

17 August 2011

## Frontline Gold

Year End	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/09	0.0	(0.4)	(0.7)	0.0	N/A	N/A
12/10	0.0	(4.3)	(1.2)	0.0	N/A	N/A
12/11e	0.0	(1.0)	(1.1)	0.0	N/A	N/A
12/12e	0.0	(1.0)	(1.2)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

### Investment summary: Gold junior in the making

Frontline Gold has completed the preliminary exploration programme at its flagship Niaouleni property in Mali. While no compliant resource data is available, we expect some clarity on this issue in H211. Based on our internal resource estimate, we derive Frontline's risk-adjusted equity value of C\$12m, a 64% upside from current levels. While we see execution, financing and dilution risks, we expect the stock to perform on the back of a discovery announcement.

#### Niaouleni: Awaiting compliant resource data

On the basis of our comparative analysis of cost per ounce of gold discovery, we calculate that Frontline could deliver a resource at Niaouleni of 370koz with an additional C\$6-7m expenditure needed to top the 1Moz threshold. We would therefore be looking for the maiden NI 43-101 compliant resource estimate after the completion of the announced field programme, followed by resource updates subject to further exploration activity at Frontline operations.

#### Menderes and Poly/Stewart to provide valuation upside

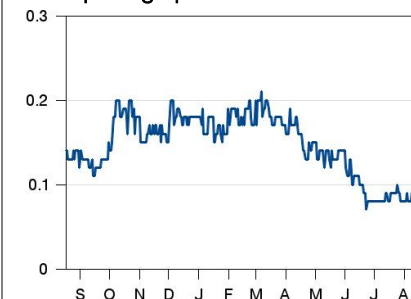
At this stage, we attach zero value to Frontline's Turkish and Canadian gold assets, since we consider them to be in a very early stage of exploration cycle with no expenditure or resource estimates available. Having said that, we believe these assets are capable of delivering large-scale resource discoveries and therefore represent substantial valuation upside, once reasonable investments are made.

#### Valuation: Base-case risk-adjusted value of C\$12m

Given the lack of any resource data, we employ a two-stage valuation approach for Frontline. We estimate Niaouleni's resource based on the comparable historical cost of discovery and then place it on an EV/Resource multiple derived from our peer group valuation. Finally, we applied a 50% haircut to account for the substantial execution, financing and dilution risks. Frontline's stock has recently been under pressure and is now trading close to its historical lows. We believe that the risk/reward proposition is unlikely to improve until the company delivers on investors' resource expectations at its flagship Niaouleni operation.

Price 8.0c  
Market Cap C\$7m

#### Share price graph



#### Share details

Code FGC  
Listing TSX-V  
Sector Metals and Mining  
Shares in issue 87.8m

#### Price

52 week High 20c Low 7c

#### Balance Sheet as of 31 March 2011

Debt/Equity (%) N/A  
NAV per share (C\$) 0.08  
Net cash (C\$m) 0.71

#### Business

Frontline Gold is a junior gold company with assets spread across Mali, Turkey and Canada. In 2009/11, the company raised more than C\$7m in financing that was subsequently spent on asset acquisitions and exploration. Frontline's flagship Niaouleni gold project is the most advanced of its projects.

#### Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

#### Revenues by geography

	Europe	US	Other
UK	N/A	N/A	N/A

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## **Investment summary: Gold junior in the making**

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### **Company description: Three assets in three regions**

Frontline Gold is a junior gold company with assets spread across three regions – Mali (gold), Turkey (gold) and Canada (polymetallic). Over the course of 2009/11 the company raised more than C\$7m in financing, which was subsequently spent on asset acquisitions and exploration. Frontline's flagship Niaouleni gold project has seen more than C\$3.0m in expenditure and is in the most advanced stage of development. That said, no NI 43-101 compliant resource data is available for this project or for Frontline's other assets.

### **Valuation: Base case risk-adjusted value of C\$12m**

For the purpose of Frontline's valuation, we estimate the potential resource of Niaouleni by comparing it with the similar Kobada project run by African Gold Group in Mali. We then apply a C\$63/oz EV/Resource multiple derived from our peer group valuation. Finally, to account for the execution risk we impose a 50% haircut to arrive at our base-case risk-adjusted equity value of C\$12m, which implies a 64% premium to the current market price. While the risk/reward proposition may not look very appealing at this stage due to execution, financing and dilution risks, we expect the stock (which currently trades at historical lows) to perform on the back of the anticipated resource update. On a positive note, our valuation does not take into consideration other Frontline assets due to the very early stage of exploration and lack of resource data.

