

RECOMMENDATIONS

Rating	BUY ▲
Risk	Speculative
Price Target	\$0.47
Share Price	\$0.37

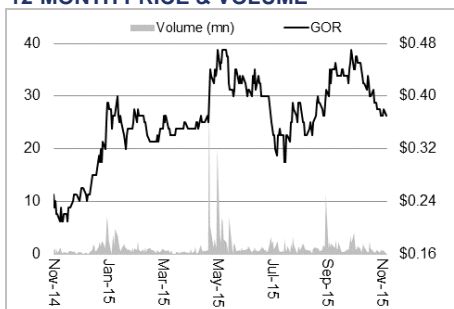
SNAPSHOT

Monthly Turnover	\$6.7mn
Market Cap	\$260mn
Shares Issued	693.5mn
52-Week High	\$0.48
52-Week Low	\$0.20
Sector	Materials

BUSINESS DESCRIPTION

Gold Road is an exploration company with a significant tenement position in the Yamarna Greenstone Belt, W.A. It has delineated a resource and is carrying out a feasibility study with the goal of building a mine and processing facility.

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

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Disclosure

The author owns no shares in GOR.

Gold Road Resources (GOR)

COMPANY REPORT – INITIATION OF COVERAGE

Riding the exploration and development wave

- Overview:** GOR's strategy is to utilise its exploration skill set to discover and develop large scale standalone gold operations. A thorough and consistent approach has generated a significant resource base and the construction of a mill in the Yamarna greenstone belt will provide a foundation on which to build a significant production base. Further work should enhance that investment case – for example the latest resource model has 7% less tonnes and 9% higher grade implying that the longer term production should be 275kozpa versus the previous scope guidance of 250kozpa.
- Investment view:** GOR's share price will be largely driven by the release of the preliminary feasibility study and more scoping data as the resource base is now large enough to reduce the influence of exploration. However, exploration will underpin the markets confidence in the company building a significant portfolio of mines and processing facilities along a 200km strike length of the Yamarna Belt. Given the exploration success to date the company's aim of finding multiple 10 year mine life deposits is not far-fetched and the cash flow from Gruyere, as well as building its own production can only add to the growth potential.
- Valuation and price target:** Our valuation for GOR is \$0.47ps. We have assumed that the project is 100% debt financed for simplicity sake, rather than making assumptions about the share price at the time of debt/equity financing Gruyere. We have also included a nominal value for exploration as the extensive tenement package and the exploration success provides us with some confidence that the company will be able to convert exploration dollars into ounces of gold in the ground. Our target price is also \$0.47ps. We initiate coverage of Gold Road Resources with a BUY rating.
- Key Risks:** The development of Gruyere is currently unfunded and will require both equity and debt funding which are subject to market conditions in 2017. Forecast returns are therefore reliant on factors beyond control of management. The Gruyere mine will be a bulk low grade mining operation which means that scale and cost control will be important but in reality no more so than they should be for any mine.

INVESTMENT SUMMARY

Year End: 30 June		2014 (A)	2015 (A)	2016 (E)	2017 (E)	2018 (E)
Revenue	\$mn	0	0	0	0	0
EBITDA	\$mn	-2.5	-3.6	-4.1	-4.1	-4.1
EBIT	\$mn	-2.9	-4.4	-4.6	-4.6	-4.6
Reported Profit	\$mn	0.4	-3.9	-1.8	-3.8	-12.3
Adjusted Profit	\$mn	0.4	-3.9	-1.8	-3.8	-12.3
EPS (Reported)	¢	0.1	-0.6	-0.3	-0.6	-1.8
EPS (Adjusted)	¢	0.1	-0.6	-0.3	-0.6	-1.8
EPS Growth	%		N/A	N/A	N/A	N/A
PER (Reported)	x	466.9	N/A	N/A	N/A	N/A
PER (Adjusted)	x	466.9	N/A	N/A	N/A	N/A
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Gold Road Resources

Analyst: Warren Edney
Date: 23-Nov-15
Share Price (\$A): \$0.38
Market Cap (\$A\$m): \$258
EV: \$215
Year End: 30 June

Rating: Buy
Price Target: \$0.47
Valuation: \$0.47
Upside/(Downside): 24%
Risk: Speculative

