months	4
Lower grade highlights this is a long life / scale opportunity	4
Leveraged to higher gold prices	4
Higher risk / reward development play – valuation A\$0.50/share	4
Benchmarking Gold Road to its domestic peers	5
Free cash flow compares favourably to larger peers	6
Gruyere (100%)	7
Study results confirm viable project.....	7
Next stage is the Gruyere Feasibility Study	8
Analysis highlights a well sized, leveraged project	9
Funding requirements estimated at A\$550M	9
Modelled assumptions for Gruyere	10
Gruyere depth potential.....	11
Other projects	12
Attila Trend (100%) and Central Bore (100%).....	12
South Yamarna Joint Venture	12
Exploration in 2016.....	13
Attractive Valuation, Leveraged Play.....	15
Risks	16
Analysis	17
The Board & Top Shareholders	18
Appendix – Resources and reserves.....	19

Gold Road Resources (GOR)

BUY

Share Price: A\$0.46

They call it a Royale with cheese

Target Price: A\$0.55

Gold Road is advancing the A\$0.5B Gruyere gold project in WA, which if producing today would be the 10th largest Australian gold mine. From 2H18 Gruyere is expected to produce 265koz annually at ~A\$1,000/oz for 12 years. A reserve grade of 1.2g/t gold means this is a lower grade project, however some of Australia's most valuable gold projects are lower grade / bulk mining operations such as Boddington and Cadia. This is a leveraged project and we estimate it requires ~A\$1,550/oz to generate an IRR of 15%, spot yields +20%. In our view there is scope for the Feasibility Study to deliver enhanced outcomes, however the key leverage is further exploration success. GOR is higher risk / reward with permitting and funding key catalysts over the next 12 months. We initiate coverage with a Buy and A\$0.55/share target price.

PFS supports A\$0.5B Gruyere project at 265kozpa

- Maiden reserve of 3.2Moz at 1.2g/t gold, supporting a large open cut mine producing ~265koz for 12 years.
- PFS mining & processing costs of A\$30/t yield LOM AISC of A\$960/oz (Petra A\$1,015/oz).
- Our Gruyere NPV is A\$486M, increasing to +A\$1B on delivery. We estimate an IRR of +20% at spot gold.

Key milestones

- Permitting: targeting to receive the mining licence (ML) in 2Q16 and environmental licence (EL) in 3Q16.
- Feasibility study late 2016 with funding targeted in early 2017 leading to first production in 4Q 2018.
- Resource update expected in 2Q16, progress on an energy solution (targeting a BOO for gas plant/pipeline).

Exploration upside at region is tested

- The Yarmana belt is a prospective region hosting both Gruyere (+5Moz) and Tropicana (+7Moz) to the south.
- GOR has cash of A\$37M allowing it to finance both the Gruyere FS and a planned A\$10M in 2016 exploration.
- Current program to test a number of prospects including Corkwood (100%), Smokebush (JV with Sumitomo).

Diluted NPV of A\$0.50/share rising to ~A\$0.80/share

- GOR is valued at A\$575M or A\$0.50/share diluting for an assumed A\$220M of new equity (at A\$0.50/share).
- As capital is deployed and cash flows commence our valuation steadily rises to A\$0.80/share with production.
- GOR is leveraged and for every +/-10% change in gold prices equates to +/-30% to our NPV.

Company Data

Shares – ordinary	700M
Market cap.	\$327M
12 month low/high (\$)	A\$0.29 / A\$0.48
Average monthly turnover / volume	A\$8M / 20M
GICS Industry	Materials / Gold

Financial Summary (fully diluted)

