

SPEC BUY

Current Price \$0.46
Valuation \$0.75

Ticker: GOR
Sector: Materials

Shares on Issue (m): 595.1
Market Cap (\$m): 270.8
Cash Estimate (\$m): 18.9
Enterprise Value (\$m): 251.9

52 wk High/Low: \$0.48 \$0.15
12m Av Daily Vol (m): 1.73

Mineral Inventory (100% basis, Gruyere only)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	137.8	1.2	5.5

EV / Reserve \$/oz -
EV / Resource 46

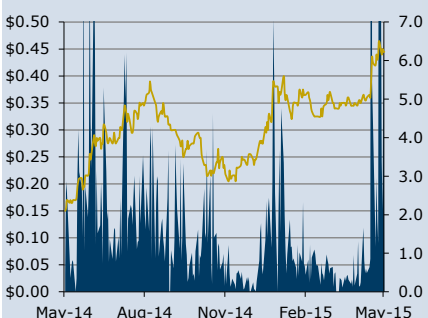
Directors:

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%
Platypus 8.6%
RCF 5.2%

Share Price Graph



Thursday, 28 May 2015

Gold Road Resources

The Cheese matures

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Gold Road (GOR) delivered an impressive Resource upgrade, increasing the Resource at Gruyere to 5.5Moz @ 1.24g/t (5.0Moz @ 1.24g/t when constrained by an A\$1,400/oz pit). Both the inventory and vertical endowment (12.5koz ounces per vertical metre in top 260m) demonstrate clear potential to support a ~270-350 kozpa operation. Following recent M&A activities, Gruyere has become one of the few remaining available Australian gold assets with scale and the potential to attract a major. Gruyere's 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 project shares similarities with Barrick's Cowal mine, which Evolution Mining (EVN) is acquiring for US\$550m (A\$711m), but will likely have significantly higher Reserves. A comparison with Tropicana (see Page 3) highlights favourable attributes which reinforces the project's quality. Argonaut's valuation increases to A\$0.75 following the upgrade.

Event & Impact | Positive

Competitive against peers: The project compares competitively against peers (see Page 2,3). A modest Resource grade of 1.2g/t at Gruyere is enhanced by a low strip ratio (estimated ~2:1), 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 Yamarna Belt. The deposit shares numerous similarities with Barrick's Cowal Mine, which EVN is acquiring for US\$550m (A\$711m).

Comparison between Gruyere and Cowal

		Gruyere	Cowal
Reserve#	Moz	3.9	1.6
Grade	g/t	1.2	1.2
Plant throughput	Mtpa	7.5-10	7.5
LOM Annual Production	koz pa	270-350	230-260
Mine Life	yrs	>10	6

Source: Argonaut, Company report. Cowal mine life based on Reserves, Gruyere based on Argonaut estimate.

Potential 270-350koz pa operation: Both the inventory (>5Moz) and the vertical endowment (12.5koz per vertical metre in top 260m) are supportive of a 7.5Mtpa-10Mtpa operation, producing 270-350koz pa. The upcoming PFS Stage 1 will assess size and scale of the project. Argonaut's valuation is based on a 270koz pa scenario. An upsized, 350koz pa operation will likely result in further economic improvements.

Regional exploration: With the Resource drilling program at Gruyere completed, GOR's reinvigorated regional exploration program will likely deliver further upside (see Page 5).

Recommendation

SPECULATIVE BUY maintained with an updated valuation of A\$0.75.