KEY RATIOS	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
NPAT - Reported	0.4	-3.9	-1.8	-3.8	-12.3	52.7
NPAT - Attributable	0.4	-3.9	-1.8	-3.8	-12.3	52.7
EPS - Adjusted	0.1	(0.6)	(0.3)	(0.6)	(1.8)	7.7
EPS Growth (%)		(1,050%)	(53%)	110%	224%	(528%)
P/E (x)	632.3	(66.6)	(142.5)	(67.8)	(21.0)	4.9
CFPS (A Cents)		(0.3)	(0.3)	(0.8)	(2.7)	17.0
P/CF (x)		-109.3	-111.0	-47.8	-14.0	2.2
DPS (A Cents)	-	-	-	-	-	1.0
Franking (%)	0%	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	-	2.7%
Payout Ratio (%)	-	-	-	-	-	13%
FCF Yield (%)	0%	-1%	-1%	-47%	-141%	40%
EV/EBIT (x)		(51.2)	(49.6)	(49.6)	(49.6)	2.2
EV/EBITDA (x)		(62.4)	(55.1)	(55.1)	(55.1)	1.6

ASSUMPTIONS	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
Australian Dollar (AUD/USD)	0.93	0.84	0.71	0.70	0.72	0.72
Gold Price (US\$/oz)	1,299	1,224	1,150	1,194	1,200	1,200
Gold Price (A\$/oz)	1,403	1,458	1,617	1,711	1,672	1,659

PRODUCTION & COSTS	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
Production						
Gruyere	0	0	0	0	0	201
Other	0	0	0	0	0	0
Total Production (Equity share)	0	0	0	0	0	201
AISC						
Gruyere	0	0	0	0	0	1,004
Other	0	0	0	0	0	0
AISC (A\$/oz)	0	0	0	0	0	1,004

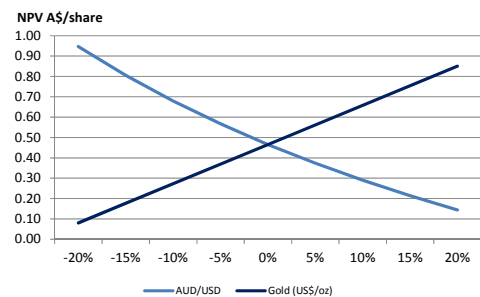
PROFIT & LOSS (\$A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
Operating Revenue	-	-	-	-	-	331.3
Other Revenue	0.4	0.4	0.2	0.2	0.2	0.2
Total Revenue	0.4	0.4	0.2	0.2	0.2	331.5
Operating Expenses	-	-	-	-	-	(187)
Corporate/Other Expenses	(3)	(4)	(4)	(4)	(4)	(4)
EBITDA	(2)	(4)	(4)	(4)	(4)	141
Depreciation & Amortisation	(0)	(0)	(0)	(0)	(0)	(36)
Exploration/write-offs	(0)	(0)	-	-	-	-
EBIT	(3)	(4)	(5)	(5)	(5)	104
Net Interest / (Expense)	0	1	2	(1)	(14)	(23)
Pre Tax Profit	(3)	(4)	(3)	(6)	(19)	81
Income Tax Expense	3	-	1	2	7	(28)
NPAT - Adjusted	0	(4)	(2)	(4)	(12)	53
Significant Items						
NPAT - Reported	0	(4)	(2)	(4)	(12)	53

CASH FLOW (\$A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
Cash Flow from Ops	1	(2)	(2)	(5)	(18)	117
Capex - Development & Sustaining	(0)	(1)	(1)	(116)	(345)	(15)
Free Cash Flow	1	(3)	(3)	(121)	(364)	102
Cash Flow From Investing	(10)	(17)	(21)	(131)	(355)	(25)
Cash Flow From Financing	10	59	-	175	300	-
Net Cash Flow	1	40	(23)	39	(74)	92

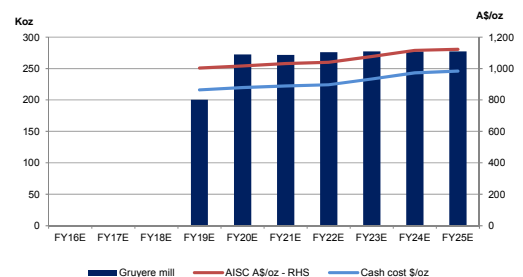
BALANCE SHEET (\$A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E	FY19E
Cash	9.7	49.8	28.8	67.6	-6.1	86.2
PP&E/Development/Exploration	28.5	45.4	65.4	195.8	550.5	539.4
Assets	38.8	96.1	95.2	264.3	545.4	626.5
Debt	0.0	0.0	0.0	175.0	475.0	475.0
Liabilities	2.6	4.0	3.0	176.0	469.3	469.3
Equity	36.2	92.1	90.3	86.5	74.2	126.9
Net Debt / (Cash)	-9.7	-49.8	-28.8	107.4	481.1	388.8
Gearing (%) - Net Debt / (Net Debt + Equity)		-118%	-47%	55%	87%	75%

