

BUY

Current Price \$0.42
Target Price \$0.73

Ticker: GOR
Sector: Materials

Shares on Issue (m): 699.6
Market Cap (\$m): 293.8
Cash Estimate (\$m): 37.0
Enterprise Value (\$m): 256.8

52 wk High/Low: \$0.48 \$0.29
12m Av Daily Vol (m): 1.20

Mineral Inventory

	Mt	g/t	Moz
Reserves	81.1	1.2	3.2
Resources	134.3	1.4	6.1

	\$/oz
EV / Reserve	81
EV / Resource	42

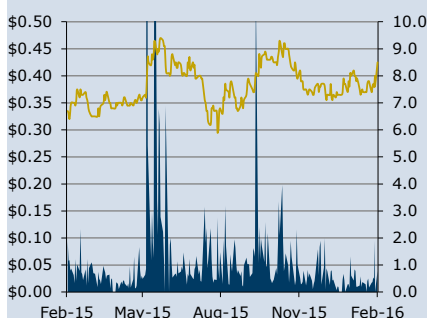
Directors:

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

Substantial Shareholders:

Platypus	8.0%
Van Eck	6.0%
RCF	9.0%

Share Price Graph



Monday, 8 February 2016

Gold Road Resources

The time is ripe

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Gold Road (GOR) released a Pre-Feasibility Study (PFS) on its 100% owned, 5.6Moz Gruyere Project. A maiden Reserve of 3.2Moz @ 1.22g/t (estimated at A\$1,400/oz) was also announced. The outstanding results reaffirmed the project's status as one of the best undeveloped gold projects in Australia, given scale (265koz pa), low cost (AISC A\$960/oz) and long project life (12 years). These attributes, combined with a low risk jurisdiction and a competitive cost environment will ensure the project continues to attract corporate and market attention. A plethora of regional targets to test, highly prospective geology, early encouraging results and a A\$10m exploration budget could offer the potential for a multi-million ounce discovery while delivering steady newsflow during CY16. With the project de-risked further with the delivery of a PFS, Argonaut upgrades the stock to a BUY (was SPEC BUY) with A\$0.73 target price (was A\$0.70).

Event & Impact | Positive

PFS result: The study reaffirmed a quality project, key metrics include:

- Scalable production of 265koz pa
- Long life asset boasting 12 years of project life
- High endowment of 9,000 Reserve ounces per vertical metre
- Competitive AISC of A\$960/oz and AIC of A\$1,115/oz
- Conventional mining of a single pit
- Conventional processing with a coarse grind of P₈₀ 125 µm
- Start-up capex of A\$455-470m (<A\$150/Reserve oz)

Enhanced corporate appeal: The stock's corporate appeal has arguably increased in recent times due to 1) reduced technical risks with the delivery of a PFS, and 2) widening valuation differentials with existing ASX gold producers. Whilst the Australian gold producers trade at a discount to global peers (see Argonaut note "Aussie gold in a global context" dated 6 Jan 2016), a key explanation is the difference in mine life. A peer comparison (see page 6) has demonstrated Gruyere as one of the longest life gold assets in Australia. Acquiring Gruyere would provide a centre of gravity and could enable an ASX gold producer to achieve better valuations compared to global peers.

Regional exploration momentum: GOR's >A\$10m exploration budget 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

Argonaut upgrades the stock to a BUY (was SPEC BUY) with A\$0.73 target price (was A\$0.70).

Gruyere PFS

Long life, high margin, scalable asset

The PFS highlighted a scalable, long life, high margin asset...

The PFS highlighted a scalable, long life, high margin project that is a rarity in the Australian gold space.

The study results are largely in-line with Argonaut's estimate, with a slightly higher stripping ratio offset with lower processing costs and start-up capex.

Table 1: Gruyere PFS key parameters v Argonaut expectation

Key project assumptions, PFS v Argonaut estimate		PFS	Argonaut E
Mine physicals			
Ore milled	Mtpa	7.5	7.5
Head grade	Au g/t	1.2	1.2
Recovery	%	91-93	91
Production	koz Eq pa	265	263
Project Life	yrs	12.0	13.0
Strip ratio (post stripping)	:	2.9	2.5
Operating costs			
Mining Cost	A\$/t ore	13.7	13.9
Processing Cost	A\$/t	15.9	19.0
"All-in" sustaining cost	A\$/oz	960	1086
Pre-production Capex	A\$m	455-470	500

Source: Argonaut, GOR

...producing ~265koz @ AISC A\$960/oz for 12 years

Unit costs are in-line with peers with deposits with similar ore hardness...