### **Sensitivities: All eyes are on resource recognition**

Given its exploration profile, Frontline's success in discovering meaningful resources appears to be the key driver behind its valuation. As the field exploration programme at Niaouleni has just been completed, the company is expected to produce maiden NI 43-101 compliant resources in the short to medium term. Assuming more than C\$3.0m in investments to date, our comparative analysis of gold discovery costs suggests the Niaouleni resource might come in at c 370koz. However, our concern is that despite the long history of exploration at Niaouleni and significant capex, no reliable indication of the potential resource base has ever been produced. Furthermore, the company may need to spend more on exploration to deliver a reasonable resource as current capex seems low relative to the C\$10/oz cost of discovery at the similar Kobada Gold Project.

### **Proven track record of equity raising**

So far, Frontline has been successful in raising equity financing with almost C\$7m proceeds in 2009/11 YTD spent on asset acquisitions and exploration programme financing. Matching the capital inflows (C\$1.3m raised YTD) and the company's investment commitments, we believe it is likely to become cash negative by the end of 2011. While the preliminary exploration programme at Niaouleni is almost complete, the company will need to raise more money to cover operating costs and fund exploration of Menderes (Turkey) and Poly/Stewart (Canada) as well as some additional work at Niaouleni (Mali). That said, the Poly/Stewart 2011 exploration budget has been fully funded.

### **Experienced management**

The management team boasts a solid track record of developing mining start-ups with key senior team members having multi-year experience in the exploration industry.

## Company description: Three assets in three regions

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Frontline Gold's assets are spread across three countries, Mali (gold), Turkey (gold) and Canada (polymetallic). Frontline's flagship Niaouleni gold project in Mali has seen more than C\$3.0m in expenditure and is in the most advanced stage of development. That said, no NI 43-101 compliant resource data is available either for this project, or for Frontline's other assets, the Menderes gold project in Turkey and the Poly and Stewart projects in Canada.

## Niaouleni: Frontline's flagship operation

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Located in Mali, West Africa, Niaouleni is the core asset for Frontline. To date, the company has spent more than C\$3m on exploration and development of the property, completing the two-phase exploration programme proposed by the consultants ACA Howe. While no compliant NI 43-101 resource data is available at this stage, the company suggests that a delineation of at least some 250koz of inferred resources is potentially achievable. We understand that some clarity on the resource may be provided in H211.

### Overview

Frontline Gold acquired a 100% interest in the Niaouleni mineral property in Mali, West Africa, from Touba Mining in 2009, valuing the asset at C\$1.4m (C\$0.25m in cash and 7.14m in shares of Frontline). In addition, a further C\$0.25m was paid for the historic exploration data.