VALUATION SUMMARY	WACC	12.7%	A\$m	A\$/Share
Gruyere			256	0.37
Corporate			(20)	(0.03)
Exploration			41	0.06
Net Cash / (Debt)			43	0.06
Total Valuation			320	0.47

VALUATION SENSITIVITY



PRODUCTION AND COSTS



RESERVES & RESOURCES

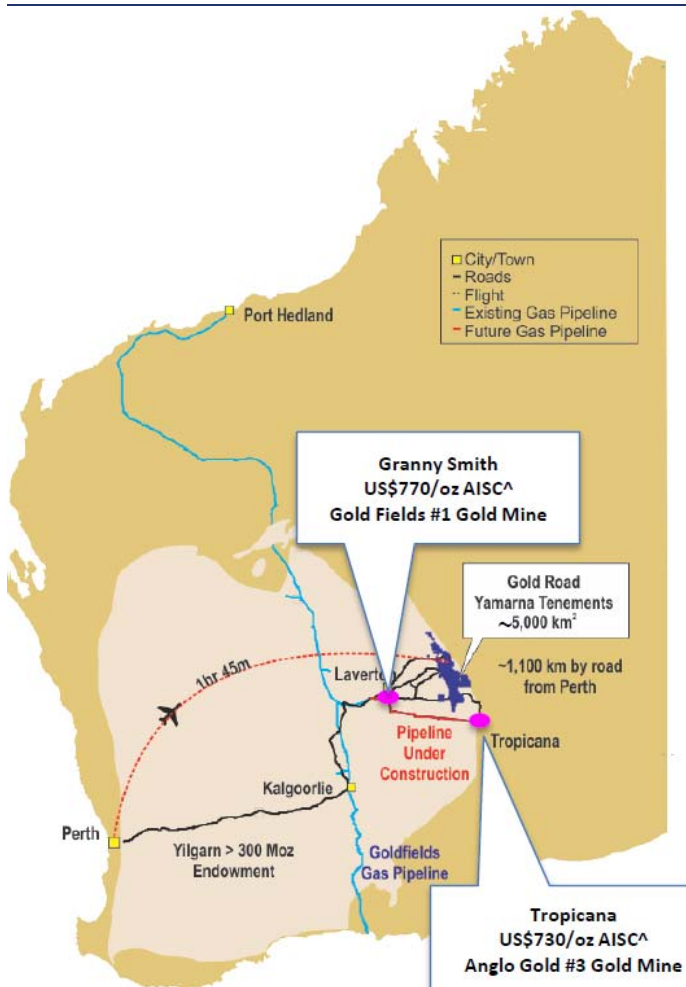
	RESOURCE		
	Mt	g/t Au	Moz
Gruyere	128.4	1.36	5.620
Central Bore	0.6	9.17	0.187
Attila Trend	5.3	1.58	0.270
	134.3	1.41	6.077