The unit mining cost of ~A\$3.4/t is in-line with peer project parameters (see Table 2 below) with similar ore hardness. There is scope for further reduction considering the scale of the operation (7.5Mtpa) and simplicity (one single pit). The processing costs are lower, reflecting the economies of scale of an upsized plant.

Table 2: Gruyere PFS v peer projects

Unit cost comparisons		Gruyere (GOR)	Thunderbox (SAR)	Jupiter (DCN)
Mining cost	A\$/t	3.4	3.6	3.3
Milling cost	A\$/t	15.9	20.6	18.0
Power	Gas	Dual gas/diesel	Gas	Gas
Plant throughput	Mtpa	7.5	2.5	2.5
Study date		8/02/2016	23/03/2015	30/09/2015
Type of Study		Pre-Feasibility	Feasibility	Scoping

Source: Argonaut, Company reports

...with scope for further reduction given economies of scale

Maiden Reserve

A maiden Reserve of 3.2Moz @ 1.2g/t was declared

A maiden Reserve of 3.2Moz @ 1.22g/t was declared, implying a high conversion rate of 77% (from M&I Resource). The Reserve is estimated with a gold price of A\$1,400/oz and form >99% of the proposed production ounces in the PFS.

Table 3: Gruyere PFS

Reserve and Resource			
	Mt	g/t	Moz
Gruyere Proven	1.6	1.32	0.1
Gruyere Probable	79.6	1.21	3.1
Gruyere total Reserve	81.2	1.22	3.2
Gruyere Measured	1.6	1.41	0.1
Gruyere Indicated	93.5	1.35	4.1
Gruyere Inferred	33.3	1.40	1.5
Gruyere total Resource	128.4	1.36	5.6

Source: Argonaut, Company reports

A Resource update is expected in H1 CY16...

Further Resource update expected

Argonaut anticipates a Resource update in H1 CY16, which is expected to convert an additional ~10-15Mt (up to 2 years) of Indicated material to Measured status following the completion of a 25m x 25m drilling program.

This will further enhance the confidence on the Resource, particularly in the early years.

...further enhance confidence in the early years

Mining

The operation will be a conventional truck and shovel operation, utilising contract mining. Technical inputs (mine design and schedule, grade control, etc) will be carried out by GOR employees.

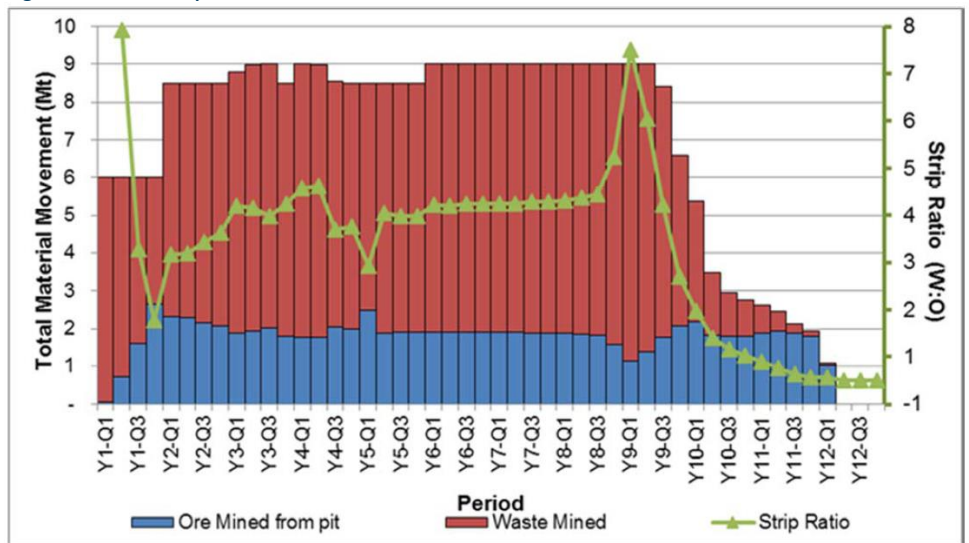
The Gruyere deposit will be mined in four stages, with peak material movement at ~9Mt per quarter. The mine will use 5m benches and maximum vertical advance rate (towards the bottom of the pit) is ~50m pa.

The operation will utilise a conventional truck and shovel operation...

The operation is moderately selective with a Selective Mining Unit (SMU) of 5m x 12.5m x 5m. Ore loss of 3.4% and dilution of 4.3% have been factored in.