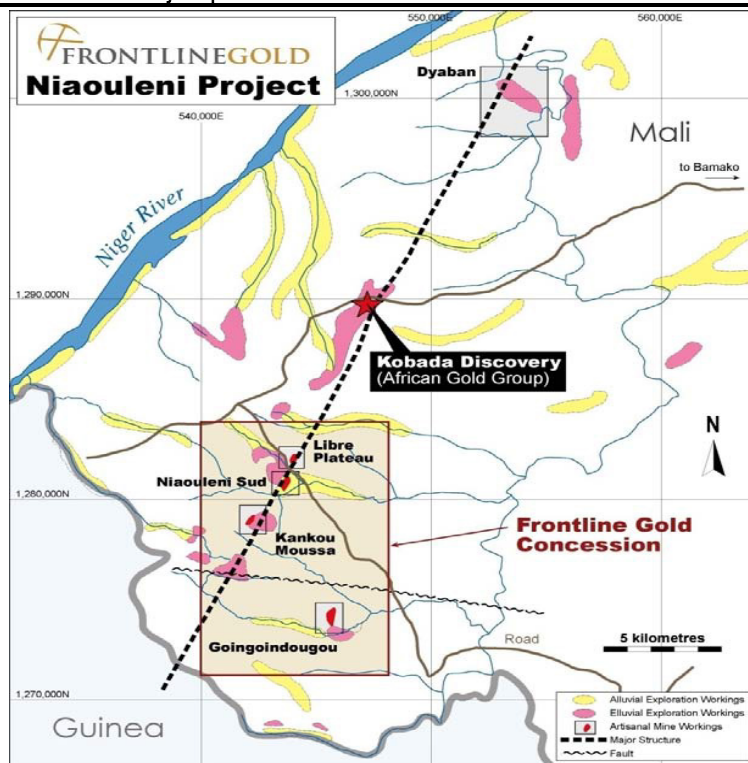
Niaouleni is located in south-western Mali, adjacent to the Guinean border and approximately 150km south of the Malian capital Bamako. While the artisanal work on the property dates back to the 14th century, in-depth exploration of Niaouleni has been undertaken by public and private companies since the 1960s. Most recently, extensive exploration work was conducted by Mink (which owned the asset from 1990 to 1999) and Touba/Crystal Resources (subsequently). We understand that Mink spent some C\$6.4m on exploration of the property and was about to bring it to the internal pre-feasibility study, but failed to raise further financing (in the environment of much lower gold pricing) and ceased operations. All in all, more than C\$10m was invested in the property and more than 5,000m of drilling was completed at Niaouleni before its acquisition by Frontline. That said, despite the significant exploration effort made by the previous owners of the property, according to the company, a substantial part of historic information available to Frontline appears to be inaccurate.

### Geology

The Niaouleni property is underlain by rocks of the Archaean to Lower Proterozoic Birimian group, which form part of the West African Craton. Deposit types on the property include shear-hosted quartz vein, stringer and stockwork gold mineralisation hosted by Birimian metasediments, eluvial gold deposits in laterite and saprolite above shears as well as alluvial deposits in the drainage channels on the property. Gold is observed as fine grains within iron-stained quartz, associated with pyrite, magnetite and haematite. Angular gold nuggets are frequently observed in the eluvial and alluvial deposits.

Extensive mapping, pitting, trenching and geophysical surveys and limited drilling have been conducted by the previous operators of the property. Subsequently, four major areas of eluvial and hard rock mineralisation were defined with potential for the development of significant open pit eluvial gold resources. These areas are known as Lebre Plateau (gold mineralisation comprises stockwork zones up to 25m wide), Niaouleni South (a series of discontinuous, auriferous quartz veins), Kankou Moussa (mineralisation reflects saprolite hosted, gold bearing quartz-stringer zone) and Goingoindougou (gold-bearing quartz stockworks and veins).

#### Exhibit 1: Niaouleni Gold Project permit area



Source: Frontline Gold

#### Resources: Niaouleni versus Kobada

No reliable up-to-date data on resources compliant with NI 43-101 are available at this stage. Historical data compiled by Mink (shown in Exhibit 2) suggest that the above-mentioned four areas might only contain some 51koz of gold. Clearly, this number does not look very impressive and is overly conservative, in our view. From our discussions with the company, we gather there is no backup data on how Mink established the resource base as well as no understanding as to what method was used. Therefore, there are potentially significant errors in the resource calculations for all areas except for Goingoindougou, where the resource estimate was established by Geant de la Geology et du Genie (3G) in 2002. We understand that the company expects to see at least some 250koz in inferred resources at the property, based on the available historical data and following completion of the preliminary exploration programme.

**Exhibit 2: Frontline's historical reserve data (non NI 43-101 compliant)**

	Type	Average width, m	Length, m	Depth, m	Tonnes	Grade, g/t	Gold, oz
Libre Plateau	Eluvial	200.0	300.0	27.0	79,500	1.4	3,681
Niaouleni South (North of the Dyke)	Quartz veins	3.2	130.0	65.0	150,000	5.8	27,778
Niaouleni South (South of the Dyke)	Quartz veins	3.0	60.0	65.0	164,000	1.1	5,905
Goingindougou	Eluvial	20.0	500.0	20.0	300,000	1.4	13,214
<b>Total</b>					<b>693,500</b>	<b>2.3</b>	<b>50,578</b>