EV/Resource (A\$/oz) 37.4

Opening up a new greenstone belt

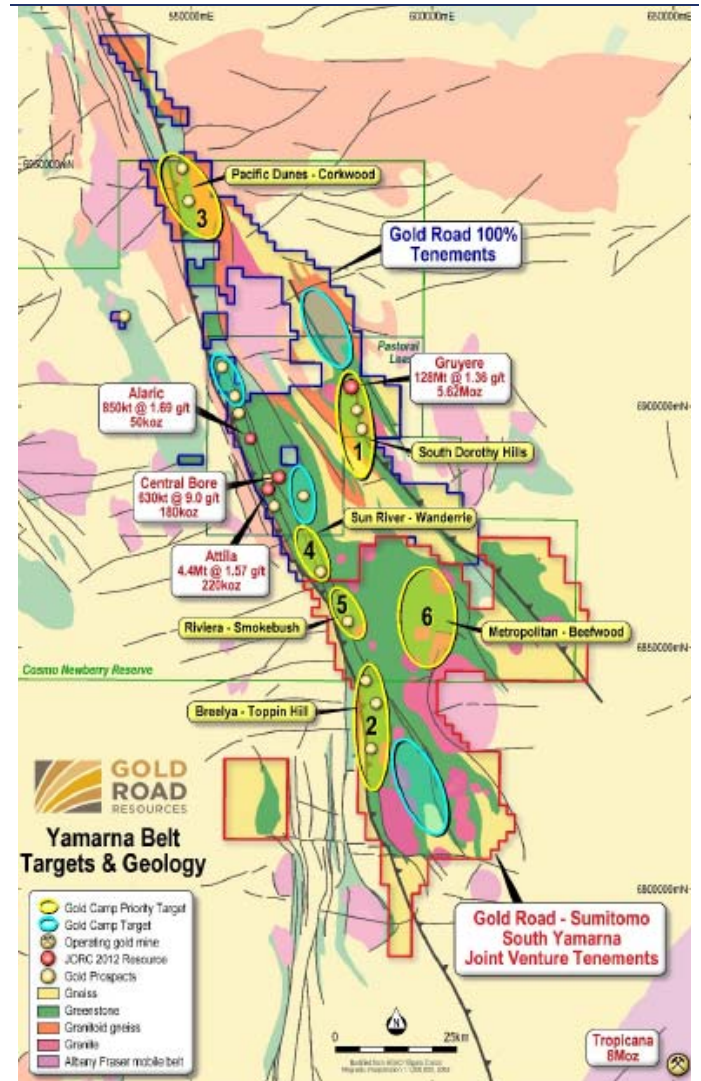
- GOR's tenement holding over the Yamarna greenstone belt amounts to ~5,000km². Exploration by GOR in its own right and as part of the GOR/Sumitomo JV has generated a resource in excess of 6Moz and a number of prospects with the potential to add significantly to the resource base.
- Now that the prospectivity of the tenement package has been recognised, the company is well placed to establish a base of operations at Gruyere. We believe that GOR's aim of processing the Central Bore ore through the Gruyere will still occur, it just makes a bit more sense to get one mine up and running before embarking on underground mining. It may be the first of a number of satellite deposits to be exploited. The construction of 7.5Mtpa mill and associated infrastructure should provide GOR with a good base on which to grow and continue exploring.

FIG.1: YAMARNA TENEMENTS



Source: GOR

FIG.2: YAMARNA TENEMENTS



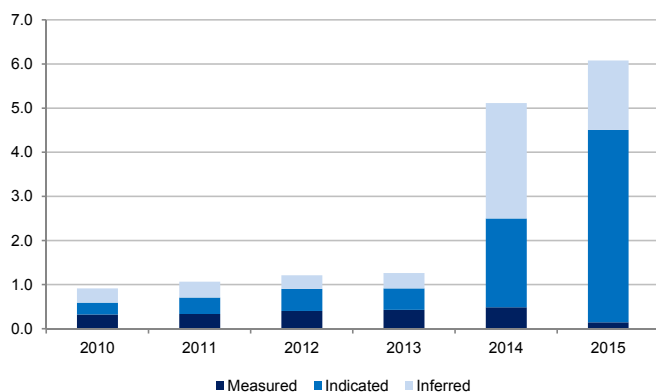
Source: GOR

Feasibility Study to be completed March Quarter 2016

- PFS Stage 1 Option Study for the development of the Gruyere was completed in August. The key outcomes were:
 - 7.5Mtpa throughput rate was chosen over 5 or 10Mtpa, over a mine life of 10-15years and recovering 2.5-3.7Moz of gold;
 - open pit mining with a LOM strip ratio ranging from 1.9-2.7:1;

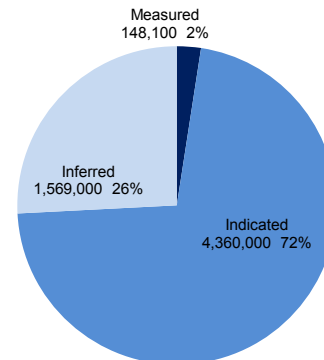
- selection of gas as the preferred power generating fuel;
- processing using a conventional gravity/CIL plant utilising primary crushing and SAG and Ball milling;
- delineation of a water source and drilling/testing a bore field.
- Stage 2 and completion of the PFS is due in the March Quarter 2016 and will include;
 - modelling of capital and operating costs;
 - metallurgical test work on weathered and fresh ore to feasibility study level;
 - sterilisation drilling for location of plant and infrastructure;
 - infill drilling of weathered zone at Gruyere to a measured resource category in order to update the mine plan and confirm the first 2-3 years of ore feed (this will also assist in giving gas and power suppliers confidence in the demand and economics of mining as well as providing comfort to potential lenders);
 - plant design and layout (we believe that the design will allow for incremental expansions without the need to disrupt the operations or the requirement to build an additional mill);
 - defining additional water resources capable of delivering a long term sustainable supply sufficient for the 7.5Mtpa plant (GOR have already pegged a Miscellaneous Use licence over 250km of paleochannels which allows them access to the water resource);
 - native title discussions.