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

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

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

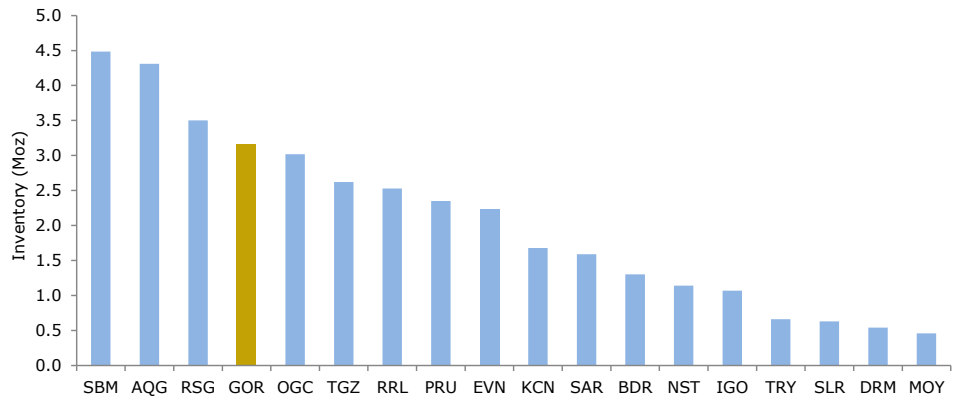
The project benchmarks well against peers...

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

Benchmarking the project (based on Argonaut estimates)

Based on current M&I Resources constrained using an A\$1,400/oz gold price, the in-pit Resource of 3.2Moz (assuming 95% mining recovery) puts GOR in an enviable position. This figure, consisting of ore sourced from a single pit (Gruyere), well exceeds the average attributable Reserve of established ASX gold producers (see list below).

Figure 1: Gruyere in-pit Resource vs ASX gold producer group Reserves



Source: Argonaut, Company report

This position is anticipated to improve further with:

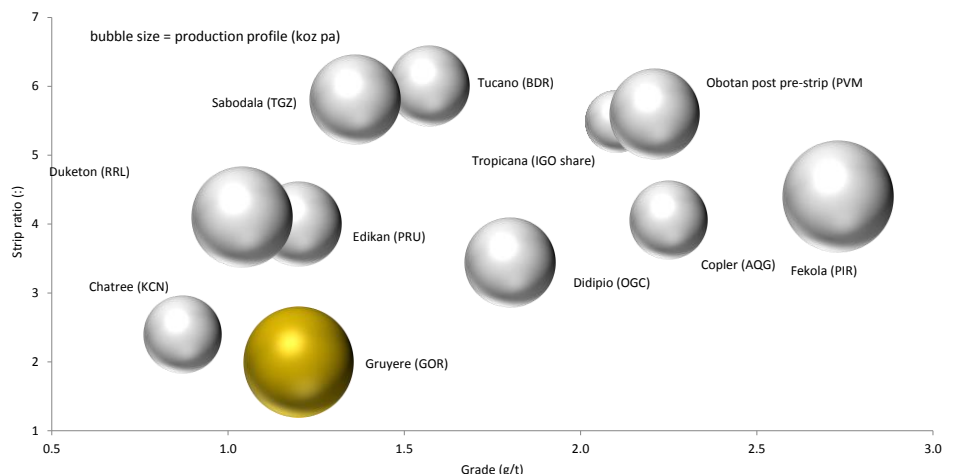
- Conversion of Inferred into Measure and Indicated
- Additional drilling at Gruyere
- Discoveries from regional prospects

Lowest strip

Gruyere (based on Argonaut's estimate) benchmarks favourably against peer ASX producing and development assets:

- Lowest strip ratio estimated at ~2.0:1 vs peer average of 4.3:1.0
- Long life of >10 years v peer average of 8
- Average production of 270koz pa v peer average of 189koz pa

Figure 2: Gruyere vs selected ASX gold production / development asset (>150koz pa)



Source: Argonaut, Company report

Benchmarking against Tropicana

A comparison with Tropicana highlights...

A comparison with Tropicana (Anglo 70%, IGO 30%) highlights favourable attributes of the project which reinforces Argonaut's view that Gruyere is one of the best undeveloped gold assets on the ASX.

Table 1: Gruyere v Tropicana project comparisons

Comparison between Gruyere and Tropicana			
		Tropicana (100% basis)	Gruyere
Mining Parameters			
Reserve#	Moz	3.6	3.9
Grade	g/t	2.1	1.2
Strip ratio#	:	5.5	2.0
Plant throughput	Mtpa	5.8	7.5-10
LOM Annual Production	koz pa	340	270-350
Mine Life	yrs	11	>10
Number of pits		3/4	1
Metallurgical Properties			
Bond index	kWh/t	16.9	18.3
Grind size [^]	µm	75	106
Recovery	%	90.4	93.0
Infrastructure			
Haul Road	km	220	12
Borefield	km	50	25
Start-up capex	A\$m	820-845	500

GOR Reserve based on Argonaut's estimate, which includes Inferred Resource

[^] Potential to upgrade to 125-212µm, pending further successful metallurgical studies

Source: Argonaut

...favourable attributes which reinforces the quality of the project...