Source: Frontline Gold, Edison Investment Research

In our attempt to provide an estimate for Niaouleni's resource base we looked at the nearby Kobada gold project, which is being developed by African Gold Group. Kobada consists of three concessions that cover 216km<sup>2</sup> and is contiguous to the north of Niaouleni. In May 2008, AGG unveiled its NI 43-101 compliant inferred resource for Zone 1 of the project (which represents c 10% of the overall Kobada trend), which showed 0.74Moz of gold at 1.1g/t average grade and 0.3g/t cut-off. In July 2011, AGG provided an NI 43-101 compliant Preliminary Economic Assessment (PEA), which among other things contained an updated inferred resource estimate for the same Zone 1 of 1.09Moz (0.48g/t average grade and 0.1g/t cut-off). AGG believes that Kobada has multi-million ounce gold potential and continues its exploration with some C\$2m spent YTD. The deposit occurs within a south-west trending shear zone that strikes south into the northern part of the Niaouleni property and appears to represent the northern continuation of the mineralisation in Kankou Moussa and the anomalous trends to its immediate west.

Between the inception of the drilling programme at Kobada and the end of 2010, we estimate that AGG spent C\$10.4m on exploring this property. This translates into a cost per ounce of gold discovery of some C\$10/oz. This, in turn, is broadly in line with Edison's in-house estimate of the discovery cost for Canadian companies (for more details see our report [Gold – Valuation benchmarks are obsolete](#) published in January 2010).

### Capital outlays: Two-stage exploration programme

Following the detailed examination of the property and available historical data, consultants from ACA Howe proposed a two-stage field exploration programme to advance the Niaouleni project. Overall expenditures for both stages of the programme (primarily focused on RAB and diamond drilling) were estimated at C\$2.4m. We understand that the company has been closely following this recommended programme and therefore should have drilled some 10,650m (RAB) under the first phase and another 7,000m (RAB drilling) and 5,000m (diamond drilling) under the second. We understand that this field exploration programme was successfully implemented by mid-2011. With some moderate cost overruns in place, the company estimates overall costs of around C\$3.5m.

Our analysis of cost per ounce of gold discovery suggests that Frontline might need to invest more in the exploration at Niaouleni to produce any meaningful resource (some C\$6-7m to hit the 1.0Moz threshold might be needed), which would allow it to proceed with a PEA assessing mining economics at the property. We would therefore be looking for the preliminary resource estimate compliant with NI 43-101 after completing the announced two-stage programme, with consequent resource updates dependent on further drilling at the property.

## Menderes: Promising gold project in Turkey

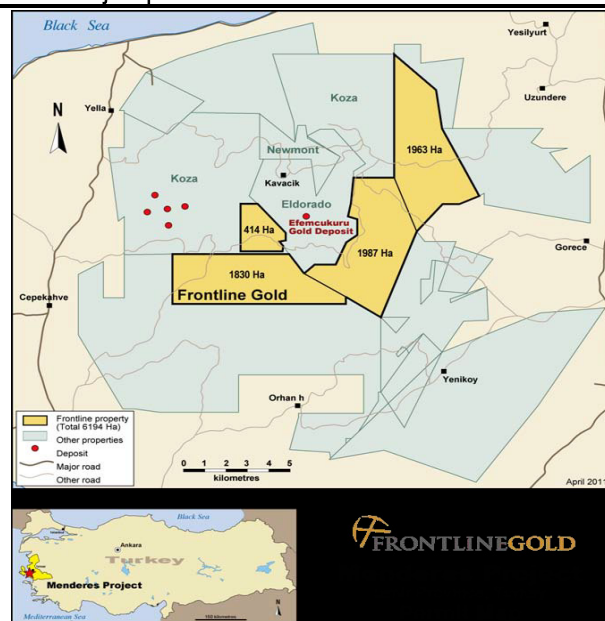
Through its 90% owned Turkish subsidiary, Frontline holds four early-stage exploration permits totalling 62km<sup>2</sup> of land in the Izmir Province, Western Turkey. The remaining 10% of Menderes is controlled by Aegean Gold, Frontline's local partner, with which a strategic partnership was formed to acquire and exploit mineral concessions in Turkey. In 2009-10, Frontline incurred some C\$135,000 in acquisition costs and C\$238,000 in exploration expenses related to the property and has written-down some C\$62,000.