Year end June	2016F	2017F	2018F	2019F	2020F
Revenue (\$M)	0	0	0	193	602
Costs (\$M)	-5	-5	-5	-140	-276
EBITDA (\$M)	-5	-5	-5	53	326
NPAT (\$M)	-3	-3	-3	9	168
EPS (¢ps)	0	0	0	1	24
PER (x)	N.M	N.M	N.M	34.8	1.9
Cashflow (\$M)	-2	-3	-3	49	249
CFPS (¢ps)	0	0	0	7	35
PCFPS (x)	-133	-102	-112	7	1
Enterprise Value (\$M)	289	285	318	600	376
EV / EBITDA (x)	N.M	N.M	N.M	11.3	1.2
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0

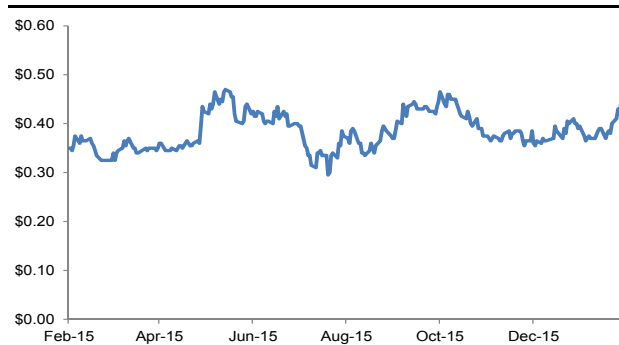
Board

Director	Position	Executive
Ian Murray	Chairman	Executive
Justin Osborne	Director	Executive
Russell Davis	Director	Non-Executive
Tim Netscher	Director	Non-Executive
Martin Pyle	Director	Non-Executive

Significant Holders

	Interest
Resource Capital Funds Mgmt	9.8%
Platypus Asset Management	8.4%
Van Eck Associates Corporation	5.8%

Gold Road Resources (A\$/share) – performance over one year



Executive Summary

Targeting to be permitted and funded in 12 months

Gruyere is the largest undeveloped gold project in Australia

Gold Road's cornerstone asset is the 100% owned Gruyere gold deposit the company discovered in 2013. The other potential driver is prospective exploration on its large 5,000km² landholding encompassing Gruyere in the Yamarna region of WA (Figure 1). The company recently completed a Gruyere pre-feasibility study (PFS) and is targeting to deliver within 12 months a feasibility study, key permits and funding to allow it to develop a large open cut mining operation.

Lower grade highlights this is a long life / scale opportunity

If in production today Gruyere would be the 10th largest Australian gold mine and one of the longest life projects on reserves

The recently published PFS outlined Gruyere has the potential to support a moderate to large open cut mining operation, which based on a reserve of 3.2Moz at 1.2g/t gold produces on average ~265koz of gold for 12 years. Significantly, at the design rate, if Gruyere was in production today it would be the 10th largest gold operation in the country and one of the longest life projects on reserves. Gruyere, is a lower grade deposit, however some of the more profitable gold assets in the country are bulk mine / lower grade operations (e.g. Cadia and Boddington). Achieving targeted costs will be key, and PFS mining & processing costs of A\$30/t yield LOM AISC of ~A\$1,000/oz, whilst low, other operations are getting similar results (e.g. Cowl and Tropicana).

Leveraged to higher gold prices

Spot gold prices implies a robust IRR of +20%, however, below A\$1,550/oz returns look more marginal

The PFS identified development capital of A\$455M with an indicative payback of 4 years at a A\$1,500/oz gold price. Our analysis points to GOR's funding requirement being closer to A\$550M including potential for higher capex, working capital and exploration funding. In our view there is opportunity to optimise project economics through the Feasibility (e.g. increasing pit wall angles), however overall we don't expect a material change in base economics. GOR stopped short of publishing NPV's and IRR's in the PFS; however our Gruyere NPV is A\$486M (increasing to +A\$1B on project delivery). Our analysis suggests 3 years out from production the project requires ~A\$1,550/oz to generate an IRR of 15%, with spot gold prices suggesting a more robust IRR of +20%.