Lower strip, lower complexity compensate

...with a low strip ratio enhancing economics despite modest grade

Although Gruyere has a lower grade, the economics are compensated with a very low strip ratio, reducing waste movement requirements and mining costs. The simpler geometry (wide orebody, one single pit) and consistent mineralogy (well mineralised intrusive requiring minimal grade control) further enhances the project economics.

Higher recoveries and coarser grind

...capex likely to be significantly lower due to more competitive tenders...

Whilst the ore at Gruyere is considered hard (marginally higher bond index than Tropicana), it has superior recoveries and a coarser grind size, reducing unit milling costs. Further metallurgical studies could further enhance the grind size, to potentially 125-212µm. A larger processing plant will also likely reduce unit processing costs.

Capex will be lower

...a leaner approach and better access to infrastructure

Argonaut's assumption for start-up capex at Gruyere is A\$500m (7.5Mtpa, inclusive of future study / drilling costs). This is significantly lower than Tropicana's build cost. Gruyere will benefit from substantially lower capex from taking a leaner approach. The processing facility and associated infrastructure will unlikely be constructed to Tropicana's high standard. Current downturn in the mining industry will ensure competitive tenders and resultant lower EPC / EPCM costs. In addition, the project benefits from better access to existing infrastructure, including being 12km to the Great Central Road and 25km to borefields.

Corporate appeal

Gruyere’s scale, geometry, life and exploration upside...

Gruyere’s scale, geometry, long life, and favourable metallurgical properties combined with a low sovereign risk jurisdiction, will ensure continued corporate attention. Following recently M&A activities, Gruyere has become one of the few available Australian gold assets with scale and the potential to attract a major.

Table 2: Recent Australian transactions

Date	Target	Acquirer	Valuation	Premium	Asset Location	EV / Resource	EV / Reserve
			(\$m)	%		\$/oz	\$/oz
Development projects							
Apr-14	Bullabulling (BAB)	Norton (NGF)	24	30	Western Australia	5	-
Jan-14	Norilsk (Thunderbox)	Saracen (SAR)	23	-	Western Australia	11	32
Oct-14	Mutiny Gold (MYG)	Doray Minerals (DRM)	37	38	Western Australia	73	135
Apr-15	Tanamai (CTP)	Northern Star (NST)	72	-	Northern Territory	27	-
Existing mines							
Jan-13	Southern Cross (SBM)	Hanking (3788:HK)	23	-	Western Australia	9	-
Feb-13	Alacer (Frog's Leg)	La Mancha (LMA:CN)	138.5	-	Western Australia	252	374
Aug-13	Barrick (Yilgarn South)	Gold Fields (GFI:US)	330	-	Western Australia	75	127
Sep-13	Alacer (Australian Business)	Metals X (MLX)	40	-	Western Australia	6	27
Dec-13	Plutonic (Barrick Gold)	Northern Star (NST)	25	-	Western Australia	14	121
Jan-14	Barrick (Kanowna)	Northern Star (NST)	75	-	Western Australia	49	121
May-14	Jundee (Newmont)	Northern Star (NST)	82.5	-	Western Australia	163	201
Apr-15	La Mancha (Frog's Leg)	Evolution (EVN)	299	-	Western Australia	157	529
May-15	Lake Cowal (Barrick Gold)	Evolution (EVN)	704	-	New South Wales	205	454
Median (WA)						73	131