In March 2011, the company announced a C\$0.5m exploration programme, which was substantially advanced in May with geological prospecting and mapping, rock and soil geochemical sampling, trenching and detailed sampling around old workings. By late June, the soil geochemistry programme had also been completed. As a result, three distinct structural zones in the north-east, central and south-west regions of the Menderes property were interpreted in addition to the previously mapped geological structures (ie two historic workings that were uncovered by May 2011). Mapping of the latter outlined an epithermal vein system, while assays of rock and soil samples yielded some significant anomalous Ag, As, Cd and Mn values.

After the completed analysis of the soil geochemistry programme an IP survey was started in July 2011. We understand that the company is contemplating a diamond drill programme of up to 2,000 metres to test for the extensions of the epithermal vein system. The drilling programme is expected to begin in September 2011. We understand that at this stage there is no estimate for the overall exploration cost that the company might incur.

While it is too early to speculate on the potential resource base of the Menderes property, it is nevertheless worth mentioning that Frontline's gold permits are contiguous to the nearby Eldorado gold project, which has proven and probable reserves of 1.5Moz of Au at 9.1g/t and measured and indicated resources of 1.7Moz at 9.55g/t.

### Exhibit 3: Menderes Gold Project permit area



Source: Frontline Gold

## **Poly/Stewart: Canadian polymetallic expansion**

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The Poly and Stewart projects are based in the Stewart Gold Camp in NW British Columbia. This is an evolving gold camp that hosts one of the world's richest Kuroko-type VMS precious metal deposits as well as one of the world's largest undeveloped Cu-Au porphyry deposits, KSM/Snowfield/Brucejack, with over 94Moz of Au, 607Moz of Ag and 14B lbs Cu in resources. The Poly Project is contiguous with Mountain Boy Minerals and Great Bear Resources mineral tenures that host the BA Ag-Pb-Zn VMS deposit as well as with Teuton/Sabina's tenures that host the Del Norte VMS trend. As far as the Stewart project is concerned, its western tenures are contiguous with the KSM (Seabridge Resources) and Snowfield/Brucejack (now Pretivm Resources) properties.

In June 2011, Frontline announced the commencement of the field programme at the Poly and Stewart properties with overall exploration expenditure for 2011 expected to be at least C\$1.0m.

### **Poly and Lord Nelson properties**

In August 2010, the company optioned the Poly mineral tenures in the Stewart Gold Camp of the Skeena Mining Division, British Columbia. According to the option agreement, Frontline may acquire an initial 70% interest in Poly by paying C\$165,000, issuing 325,000 shares and spending C\$1.5m in exploration expenditures (from 2010 to 2015). To date, the company has spent C\$200,000 on exploration and contributed C\$25,000 by issuing 125,000 shares. On earning the initial 70% stake, Frontline can acquire an additional 30% by paying C\$500,000 for each incremental 5% interest, which would translate into an overall price of C\$3.0m for the additional 30% stake.

In October 2010, the Poly Property was expanded to 57km<sup>2</sup> by obtaining the right to acquire a 100% stake in Lord Nelson Tenures (LNT), a group of mineral claims contiguous with the south-east boundary of the Poly Property. The LNT fall within the area of influence of the Poly Property and are considered to be a part of Poly. To maintain the option the company will have to make option payments of C\$195,000 and spend C\$1.2m on exploration in five years.

The first phase of the 2011 helicopter-supported exploration programme on the Poly Project was initiated by Geofine Exploration Consultants in June 2011. The follow-up geological and geochemical surveys have either been carried out or are under way on the seven target areas of the Poly property: Upper Grid, Lower Grid, Classic VTEM anomaly, SP Zone, Central VTEM anomaly, North Central VTEM anomaly and the LNT. Approximately 1200 samples have been collected to date, along with mapping activities on mini grids and control lines totalling about 13km.

The fieldwork has focused on locating and prioritising drill targets by:

- evaluating a number of 2010 VTEM anomalies recommended by Geotech;
- evaluating alteration zones associated with favourable structural fabric and intrusive rocks on the SP Zone;
- determining the full extent and postulated source areas of the prominent VMS type MMI-M soil anomaly (Au-Cu, Ag-Pb-Zn) on the Lower Poly Grid; and

- evaluating a zone of historic AEROTEM EM anomalies associated with a prominent alteration zone at the contact of Bowser sediments and Hazelton Group rocks on the LNT.

