

This is an extract of our full report.
Please refer to our full report before making any investment decisions.

Geopacific Resources Limited

Breathing new life into Woodlark

October 2016

Recommendation: BUY

- **Leverage off extensive data set & 2.1Moz resource base**
- **Upside to base case valuation**
- **Significant exploration potential, may underpin a larger project**

ASX: GPR

Share Price: \$0.037

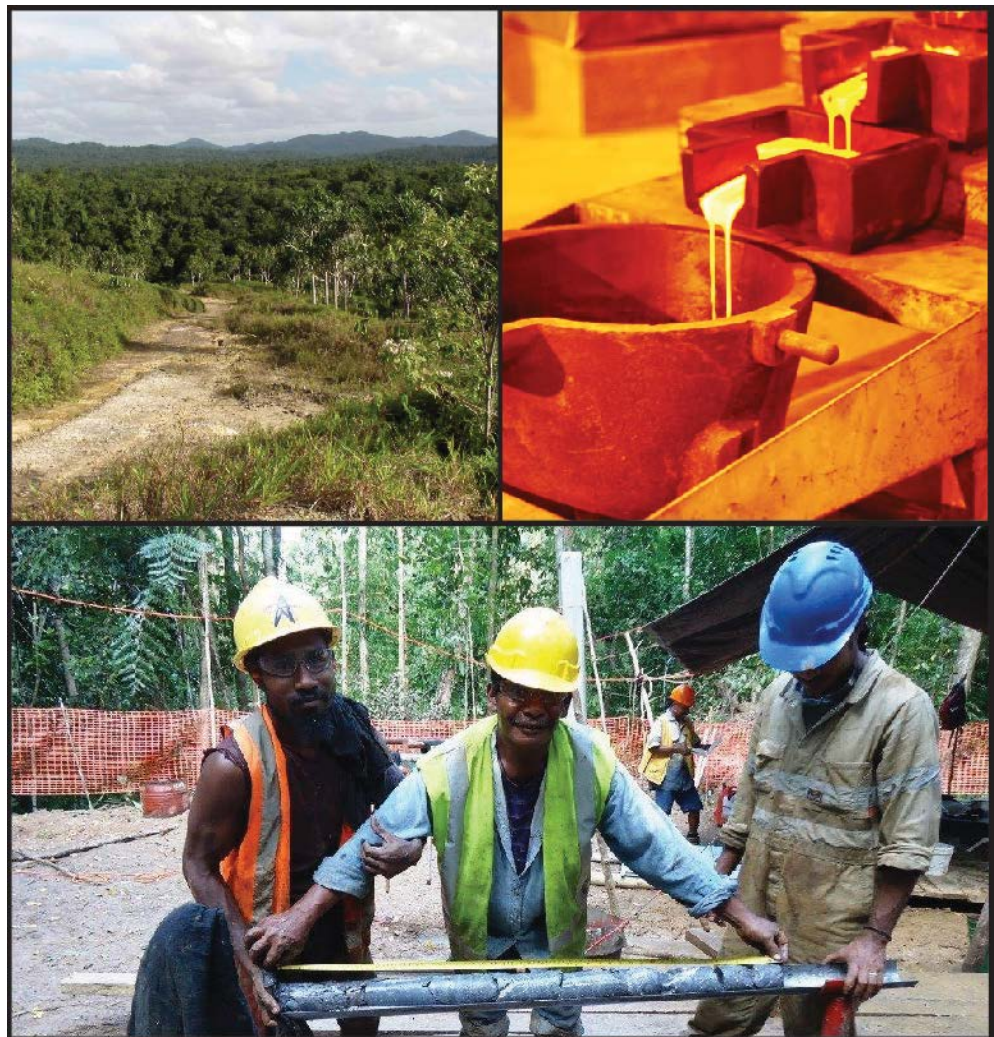
Target Price: \$0.10/sh

M/Cap.: \$39.3M

Valuation: \$170M

Shares: 1,152M

Monthly T/over: \$0.4M



Brett McKay
+61 2 9239 9605
BMcKay@petracapital.com.au

Matthew Schembri
+61 2 9239 9630
MSchembri@petracapital.com.au

Petra Capital Pty Ltd

Contents

Executive Summary.....	4
Earn-in targets appear readily achievable, 1.2Moz reserve & DFS for 75%.....	4
Simple, free-milling and open pitable project	4
The Project has been permitted but more clarity is required.....	4
Significant exploration upside; region hosts multi-million ounce deposits	4
Valuation upside to our A\$0.10/sh price target (1xP/NPV)	4
Key risks	4
Investment thesis.....	5
Introduction	6
Woodlark Island Gold Project	6
Asset History and Previous Work.....	7
Kula Gold's Work History.....	8
Current Project Status	10
GPR to target 1.2Moz milestone for initial 51% ownership	12
Regional exploration upside	14
Modelled assumptions for the Woodlark Gold Project	15
Capital Intensity analysis indicates US\$150m is in-line with peers.....	16
Other projects	17
Kou Sa Project - Cambodia	17
Fijian Projects	18
Valuation.....	19
Risks	20
Analysis.....	21
Directors and Senior Management.....	22
Appendix 1	23
Peer Comparison.....	23
Appendix 2	26
Resources and Reserves	26
Appendix 3.....	27

Geopacific Resources (GPR)

BUY
Share Price: A\$0.037

Breathing new life into Woodlark

Target Price: A\$0.10

Geopacific Resources Limited (GPR) is a Perth-based gold exploration and development company listed on the ASX with the ticker GPR. GPR recently agreed to acquire up to 80% of the undeveloped Woodlark Island Gold Project (Woodlark) in PNG from Kula Gold Limited (Kula). Woodlark currently hosts a 2.1Moz resource at 1.5g/t including 0.77Moz reserve at 2.2g/t and has had US\$150m spent on exploration and study work over recent years. After recently visiting Woodlark, management are finalising plans to re-start aggressive exploration within the coming 4-6 weeks