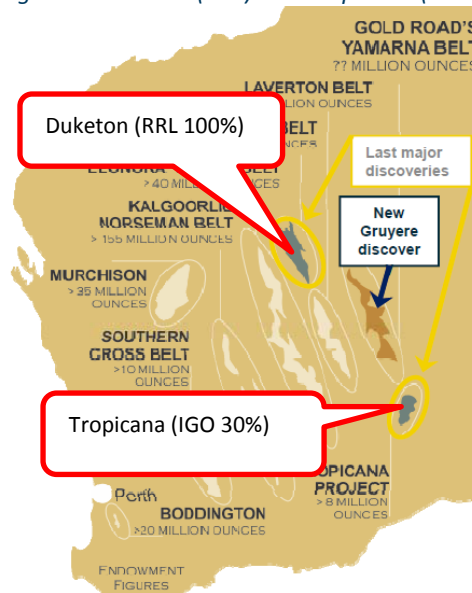
...will ensure ongoing corporate appeal...

...both IGO and RRL could benefit from an acquisition...

Source: Argonaut, Company report

Given the similar style of operation, an appetite for M&A and potential geographic synergies, the asset would suit a number of Australian producers, including IGO and RRL.

Figure 3: Duketon (RRL) and Tropicana (IGO 30%) locations in relation to Gruyere



Source: GOR, modified by Argonaut

...given similar style of operation, an appetite for M&A and potential geographic synergies

Uncovering Yamarna

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

...including South Dorothy Hills, Pacific Dunes – Corkwood, South Yamarna JV

Regional exploration pipeline

With an A\$19m cash balance at 31st March, the stock is well funded 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):

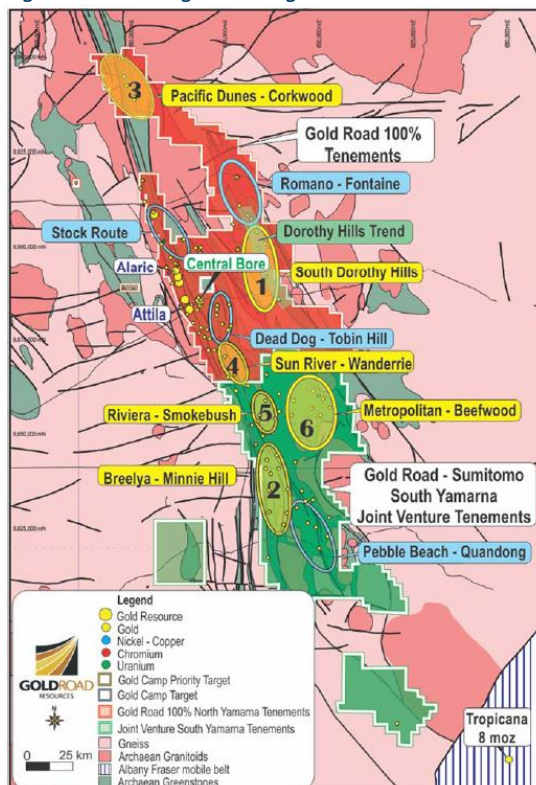
- South Dorothy Hills (#1, Figure 4)
 - Covers ~20km strike, extension of the Gruyere trend (Monteith Trend)
 - 20km aircore program to commence in June CY15
- Trend north of Gruyere
 - To be tested in CY16
- Pacific Dunes – Corkwood (#3, Figure 4)
 - An in-fill program to follow up six coherent anomalies
 - Likely to be in H2 CY15
- Sun River – Wanderrie (#4, Figure 4)
 - 5,000m aircore planned to start June Q
- South Yamarna JV targets, ongoing
 - Minnie Hill South (#2, Figure 4)
 - Rivera – Smokebush (#5, Figure 4)

Given the endowment of better explored greenstone belts in Western Australia and the Company’s dominant >5,000km² landholding, GOR’s strategy to concentrate on regional exploration is likely to pay further dividends. Sizable shallow discoveries are possible by following first principles and employing conventional exploration techniques, evident from the discovery of the Gruyere deposit.

Given dominant landholding and prospective geology...

...GOR’s regional exploration program is likely to pay further dividends

Figure 4: GOR regional targets



Source: GOR

RESEARCH:

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

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

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

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

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hluau@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

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

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwiloughby@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

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 currently holds or controls 150,000 GOR shares.

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