...and contract mining

Figure 1: Quarterly material movement



Source: GOR

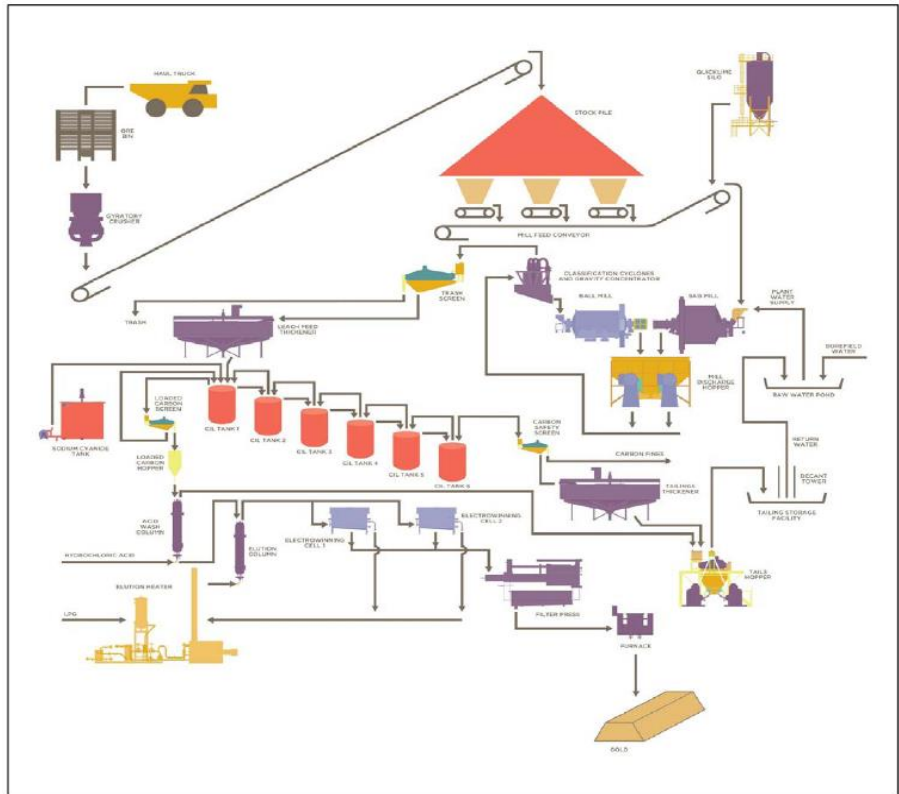
The deposit will be mined in four stages, in five-metre benches

The 7.5Mtpa operation will utilise...

Processing

The 7.5Mtpa operation will utilise a conventional gravity / CIL circuit. The grind size is relatively coarse at P₈₀ 125 µm with high recoveries ranging from 91% (in the fresh) to 93% (in oxide).

Figure 2: Proposed process flowsheet



Source: GOR

...a conventional gravity / CIL plant

Relatively coarse grind size at 125 µm

Infrastructure

The project will utilise infrastructure including:

- The Great Central Road, a small section will require construction
- On-site 40MW gas-fired power generator with a gas pipeline from the Eastern Goldfields Pipeline
- Water from the Yeo (25km away) and Anne Beadell (21km away) borefields
- Supporting infrastructure, including tailings dam, air strip and an accommodation village will be constructed on site

Potential upside include more favourable pit wall angle, and incorporation of satellite deposits

Further upside

The strip ratio at Gruyere is slightly above our expectation, potentially due to lower than anticipated pit wall angle. Further geotechnical drilling and studies during the Feasibility Study phase could enhance this metric. Every degree of increase to pit walls enhances operational cash flow by ~A\$50m.

The study does not incorporate the Attila trend or Central Bore deposits, leaving further upside. Exploration success on GOR's ~5,000km² tenements in the highly prospective Yamarna Belt could provide additional satellite feed.

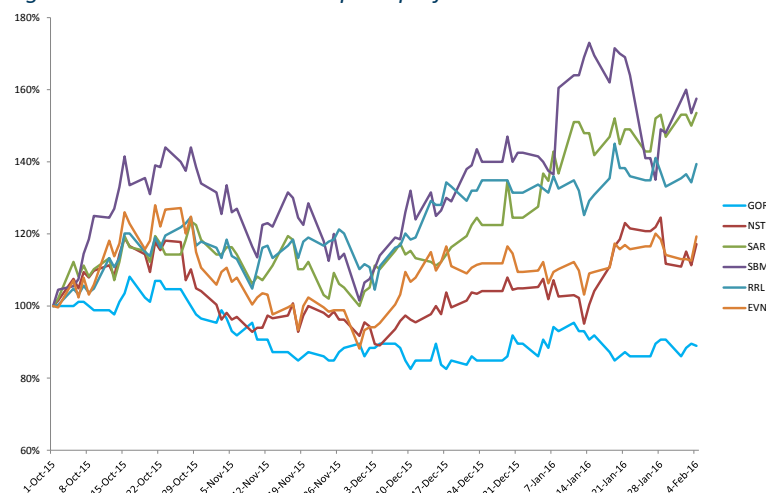
The stock's corporate appeal has arguably increased...