to enable an updated reserve (1.2Moz target) and rebased feasibility study to be completed in 2H CY17. Although GPR is targeting a project capable of delivering 150kozpa over 10 years, our more conservative base case estimates (100kozpa over 12 years for US\$150m capex) underpin a fully diluted NPV₁₅ of A\$0.10/share. Exploration upside is likely and may support a larger project. We initiate coverage with a BUY.

Extensive data set provides a solid starting point

- 2.1Moz resource & 0.77Moz reserve already defined
- Free-milling, open pit, abundant free-dig
- US\$150m spent on drilling and studies
- DFS completed at top of market pricing (2012), opex & capex to be rebased in updated study

Simple earn-in structure allows GPR to own up to 80%

- Three tranche earn-in based on defined milestones or expenditure (max. \$18.65m) over 24 month period
- Project milestones allow up to 75% ownership plus 5% if development finance is raised
- First major milestone is 1.2Moz reserve for 51%

GPR development plan to be refined in next 12 mths

- Focus on infill & extensional drilling to convert more resource into reserve; currently only 36%
- Previous DFS to be superseded following increased reserve, optimised pits & rebased economics
- GPR targeting >150kozpa for >10 years mine life

Permitting & social license well understood

- Granted Mining Lease (ML) although construction approval expires July 2017
- Board/management have extensive experience building & operating mines in remote & challenging settings

Conservative assumptions generate A\$0.10/sh NPV

- Petra assume 100kozpa over 12yrs at A\$1,122/oz AISC; US\$150m capex & 15% discount rate

Company Data

Shares – ordinary (M)	1,152
Market cap. (M)	39
12 month low/high (\$)	A\$0.06 / A\$0.023
Average monthly turnover / volume	A\$0.32m / 7.9M
GICS Industry	Materials / Gold

Financial Summary (fully diluted/normalised)

Year end Dec	2016F	2017F	2018F	2019F	2020F
Revenue (\$M)	0.0	0.0	0.0	67.6	154.8
Costs (\$M)	2.0	2.0	3.5	31.9	70.7
EBITDA (\$M)	-2.0	-2.0	-3.5	35.7	84.0
NPAT (\$M)	-1.7	-1.8	-3.1	20.8	43.2
EPS (¢ps)	-0.2	-0.1	-0.2	1.3	2.6
PER (x)	na	na	na	3.3	1.6
Cashflow (\$M)	-1.7	-1.8	-3.1	32.7	68.5
CFPS (¢ps)	-0.2	-0.1	-0.2	2.0	4.1
PCFPS (x)	na	na	na	2.1	1.0
Enterprise Value (\$M)	38	48	99	162	101
EV / EBITDA (x)	-18.8	-24.2	-28.2	4.5	1.2
Dividends (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