FIG.3: RESOURCE GROWTH (Moz)



Source: GOR (as reported not adjusted for changes in JORC compliance)

FIG.4: 2015 RESOURCE BREAKDOWN (OUNCES)



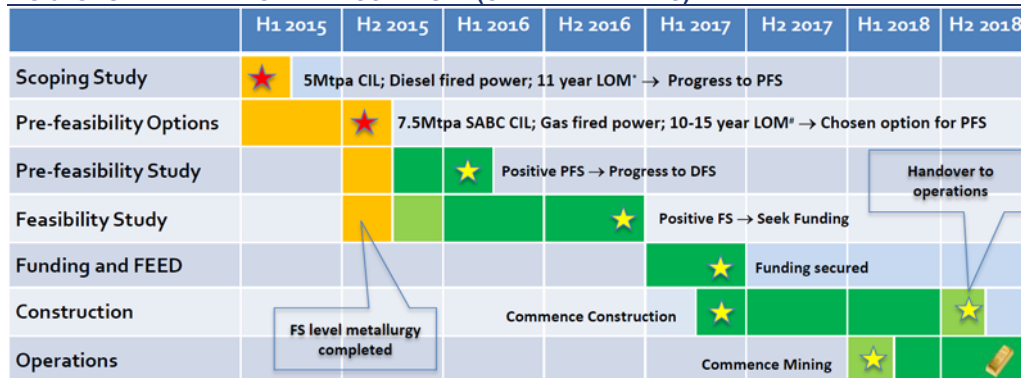
Source: GOR

- Based on the exploration results released over the last 12 months it is reasonable to expect that GOR will prove up additional resources in its wholly owned tenement and the South Yamarna tenements in JV with Sumitomo. GOR have 10 target areas (FIG 2) with good gold intersections which it terms “Gold Camps” and the rate at which resources are added may be more a reflection of the money spent and the personnel capable of carrying out the work.

First gold expected in 2018

- We have modelled the development of Gruyere as per the indicative schedule published by GOR in September 2015. The timeline seems achievable given the progress made to date, the development team that the company has put together and the downturn in the resources sector which has freed up drill rigs, engineers, construction teams etc.
- In modelling the development of Gruyere we have utilised GOR’s scoping information from January 2015, the Stage 1 option study from September 2015, “Unlocking the potential” presentation from September 2015, and past experience. The analysis is therefore our best estimate and we hope to refine it as data is released by the company as it progresses through the Preliminary and Definitive Feasibility studies.

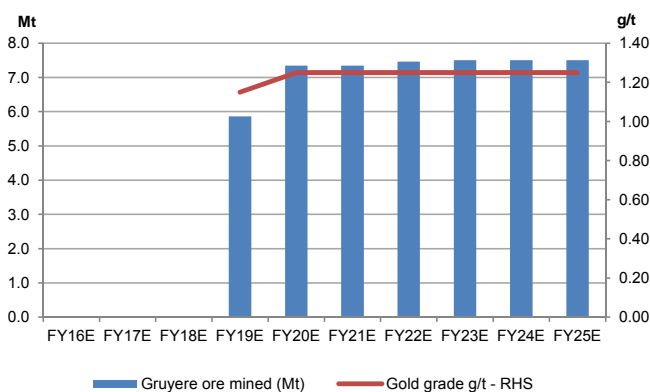
FIG.5: GRUYERE DEVELOPMENT SCHEDULE (CALENDAR YEARS)



