GRUYERE GOLD PROJECT

Gold price up, capital costs down. All's well along the Gold Road.

THE INSIDE STORY: The broader market may be all doom and gloom after the boom, but gold producers and developers, such as Gold Road Resources (ASX: GOR), are relishing the opportunities being offered by a buoyant gold price.

Earlier this year the gold price went to a peek over the $1700 mark, which was most encouraging for the sector given the all-time highs experienced during the 'Good Days' were in the $1800 per ounce range.

When the gold price was at these heady levels, operating costs, especially in Western Australia where the epicentre of the boom was located, were greatly inflated compared to today.

The oil price was almost double that now being paid, while the iron ore companies were relishing their time in the sun, subsequently driving labour costs up, and all other input costs were hitting the upper echelons.

"The gold space – particularly in Western Australia – is a very good space to be in at present," Gold Road Resources executive chairman Ian Murray told The Resources Roadhouse.

"And, it's also good to have a project like Gruyere, which is the largest undeveloped gold project in Western Australia, if not Australia.

"It's no secret the other sectors are really suffering, so we have to make the most of the open window of opportunity.

"So that window of opportunity being open is providing us access to the best people, access to capital, allowing us to move a project of this size and scale on through development and to production as quickly as we can.

"In the past few months the cards have definitely fallen in our favour with the gold price sitting up near that top end of the spectrum, while operating costs have been at the opposite end."

In February this year, Gold Road Resources released the results of a Pre-Feasibility Study (PFS) for the development of the company's 5.62 million ounce Gruyere project, located east of Laverton in Western Australia.

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At the time the company boasted the PFS had confirmed the Gruyere project to be one of Australia's best undeveloped gold deposits.

Its boasting would appear to be well-placed with the PFS demonstrating the project to be technically sound and financially viable, being capable of generating (off a $1500/oz gold price) over $1 billion in free cash flow (pre-tax) over an initial 12-year project life.

The total forecast capital cost is estimated to be $455 million, which includes a project contingency of $35 million.

The PFS produced a Whittle-optimised open pit shell and Ore Reserve modelled at $1,400 per ounce.

All financial analysis was undertaken using an Australian Dollar $1,500 per ounce gold price, representing the five-year historic average.

Other highlights from the study include development of the project to be based on a single large open-pit mine and conventional SAG/Ball Mill Circuit, gravity/carbon-in-leach plant with throughput of 7.5 million tonnes per annum of fresh ore and up to 8.8 million tonnes per annum of oxide ore.

Estimated total forecast capital costs of $455 million, including $35 million contingency (US$335M and US$26M respectively), while estimated average all-in sustaining cost (AISC) came in at $960 (US$700) per ounce over life-of-mine (LOM) with a payback of less than one third of LOM.

Following the completion of the PFS, Gold Road declared a Maiden Ore Reserve for Gruyere of 3.17 million ounces, which supports an average annual gold production of 265,000 ounces over the life of the mine , a rate that should elevate it into the ranks of Australia's mid-tier gold producers.

Based on the positive PFS outcome, the company approved the immediate progression to a Feasibility Study on the project to further define and support the case for project funding and development.

"Part of that Feasibility Study is looking for upside opportunities within the mine plan at Gruyere," Murray said.

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"We know the ore body carries on a lot deeper than the current picture, which goes to around 340 metres depth, as our deepest drill hole into the ore body intercepted gold mineralisation at around 1150 metres, so there is a lot of gold below the current picture."

Having established there are 3.2 million ounces in the current Reserve, Gold Road now has further value adding work currently underway that is taking into consideration such aspects of the project as power efficiencies, in particular the cost of diesel.

The PFS looked at diesel costs at around 75 cents per litre, while current prices being paid for diesel by operating mines in the area around Gruyere have been around 45 to 50 cents.

The study also anticipated the Gruyere open pit will average more than 9,000 Reserve ounces per vertical metre to a final depth of 340 metres.

Recent work carried out as part of the Feasibility Study, however, suggest these numbers could also change dramatically.

"The pit slope angles in the PFS for the Stage 4 pit were 40 degrees, and that was because we didn't have any geotech drilling down to that depth," Murray explained.

"We have subsequently done 3,000 metres of geotech drilling and we now have more information telling us that for every one degree we steepen that wall angle we drop around $50 million of operating costs over the life of the project.

"That is a significant improvement in the operating costs from changing the wall angles.

"In addition to that, if we can steepen the wall angles – of course we already know that the Resource carries on deeper – the pit then actually pushes deeper providing the potential to increase the mineable ounces."

The Gruyere project is a dynamic beast that basically changes on a day to day basis as gold prices and operating costs improve always adding value.

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The PFS was completed based on a gold price of $1500 per ounce and the gold price is now sitting just over $1600 per ounce, and recently over the $1700 per ounce range.

Gold Road believes improvements to the gold price provide opportunities to improve the current mine plan, in conjunction with improvements to operation efficiencies allowing it to get more gold Resources into the mine plan.

Murray describes the PFS as a conservative model, enabling the company commence the Banking stage of the development process.

“The banks will conduct their Due Diligence and I don’t think they will be able to question any of the assumptions we have used because we can prove all of them to be conservative when they are compared to where costs are in the marketplace at the moment,” Murray said.

“Operating costs, certainly in Western Australia, continue to go down.

“Between the PFS and the Scoping Study – on the capital costs – we saw around a ten to fifteen per cent drop in costs on different items.

“Obviously costs cannot drop forever, but I would say that we are certainly not in an environment where the risks are that the costs will escalate enough to blow out a project.

“We will be able to build the Gruyere project and the costs should remain very close to what our studies have suggested that they should be.”

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Gold Road Resources (ASX; GOR)
...The Short Story

HEAD OFFICE
2/26 Colin Street
West Perth WA 6005

Ph: + 61 8 9200 1600
Fax: +61 8 9481 6405

Email: perth@goldroad.com.au
Website: www.goldroad.com.au

DIRECTORS
Ian Murray,
Justin Osborne,
Russell Davis,
Martin Pyle,
Tim Netscher

MAJOR SHAREHOLDERS

RCF	9.8%
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Van Eck	5.9%

Wally Graham

www.resourcesroadhouse.com.au
E: wally@resourcesroadhouse.com.au
M: 0410 788 304
A: PO Box 1272, Subiaco WA 6904