Higher risk / reward development play – valuation A\$0.50/share

Initiate with BUY rating & \$0.50 target

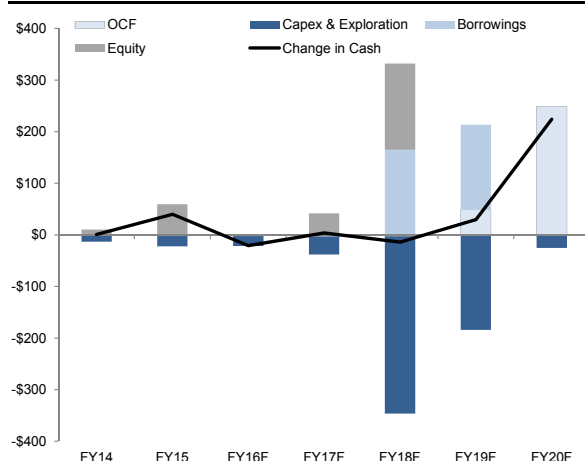
GOR is a classic resources development play where the valuation is expected to rise to +A\$0.80/share as the project is funded, capital is sunk and cash flows commence. It is a higher risk / reward proposition as key permits and funding are yet to be secured. Our NPV is A\$575M or A\$0.50/share diluted for a A\$220M equity raising at A\$0.50 (Figure 2). A large commitment to regional exploration is a key potential catalyst given the large ore bodies at Gruyere (+5Moz) and Tropicana (+7Moz), in addition to the fact the region is relatively under explored. Further, given the scale of Gruyere there is potential for corporate interest, as GOR could make an attractive bolt-on acquisition.

Figure 1: Asset location



Source: Gold Road Resources Ltd

Figure 2: GOR cash flow profile



Source: Petra Capital

Analysis



Gold Road Resources (GOR)