Source: GOR

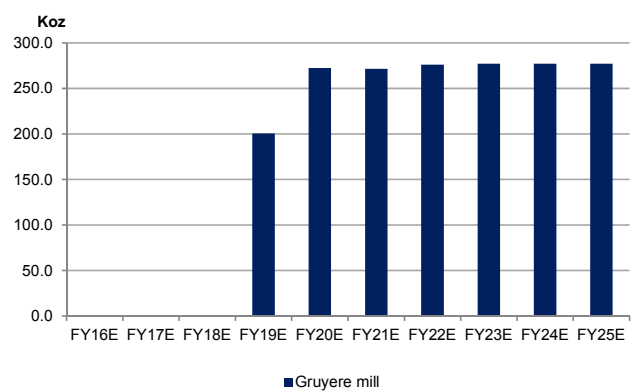
- Assumed grade range from 1.15-1.35g/t:** We have assumed that ore fed from open pit is consistent with the resource modelling carried out by GOR. The company’s grade recovery curves published with the second last resource statement show a reasonable level of consistency for various grind sizes and the infill drilling should not throw up too many surprises. Although it is still subject to change, e.g. the last release had less tonnes and more grade – 128Mt @1.36g/t vs 138Mt at 1.24g/t. Mining will start in the weather zone and then transition into primary ore – this will influence the grade, recovery and the comminution required. We believe that it is reasonable to assume an average grade with some mining dilution beyond this point in time as we are only trying to understand the broad economics of the development rather than trying to forecast year on year changes in earnings from 2018. GOR has not updated the 250kozpa guidance to reflect the revised grade but on estimation the production rate should be closer to 275kozpa.
- Underground ore an option but not a necessity:** We have not included the development of the Central Bore underground operation in our estimates. It does not add substantially to our production or cash flow estimates. Developing the asset is probably more a diversion for management and the operators. The chart below shows how small a proportion of the mill feed Central Bore would have been in the mix.

FIG.6: ORE MINED



Source: Baillieu Holst

FIG.7: GOLD PRODUCTION

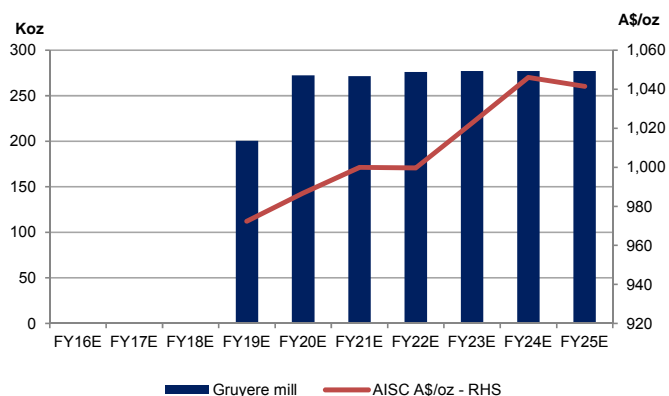


Source: Baillieu Holst

- Mining costs:** In the January scoping work, GOR estimated that life of mine mining costs would be \$11.30-11.70/t of ore (+/- 30%). The September Options, with the benefit of an updated resources model, at the bottom end of range came out at \$9-12/t with a mining cost per tonne of material moved being \$3.20-4.00/t. This is well within the range for which large scale earth moving contracts are being done. The latest strip ratio ranges of 1.9-2.7:1 (including pre-strip) and 1.7-2.5:1 (after pre-strip) are also likely to change with latest resource (it will go higher up the range). We have allowed for a pre-strip of ~14+Mt which has been included as a capital item in our analysis at a cost of A\$55m. The downturn in the iron ore sector should be a benefit to GOR as it should be able to access large trucks and excavators at a reasonable cost.

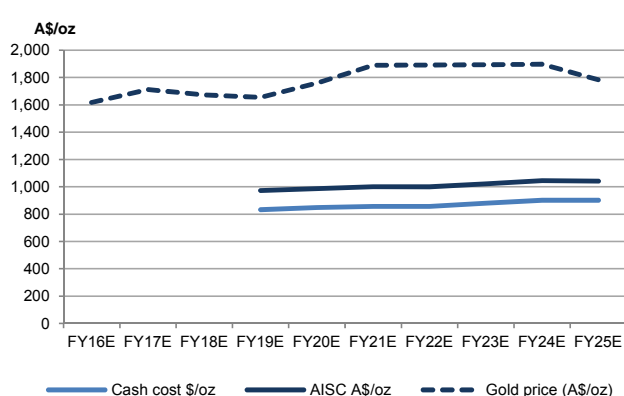
- Processing costs:** In the January scoping work, GOR estimated that life of mine processing costs would average \$17.70-19.90/t (+/- 30%) within a range of \$16.00 to \$20.30/t with the cost variation driven by comminution costs (harder ore – higher cost). Typically 40-50% of the costs in this style of mineralisation will be comminution, the bulk of which will be energy to drive the crushing and grinding circuit. Comminution costs will therefore be largely driven by the electricity/gas supply contract with an external power provider and the balance for steel grinding media and liners.