Board

Director	Position	Executive
Milan Jerkovic	Chairman	Non-Executive
Ron Heeks	Managing Director	Executive
Mark Bojanjac	Director	Non-Executive
John Lewis	Company Secretary	Executive

GPR – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. In August 2016, Petra Capital acted as Exclusive Manager to the placement of 350M shares at \$0.043/share to raise \$15M, for which Petra Capital received a fee.

Executive Summary

Earn-in targets appear readily achievable, 1.2Moz reserve & DFS for 75%

With 2.1Moz resource and only 0.77Moz in reserve, GPR believe the initial 1.2Moz reserve target and updated DFS can be achieved well within the 24 month timeframe and below the A\$18.65m expenditure threshold. The key areas of focus to earn 75% of the project include:

- Infill drilling to convert more inferred resource into Measure & Indicated status to allow for reserve classification; 770koz of inferred resource located within & around the main pit designs
- Extensional drilling to better define orebody size/geometry, potential along strike and at depth
- Rebase project economics to reduce cut-off grade & lower strip ratio
- Optimise mine plan and refine the feasibility study.

Simple, free-milling and open pitable project

Around US\$150m has been spent by previous owners at Woodlark, including US\$100m by Kula over recent years. This work included 265,000m of drilling, metallurgical and geotechnical testwork, pre-feasibility and definitive feasibility studies, as well as extensive focus on social, environmental and permitting elements. Key outcomes include:

- Open pitable mineralisation starting at/near surface; conservative pit designs, abundant free dig
- Free-milling with 88-90% recoveries through gravity and CIL, no deleterious elements
- Deep Sea Tailings Placement (DSTP) approved and permitted; no costs related to tailings dam
- Deep water harbour located 15km from processing plant
- Environmental Permit (20 years) and Mining Lease granted (expires July 2017)
- Strong support from local regulators and communities.

The Project has been permitted but more clarity is required

After a 20 month waiting period, Kula received the Mining Lease for Woodlark in early July 2014. This was after the award of the Environmental Permit in February 2014. These permits have a minimum 20 year term and cover various aspects of the project including construction and operating conditions, environmental and social considerations, DSTP and government reporting requirements. However, one of the key conditions of the ML was the completion of construction and commissioning of the project within 36 months of the grant of the ML (July 2017). Whilst we understand only the construction certificate has to be renewed to keep the Mining Lease in good standing, we expect more clarity as GPR ramp-up their involvement with the project and regulatory bodies.

Significant exploration upside; region hosts multi-million ounce deposits

Woodlark Island is surrounded by several multi-million ounce gold deposits. Whilst a 2.1Moz resource has been defined at Woodlark to date, there are numerous opportunities to expand the current resource, as well as discover new deposits. A number of exploration opportunities can be identified:

- Extending known deposits both along strike and at depth
- Further work on earlier stage, near-mine exploration prospects & regional targets
- Investigation below coronous cover sequences which mask bedrock exposure across the island

Valuation upside to our A\$0.10/sh price target (1xP/NPV)

Our A\$0.10/sh price target is set in-line with our NPV of our base case production plan at 15% discount rate. We include a nominal A\$30m (A\$0.02/sh) of exploration value to account for the 0.9Moz not captured in our production plan, as well as the inherent value of assets in Cambodia and Fiji.

Key risks

Whilst a number of upside considerations can be identified, key risks relate to (i) gold price and currency exposure, (ii) permitting, geopolitical & social risks associated with operating in PNG (iii) significant variation in capex, opex and mine planning relative to our forecasts and (iv) execution risk.