Corporate appeal

The stock's corporate appeal has arguably increased in recent times due to 1) reduced technical risks with the delivery of a PFS, and 2) widening valuation differentials with existing ASX gold producers.

...given the PFS has de-risked the project...

Figure 3: Recent relative share price performance



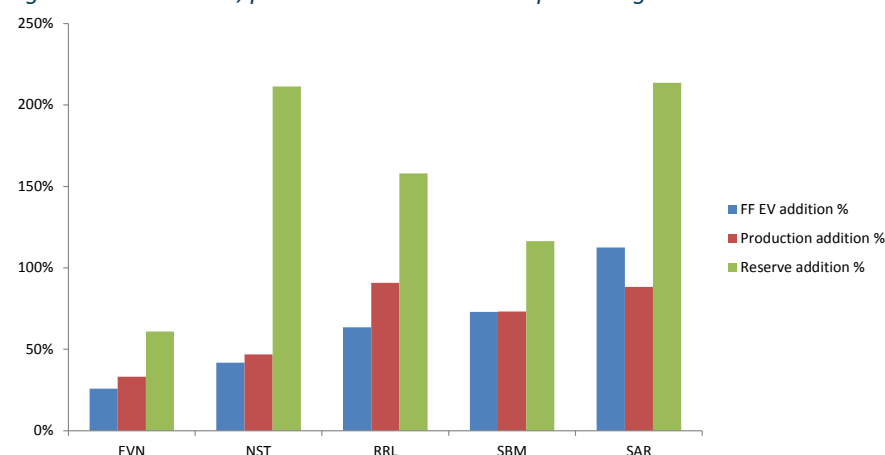
Source: Argonaut, IRESS

...and widening valuation gap with gold producers

Given the relative valuation differentials, business combination scenarios can be accretive in terms of production and Reserve expansions. Figure 4 below has factored in the pre-production capex at Gruyere to key metrics of existing producers. A potential acquirer with development expertise could further enhance these metrics by reducing pre-production capex.

Business combination scenarios can be accretive

Figure 4: GOR's FF EV, production and Reserve in percentage terms



Source: Argonaut

Acquiring Gruyere could enable an ASX gold company to achieve better valuation

Whilst the Australian gold producers trade at a discount to global peers, a key explanation is the difference in mine life. A peer comparison highlights Gruyere as one of the longest life gold assets in Australia. Acquiring Gruyere would provide a centre of gravity and could enable an ASX gold producer to achieve better valuations compared to global peers. Given the current cost advantage of Australian assets, Gruyere could also attract the attention of larger scale, international mining companies.

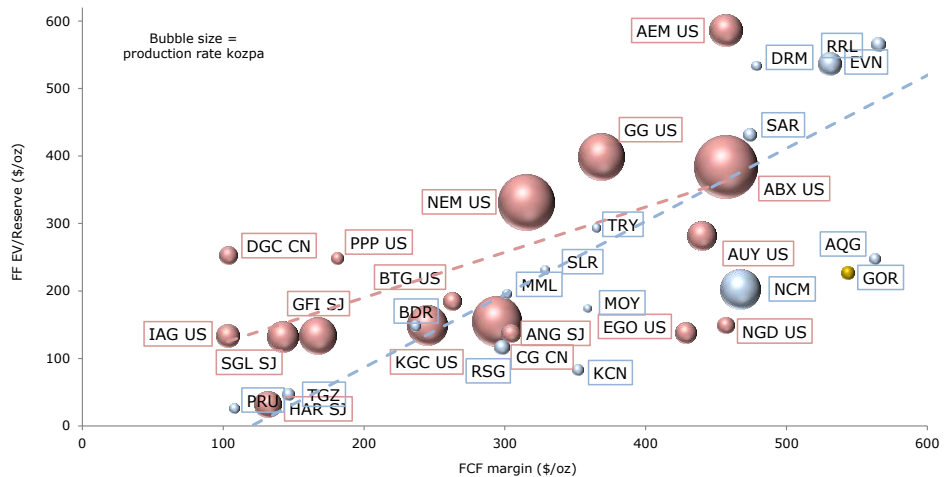
Peer comparison

EV / Reserve

The stock is trading competitively on FF EV / Reserve v FCF margin...