FIG.8: GOLD PRODUCTION AND AISC



Source: Baillieu Holst

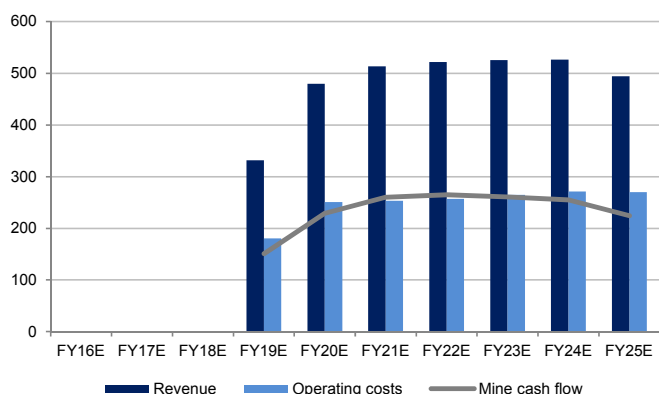
FIG.9: GOLD PRICE AND COSTS



Source: Baillieu Holst

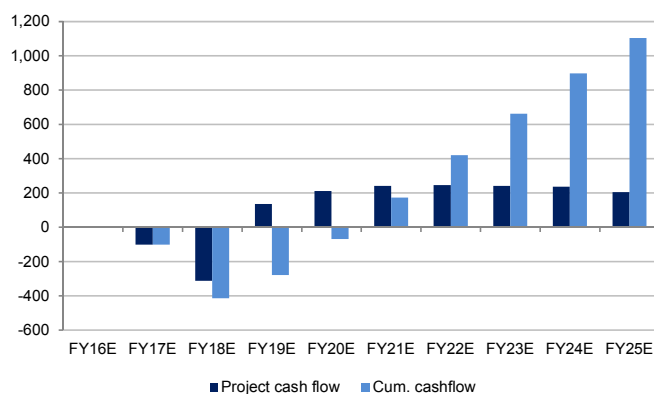
- Capex:** The September’s capex range for the project is \$400-500m, we have used \$460m in our analysis based on the following major components:
 - Pre-strip – pre-development capital allowance in for Gruyere pit pre-strip we have allowed for \$55m;
 - Infrastructure – roads, camp, services ~ \$120m;
 - Mill ~ \$260m;
 - Tailings ~ \$25m;
 - Gas pipeline and power generation – we have not factored in any capital for the gas pipeline or the power plant as it makes sense for the company to enter into a BOO agreement with a company like APA.
- Sustaining Capex:** \$0.25/t allowance (\$18.6mpa) which equates to A\$68/oz and probably in the middle of the range for sustaining capital for an open mining and milling operation. It potentially could be higher given the remoteness of the location but adding another \$30/oz is not going to alter the economics of the project in meaningful fashion.
- By managing mining/processing and optimising the pit development we believe that GOR could pay back the capital expenditure in 3 years from the date of the commencement of production.

FIG.10: PROJECT FINANCIALS (A\$M)



Source: Baillieu Holst

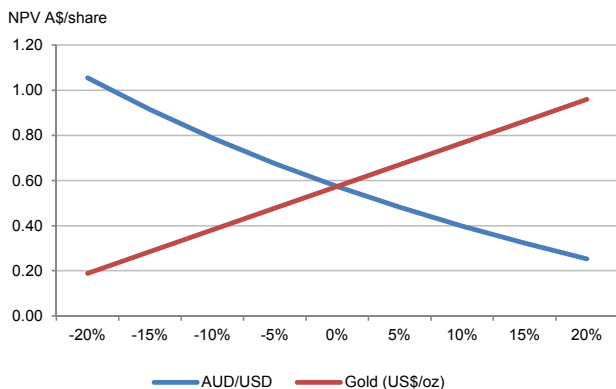
FIG.11: CASH FLOW (A\$M)



Source: Baillieu Holst

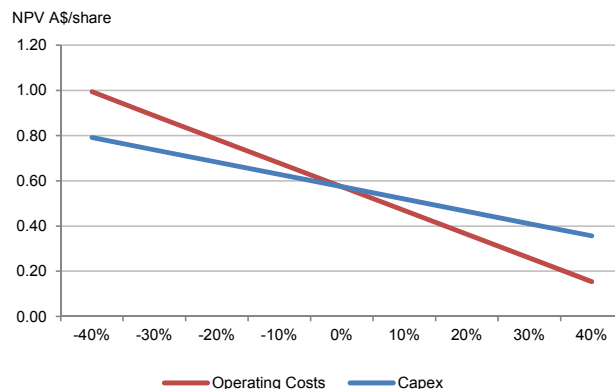
- **Opex more important than capex:** Our sensitivity analysis of project cash flows indicates that, within reason, the Gruyere project returns are more sensitive to the ongoing operating costs than our base capex of \$460m. By mid-2016 the market should have a better range of valuations for the project.