Investment thesis

GPR recently entered a deal to earn up to 80% of the Woodlark Gold Project located on Woodlark Island in PNG (Figure 1). The project is located within the broad regional geological province known as the New Guinea Mobile Belt which hosts several multi-million ounce gold and copper-gold deposits of mainly epithermal and porphyry affinity (Figure 2)

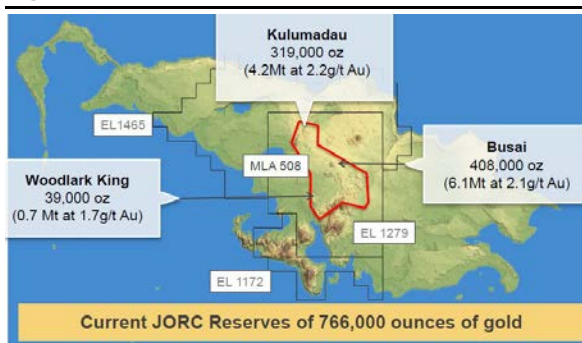
With 2.1Moz resource (45Mt at 1.5g/t) and 0.77Moz reserve (11Mt at 2.2g/t Au), Woodlark has had extensive exploration and pre-development work completed, including 265,000m of drilling and a definitive feasibility study by the project vendors (Kula Gold) in 2012. After successfully permitting the project in 2014, the gold price and gold market sentiment moved against Kula and, with limited further funding capacity, they executed the recent earn-in deal with GPR.

With an extensive data set to hand, GPR is planning an infill and extensional drilling program to rapidly expand the size of the reserve from the current 0.77Moz to the 1.2Moz target to earn a 51% interest; inferred resources residing within or immediately adjacent to open pit designs will be the primary target. Rebasement project economics will also assist by dropping the implied reserve cut off grade from 1g/t Au, thus capturing more tonnes at slightly lower grade and lowering the strip ratio. Significant exploration potential also exists, with opportunities to grow existing deposits, follow up on regional targets, as well as conduct further investigation of potential discoveries under the thin coronous cover sequence which masks most of the island.

Whilst GPR are targeting an initial project capable of delivering >150kozpa for more than 10 years, we have modelled a more conservative set of assumptions as the basis to our A\$0.10/sh valuation. We assume a 1.8Mtpa operation is built for US\$150m (A\$200m) starting in 2019 and delivering 104kozpa at A\$1,122/oz AISC for 12 years. Other projects, including Kou Sa in Cambodia and the Fijian projects, are captured in our A\$30m nominal exploration value.

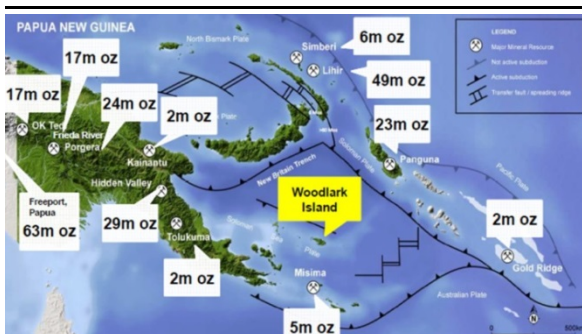
With a sound base-case gold project with significant upside potential, funding to complete the earn-in and a solid and experienced management team, we initiate coverage of GPR with a A\$0.10/sh price target (1xP/NPV) and a BUY recommendation.

Figure 1: Reserves & tenements at Woodlark



Source: Kula Gold, July 2012 at 0.5g/t gold lower cut

Figure 2: Gold deposits in the New Guinea mobile belt



Source: GPR

Analysis

Geopacific Resources (GPR)