To date drill sites, subject to the results of the above surveys, have been established on the Upper Grid (X Zone), Upper and Lower Classic VTEM anomaly, Lower Central VTEM anomaly and on a number of SP alteration zones.

The second phase of the 2011 Poly program could total about 1500m to test the highest priority targets on the property, if a diamond drill becomes available in August.

## Stewart property

In a similar deal to the Poly property, in August 2010 Frontline optioned the Stewart mineral claims in the Deltaic Creek area of the Skeena Mining Division, British Columbia. According to the agreement the company has an option to acquire an initial 70% interest in the Stewart property by paying C\$225,000, issuing 575,000 shares and incurring C\$1.5m exploration expenditures over five years. The additional 30% may then be bought out by paying C\$500,000 for each incremental 5%, which would translate into an overall payment of C\$3.0m.

The project covers a potentially large Cu-Au porphyry system, which includes apophyses of intrusive rock. The target is a large magnetic anomaly with a strong Cu-Au signature in oxidised soil and pyritized rock samples. Based on historic drilling, five follow-up drill holes totalling approximately 2,200m are recommended. Furthermore, the 2010 VTEM survey has outlined six new target areas and confirmed four others.

The Phase 1 geological and geochemical surveys will be initiated in mid-August as the first evaluation of the new targets. Subject to additional funding, testing the currently delineated drill targets could start in late August.

## Experienced management team

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We believe the company has a highly-experienced management team with a proven track record of developing mining start-ups. Below, we discuss the main accomplishments of Frontline's key members of management team. It is worth noting here that almost all key top managers of the company have multi-year experience in the exploration industry.

- **Walter Henry, president and CEO.** Mr Henry has extensive financial expertise in the exploration industry. Before Frontline, he served as CFO of Royal Nickel and Tiburon Minerals. At present, he also holds the position of director at Merrex Gold.
- **Greg Isenor, VP exploration and director.** Mr Isenor has 40 years of resource exploration experience. He currently serves as president, CEO and director at Merrex Gold and holds the position of director at Riverstone Resources. Before that, Mr Isenor was president, CEO and director at Jilbey Gold Exploration, which was sold for C\$35m to High River Gold.
- **Jean-Marc Gagnon, exploration manager, West Africa.** Mr Gagnon is a former exploration manager of Merrex Gold in West Africa.

Importantly, almost all Frontline's managers hold similar positions with Merrex Gold, which has a close relationship with Frontline. Merrex controls the major Siribaya gold project in West Mali. The project is operated by IAMGOLD, which retains a 50% earn-in interest. It has established an NI 43-101 compliant resource base and continues its extensive exploration programme aiming at larger-scale resource discovery.

## Sensitivities

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The most prominent risk attached to the company, in our view, is its ability to deliver on the anticipated resource discovery at its flagship Niaouleni operation in Mali. Among other issues are financing, execution and dilution, as well as corporate governance and commodity pricing.

### Resource discovery

Given Frontline's exploration profile, its success in delineating meaningful resources appears to be the key driver behind its valuation. Despite its field exploration programme at Niaouleni having already been completed, the company has not yet announced an NI 43-101 compliant resource. Based on the comparable gold discovery cost per ounce, our base case estimate is some 370koz, which is broadly in line with the company's internal expectations. That said, our biggest concern is that, despite the long history of exploration of Niaouleni (dating back to 1962) and significant capex spent to date (c C\$13m), no reliable indication of the potential resource base has ever been produced. We therefore provide a scenario analysis of Frontline's valuation depending on the potential resource discovery (see Valuation section on page 9).