FIG.12: PROJECT VALUATION SENSITIVITY TO GOLD AND AUD



Source: Baillieu Holst

FIG.13: PROJECT VALUATION SENSITIVITY TO OPERATING COSTS

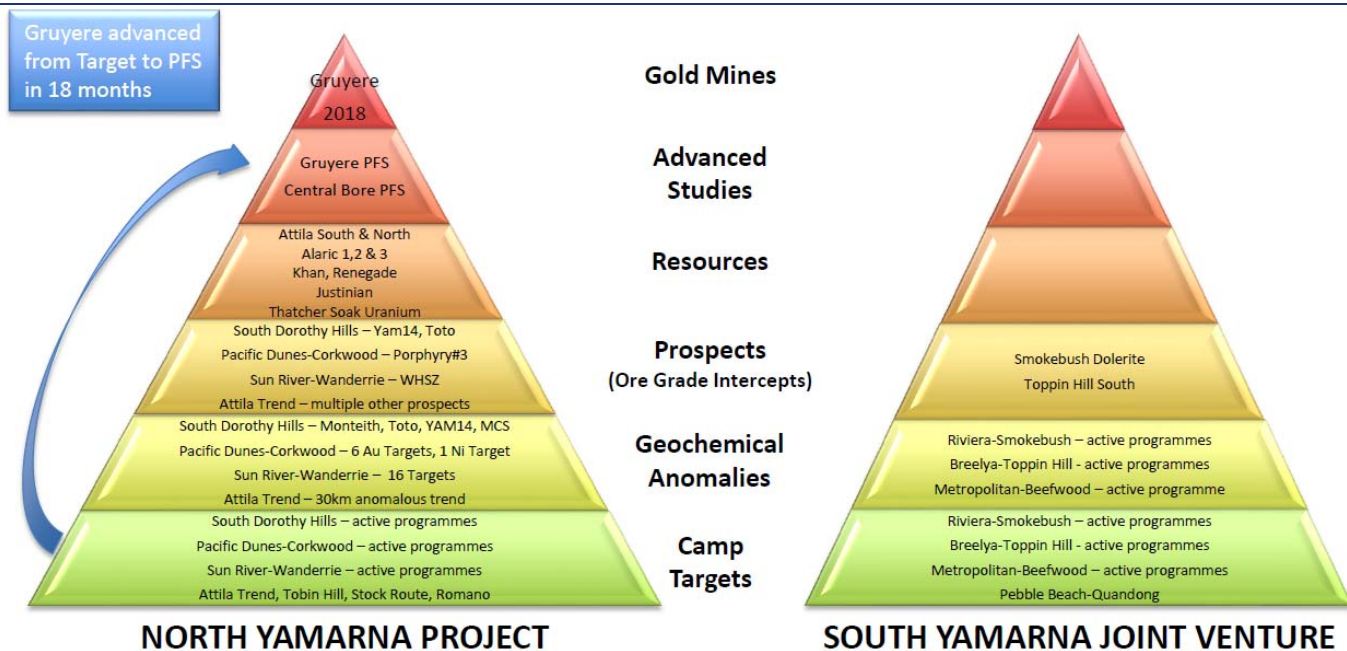


Source: Baillieu Holst

Post 2020

- It would be reasonable to expect an increase in milling capacity and potentially a second mill in the South Yamarna tenements or one designed to treat higher grade resources like Central Bore. We have also not factored in the treatment of resources delineated at Attila which will need to be built in to the processing stream.
- Provided the economics stack up we would expect that the Gruyere open pit transitions into sub-level cave or panel cave. Recent drilling intersected the Gruyere Porphyry at ~1000m below planned pit floor.
- Given the relatively short payback for Gruyere and the inclusion of developments in the Joint Venture with Sumitomo we believe that barring a collapse in the gold price GOR will be able to fund future developments by cash flow and corporate debt.

FIG.14: PROSPECT RANKING AND STATUS



Source: GOR

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Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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