The stock trades at ~50% discount on a FF EV / Reserve base when compared to larger Australia domiciled producers (blue). GOR's EV has been fully funded for pre-production capex. This metric is equally compelling when comparing to global peers (red), factoring in the margin advantage.

Figure 5: EV / Reserve, ASX and global golds



Source: Argonaut, GOR's EV has been fully funded for pre-development capex, as at 08/02/2016

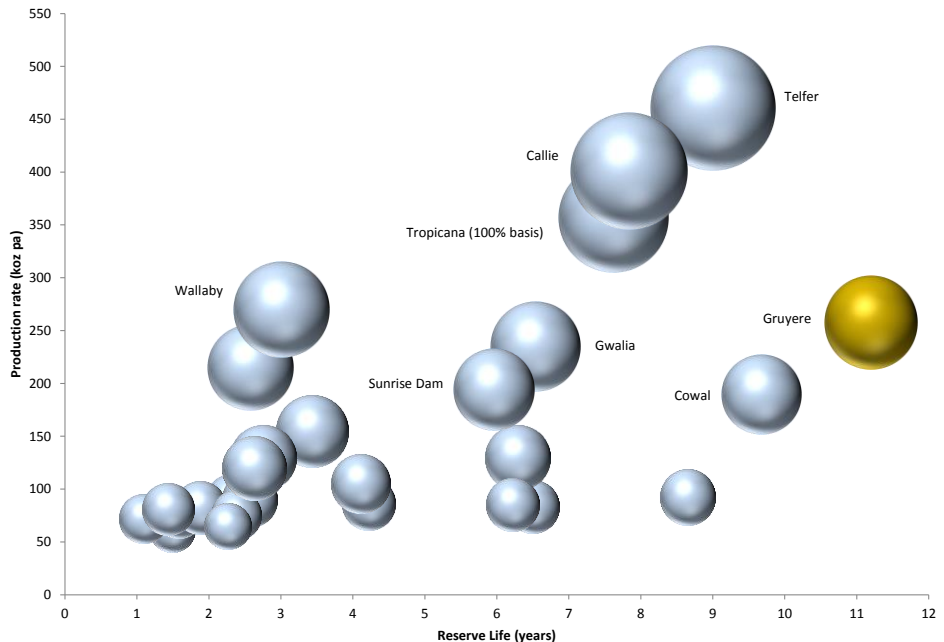
...at ~50% discount to mid-tier ASX producers

Scalable, long life asset

Gruyere is a significant deposit in the Australian context...

In terms of scale and mine life, Gruyere is significant in the Australian context, rivalling many gold assets in the hands of majors. The asset remains one of the few with >10 year mine life and one of the very few scalable assets in the hands of a junior company.

Figure 6: Reserve life v Production rate, selected ASX operations



Source: Argonaut, Company report. Excludes Boddington, Fimiston (Superpit) and Cadia

...one of the few with >10 years mine life

Valuation

Argonaut's valuation is 73c following the delivery of a PFS

Argonaut's valuation post the PFS is A\$0.73 (was A\$0.70). Key assumptions are presented in Table 4 below.

Table 4: Key project assumptions

Valuation Summary	A\$m	A\$/sh
Gruyere (funded basis)	724.1	0.63
Unmined Resources	23.0	0.02
Yamarna Exploration	100.0	0.09
Corporate	-39.8	-0.03
Cash Estimate	37.0	0.03
Debt	0.0	0.00
Total @8% discount rate	844.3	0.73

Potential upside include...

Key project assumptions		
Gruyere		
Ownership	%	100
Ore milled	Mtpa	7.5
Head grade	Au g/t	1.2
Recovery	%	91
Production	koz Eq pa	243
Mine Life	yrs	11.5
Strip ratio (post stripping)	:	2.9
"All-in" sustaining cost	A\$/oz	998
Pre-production Capex	A\$m	485
Sustaining Capex	A\$m pa	16
Long term Pricing		
Gold price	US\$/oz	1200
Exchange rate	:	0.75
Fiscal		
Royalties	%	3.5
Tax Rate	%	30
Discount Rate	%	8
Debt / Equity	:	60/40

Source: Argonaut

...more favourable pit wall angle resulting in a lower strip ratio

Argonaut retains A\$100m valuation attributed to regional exploration.

...and regional exploration success

We recognise potential upside to our valuation on Gruyere including:

- Further geotechnical work leading to steeper pit-wall / lower strip ratio
- Using a higher gold price assumption for Reserve estimation
- Reduced mining unit costs resulting from the scale of operation
- Incorporation of Attila-Alaric deposits and Central Bore
- Regional exploration success providing satellite deposits

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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.

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