4-Oct-16

Year End 31 Dec	A\$	2015A	2016F	2017F	2018F	2019F	2020F	Share Price (\$)	0.04
PROFIT & LOSS								ISSUANCES	
Sales Revenue	\$M	0.0	0.0	0.0	0.0	67.6	154.8	Iss. Shares (current)	(M) 1152.3
Other Income	\$M	0.1	0.0	0.0	0.0	0.0	0.0	Iss. Shares (diluted)	(M) 1735.3
Operating Costs	\$M	1.9	2.0	2.0	3.5	31.9	70.7	Unlisted Options	(M) 0.0
Exploration	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Mkt Cap.	(\$M) 48.4
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	RESOURCES INVENTORY	
EBITDA	\$M	(1.9)	(2.0)	(2.0)	(3.5)	35.7	84.0	Mining Inventory	
Dep. & Amort.	\$M	0.1	0.0	0.0	0.0	3.0	15.7	Tonnes	Mt 0.0 0.0 19.0 19 18 16
EBIT	\$M	(2.0)	(2.0)	(2.0)	(3.5)	32.7	68.3	Grade	g/t 0.0 0.0 2.0 2.0 2.00 2.00
Net Interest	\$M	0.0	(0.3)	(0.2)	(0.4)	3.0	6.6	Contained Gold	oz 0 0 0 1,221,728 1,170,287 1,054,544
Pre-Tax Profit	\$M	(2.0)	(1.7)	(1.8)	(3.1)	29.8	61.7	Resources	
Tax	\$M	0.0	0.0	0.0	0.0	8.9	18.5	Tonnes	Mt 0.0 0.0 45 45 44 43
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t 0.0 0.0 1.5 1.5 1.5 1.5
Net Profit	\$M	(2.0)	(1.7)	(1.8)	(3.1)	20.8	43.2	Contained Gold	oz 0 0 0 2,174,998 2,123,557 2,007,814
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	0.0	PRODUCTION (100%)	
Reported Profit	\$M	(2.0)	(1.7)	(1.8)	(3.1)	20.8	43.2	Ore Milled	Mt 0.00 0.00 0.00 0.00 0.8 1.8
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t 0.0 0.0 0.0 0.0 2.0 2.0
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Recovery	% 0% 0% 0% 0% 90% 90%
Retained Earnings	\$M	(14.0)	(15.8)	(17.5)	(20.6)	0.2	43.4	Gold Produced	oz 0 0 0 0 46,297 104,168
CASH FLOW								REVENUE (attributable)	
Revenue	\$M	0.0	0.0	0.0	0.0	67.6	154.8	Woodlark	\$M 0.0 0.0 0.0 0.0 67.6 154.8
Costs	\$M	(1.7)	(2.0)	(2.0)	(3.5)	(31.9)	(70.7)	Other	\$M 0.0 0.0 0.0 0.0 0.0 0.0
Net Interest	\$M	0.0	0.3	0.2	0.4	(3.0)	(6.6)	Total	\$M 0.0 0.0 0.0 0.0 67.6 154.8
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(8.9)	COSTS (attributable)	
Gross Cash Flow	\$M	(1.7)	(1.7)	(1.8)	(3.1)	32.7	68.5	Cash costs	A\$/oz 0 0 0 0 767 807
Net Capex	\$M	(0.0)	0.0	0.0	(69.3)	(90.7)	(2.8)	All in sustaining costs	A\$/oz 0 0 0 0 843 874
Exploration	\$M	(10.8)	(15.0)	(8.0)	(8.0)	(5.0)	(5.0)	Cash costs	US\$/oz 0 0 0 0 547 565
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	All in sustaining costs	US\$/oz 0 0 0 0 601 612
Other	\$M	(5.0)	0.0	0.0	0.0	0.0	0.0	Cash costs	\$M 0.0 0.0 0.0 0.0 28.4 67.2
Free Cashflow	\$M	(17.5)	(16.7)	(9.8)	(80.4)	(63.0)	60.7	Other/corporate	\$M 0.0 2.0 2.0 4 4 4
Equity Issues	\$M	25.4	15.0	20.0	30.0	0.0	0.0	Total	\$M 0.0 2.0 2.0 3.5 31.9 70.7
Net Borrowings	\$M	(0.1)	0.0	0.0	50.0	50.0	(20.0)	CAPEX (attributable)	
Net Investments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Woodlark	\$M 0.0 0.0 0.0 69.3 90.7 2.8
Surplus Cash Flow	\$M	7.8	(1.7)	10.2	(0.4)	(13.0)	40.7	Other	\$M 0.0 0.0 0.0 0.0 0.0 0.0
BALANCE SHEET								Total	\$M 0.0 0.0 0.0 69.3 90.7 2.8
Cash	\$M	12.6	10.9	21.1	20.7	7.7	48.4	DEPRECIATION (attributable)	
Other Current	\$M	0.8	0.0	0.0	0.0	0.0	0.0	Woodlark	\$M 0.0 0.0 0.0 0.0 3.0 15.7