P&L (A\$M)	FY16F	FY17F	FY18F	FY19F	FY20F	Analyst: David Radclyffe, David Cotterell					
Revenues	0	0	0	193	602	Rating	BUY				
Operating Costs	-5	-5	-5	-140	-276	Target Price (A\$)	0.55	TSR	19%		
Other	0	0	0	0	0	Price (A\$)	0.46	Price (US\$)	0.33		
EBITDA	-5	-5	-5	53	326	NPV (A\$)	0.50	NPV (US\$)	0.36		
D&A	0	0	0	-20	-62	Shares (M)	1,143				
EBIT	-5	-5	-5	33	264	Mcap (A\$M)	318	Mcap (US\$M)	228		
Net Interest	1	0	1	-20	-24	EV (A\$M)	269	EV (US\$M)	192		
Taxes	1	1	1	-4	-72	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-3	-3	-3	9	168						
EPS (¢)	0	0	0	1	24						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)	FY16F	FY17F	FY18F	FY19F	FY20F	Assumptions	FY16F	FY17F	FY18F	FY19F	FY20F
Receipts	0	0	0	193	602	Gold (US\$/oz)	1,107	1,150	1,250	1,300	1,300
Payments	-5	-5	-5	-140	-276	Gold (A\$/oz)	1545	1667	1852	1955	1970
Net Interest	1	0	1	-20	-24	Silver (US\$/oz)	14	16	19	20	20
Taxes	2	1	1	16	-52	Copper (US\$/lb)	2.25	2.50	2.78	2.95	2.95
Other	0	0	0	0	0	AUD/USD	0.72	0.69	0.68	0.67	0.66
Operating Cash Flows	-2	-3	-3	49	249	Key Ratios	FY16F	FY17F	FY18F	FY19F	FY20F
Capex	0	-25	-333	-174	-15	PE (x)	N.M	N.M	N.M	34.8	1.9
Disposals	0	0	0	0	0	EV/EBITDA (x)	N.M	N.M	N.M	11.3	1.2
Exploration	-18	-10	-10	-10	-10	EPS Growth (%)	-27.2	-0.7	-5.1	<-100	>100
Other	0	0	0	0	0	ROE (%)	-3.5	-2.4	-1.0	2.8	38.7
Investing Cash Flows	-19	-35	-343	-184	-25	Net Debt to Equity (%)	-32.5	-25.7	49.9	85.9	13.2
Change in Borrowings	0	0	165	165	0	Net Debt to EBITDA (x)	5.5	6.9	-30.4	5.3	0.2
Dividends	0	0	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Equity	1	42	167	0	0	FCF Yield (%)	-6.6	-11.8	<-100	-41.8	69.3
Other	0	0	0	0	0						
Financing Cash Flows	1	42	332	165	0						
Balance Sheet (A\$M)	FY16F	FY17F	FY18F	FY19F	FY20F	Production & Costs	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	29	33	19	49	273	Gold Production (oz)					
Receivables	0	0	0	10	30	Gruyere	0	0	0	97,842	305,614
Inventories	0	0	0	15	48	Group Gold Production (oz)	0	0	0	97,842	305,614
Other	0	0	0	0	0	By-Product Gold AISC (US\$/oz)					
Current Assets	29	33	19	74	351	Gruyere	0	0	0	495	629
Receivables	0	0	0	0	0	AISC Gold Cash Costs (US\$/oz)	0	0	0	495	629
Investments	0	0	0	0	0	AISC Gold Cash Costs (A\$/oz)	0	0	0	744	952
Property, Plant and Equipment	2	27	360	514	468	Resources (Contained Au, Moz)	6.1				
Intangibles	59	69	79	89	5	Reserves (Contained Au, Moz)	3.2				
Other	0	0	0	0	0	EBITDA (A\$M)	FY16F	FY17F	FY18F	FY19F	FY20F
Non Current Assets	61	96	439	603	473	Gruyere	0	0	0	58	330
Total Assets	90	129	458	677	824	Corporate & Other	-5	-5	-5	-5	-5
Borrowings	0	0	0	0	0	NPV (A\$M)	(A\$M)				Per Share
Payables	0	0	0	19	60	Gruyere	468				\$0.41
Provisions	0	0	0	0	0	Corporate	-31				-\$0.03
Other	0	0	0	0	0	Exploration	101				\$0.09
Current Liabilities	0	0	0	19	60	Hedging	0				\$0.00
Payables	0	0	165	330	330	Options	1				\$0.00
Borrowings	0	0	0	0	0	Net Cash	35				\$0.03
Provisions	0	0	0	0	0	Total	575				\$0.50
Other	0	0	0	0	0	Assumes GOR issues A\$220M of equity at A\$0.50/share					
Non Current Liabilities	0	0	165	330	330						
Total Liabilities	0	0	165	350	391						
Total Equity	90	128	293	327	433						

Source: Petra Capital

Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	David Radclyffe	+61 (0)2 9239 9605	dradclyffe@petracapital.com.au
Research (Resources):	David Cotterell	+61 (0)2 9239 9630	dcotterell@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	George Kopsiaftis	+61 (0)2 9239 9618	gkopsiaftis@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Shane Gavegan	+61 (0)2 9239 9616	sgavegan@petracapital.com.au
Sales:	Mark Innes	+61 (0)2 9239 9602	minnes@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Michael Vincent	+61 (0)2 9239 9620	mvincent@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Jack Gabb	+61 (0)2 9239 9614	kgabb@petracapital.com.au
Sales:	Daniel Gardiner	+61 (0)2 9239 9608	dgardiner@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Christabel Linden	+61 (0)2 9239 9636	clinden@petracapital.com.au
Administration:	Caitlyn Trumm	+61 (0)2 9239 9621	ctrumm@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd who holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Key Risks – Resources Companies under Coverage

Key risks in relation to the resources sector and the resources companies that are the subject of research by Petra Capital's analysts include commodity price volatility, currency risk, technical/licencing/operational risks, litigation/political risk, development risk and sovereign risk for overseas assets, as well as feasibility, permitting and financing risks related to the development of growth projects.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at www.petracapital.com.au/research-disclosures.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case on an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Monarch Capital Group LLC, a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Limited or Monarch and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.