Total Current	\$M	13.3	10.9	21.1	20.7	7.7	48.4	Other	\$M 0.0 0.0 0.0 0.0 0.0 0.0
Fixed Assets	\$M	0.2	0.2	0.2	69.5	157.2	144.3	Total	\$M 0.0 0.0 0.0 0.0 3.0 15.7
Exploration	\$M	26.2	41.2	49.2	57.2	62.2	67.2	EBITDA (attributable)	
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Woodlark	\$M 0.0 -2.0 -2.0 -3.5 35.7 84.0
Other	\$M	8.6	9.4	9.4	9.4	9.4	9.4	Other (incl. writedowns)	\$M 0.0 0.0 0.0 0.0 0.0 0.0
Total NC Assets	\$M	34.9	50.7	58.7	136.0	228.7	220.8	Total	\$M 0.0 -2.0 -2.0 -3.5 35.7 84.0
TOTAL ASSETS	\$M	48.2	61.5	79.8	156.7	236.5	269.2	HEDGING (attributable)	
Total Debt	\$M	0.0	0.0	0.0	50.0	100.0	80.0	Gold hedged	oz 0 0 0 0 0 0
Current Liab	\$M	1.1	1.1	1.1	1.1	10.0	19.6	Hedged price	US\$/oz 0 0 0 0 0 0
Non Current Liab	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	A\$/oz 0 0 0 0 0 0
TOTAL LIAB	\$M	1.1	1.1	1.1	51.1	110.1	99.6	Sales hedged	% 0% 0% 0% 0% 0% 0%
NET ASSETS	\$M	47.1	60.4	78.6	105.6	126.4	169.6	Ave. deliverable price	US\$/oz 1160 1275 1310 1300 1300 1300
SH/HLDRS FUNDS	\$M	47.1	60.4	78.6	105.6	126.4	169.6	Ave. deliverable price	A\$/oz 1,541 1,718 1,795 1,793 1,825 1,857
RATIO ANALYSIS								ASSUMPTIONS	
EPS	¢	(0.3)	(0.2)	(0.1)	(0.2)	1.3	2.6	Exchange Rate	A\$/US\$ 0.75 0.74 0.73 0.71 0.70
PER	x	na	na	na	na	3.3	1.6	Gold Price	US\$/oz 1160 1275 1310 1300 1300
EPS Growth	%	>100	>100	(28.5)	72.5	780.6	107.4	Gold Price	A\$/oz 1541 1718 1795 1793 1825 1857
EBITDA per share	¢	-0.2	-0.2	-0.1	-0.2	2.2	5.1	Silver price	US\$/oz 15.71 17.42 19.50 20.00 20.00 20.00
EBITDA Multiple	x	-17.7	-24.2	-34.7	-19.8	1.9	0.8	90 day Bank Bills	% 2.26 2.14 2.09 2.09 2.09 2.09
EV/EBITDA	x	-11.1	-18.8	-24.2	-28.2	4.5	1.2	10 Yr Bond rate	% 2.71 2.38 2.78 2.78 2.78 2.78
CFPS	¢	(0.2)	(0.2)	(0.1)	(0.2)	2.0	4.1	Interest Rate Charged	% 6.00 6.00 6.78 6.78 6.78 6.78
PCFR	x	na	na	na	na	2.1	1.0	VALUATION (fully diluted) at 15% discount rate	
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Woodlark (80%)	\$M 136.8 \$ 0.08
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	Exploration	\$M 30.0 \$ 0.02
Franking	%	0	0	0	0	0	0	Corporate / Other	\$M (18) \$ (0.01)
Payout Ratio	%	0%	0%	0%	0%	0%	0%	Net Cash (Debt)	\$M 21.1 \$ 0.01
Gearing D/E	%	na	na	na	27.8	73.0	18.6	Total	\$M 169.9 \$ 0.10
Interest Cover	x	0.0	7.4	8.8	8.0	11.1	10.3		
EBITDA Margin	%	na	na	na	na	52.8	54.3		
EBIT Margin	%	na	na	na	na	48.4	44.1		
Return On Assets	%	(4.1)	(3.2)	(2.5)	(2.2)	13.8	25.4		
Return On Equity	%	(4.2)	(2.9)	(2.3)	(2.9)	16.5	25.5		
Eff Tax rate	%	0	30	30	30	30	30		

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):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@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:	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:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Amelia Holland	+61 (0)2 9239 9614	aholland@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@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

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