### Equity financing

While Niaouleni's exploration is almost complete and at this stage requires no further funding, the company needs more cash to finance exploration of its Poly/Stewart and Menderes properties. Given Frontline's major source of financing is equity, any further deterioration of market conditions and investors' risk aversion might have an adverse impact on the company's ability to raise more money on exploration. Importantly, over the course of 2010/11, Frontline has successfully raised some C\$7m in equity financing that was subsequently spent on the property acquisition and Niaouleni exploration. While exploration at Niaouleni may eventually require more financing, the company has already indicated some C\$1.0m in exploration expenditures for Poly/Stewart in 2011 (has already been funded) with an additional C\$0.5m in investment commitments in Menderes. This means that more equity financing will have to be raised. In this respect, the recent failure to fully finalise a C\$4.0m private equity placement might look somewhat alarming. We expect the company to re-enter capital markets once investment sentiment improves and risk aversion abates.

### M&A and corporate governance

So far, we have encountered one event in Frontline's M&A activity that, in our view, had value-destructive implications for the company and its minority shareholders. In 2009, Frontline acquired a 50% interest in the Jubilee zinc-lead project from its related party Merrex Gold for a total consideration of C\$3.2m and C\$0.4m in subsequent exploration expense. In 2010, the asset was sold back to Merrex Gold for some C\$0.5m in Merrex shares. This deal triggered a C\$2.7m write-down on Frontline's P&L.

We expect more positive developments on the M&A front. We understand that the company might be looking to acquire additional adjacent exploration permits in Mali once the opportunity arises. Needless to say that any potential acquisition might substantially improve Frontline's exploration profile and therefore would have positive implications for its valuation.

### **Equity dilution**

Given that the company is planning to undertake exploration of the Poly/Stewart and Menderes projects, and assuming that more cash might be spent on further exploration of Niaouleni, additional equity financing will be needed to keep the company going. The relatively large scale of Frontline's Turkish and Canadian assets as well as the high risk of exploration cost overruns at Niaouleni suggest that material equity dilution might be on the cards for minority shareholders. That said, we note that the Poly/Stewart 2011 exploration programme has already been successfully financed by the company.

## Valuation

Given the very early stage of exploration and lack of any resource data, we employ a two-stage valuation approach for Frontline. First, we estimate Niaouléni's resource base by comparing its overall exploration cost with the historical expense incurred by AGG at its Malian Kobada project. The project is located close to Niaouléni and we believe has similar geology. We then put our resource estimate on an EV/Resource multiple derived from peer valuation. Second, we applied a 50% haircut to account for the substantial risks associated with the lack of compliant resource data, further potential dilution and uncertainty with future equity financing. Frontline's stock has recently been under pressure and is now trading at historical lows. We believe the risk/reward proposition is unlikely to improve until the company delivers on investors' resource expectations at its flagship Niaouléni operation.

### Base-case valuation of C\$12m

To derive Frontline's indicative resource estimate we looked at African Gold Group (AGG), which explores the similar Kobada gold project in Mali. Kobada is just 5km from Niaouléni and we believe has similar geology. AGG has recently provided a favourable NI 43-101 compliant PEA for the project, accompanied by a resource update showing 1.1Moz (0.5g/t grade, 0.1g/t cut-off) of gold. We estimate that AGG spent almost C\$10m in capex in 2006/10 to deliver this resource, which would translate into a C\$10 cost per ounce of gold discovery. This is broadly in line with our analysis of discovery costs per ounce of resource, which showed a C\$12/oz historical cost for Canadian companies (see [Gold – Valuation benchmarks are obsolete](#), published in January 2010).

#### Exhibit 4: Frontline base-case valuation using the comparable Kobada project details

Kobada expenditure (2006-10), C\$	10,382,269
NI 43-101 up-to-date resource (0.1g/t cut-off), oz	1,093,000
Implied cost per oz, C\$/oz	9.5
Frontline's Niaouléni expenditure, C\$	3,500,000
<b>Implied resource, oz</b>	<b>368,465</b>

Source: Company data, Edison Investment Research

Our base-case valuation of Frontline implies an equity value of C\$23m. It is based on the estimated inferred resources at Niaouléni of c 370koz of gold and an EV/Resources multiple of C\$63/oz (see Exhibit 7). On top of this, we apply a 50% discount to account for the potential execution, financing and dilution risks, which finally resulted in C\$12m risk-adjusted equity value. All in all, our valuation implies 64% upside from current market levels and does not take into consideration other assets of the company, ie Menderes and Poly/Stewart, due to their very early stage of exploration and lack of resource and capex information. At some point, this might represent an upside risk to our valuation.

**Exhibit 5: Frontline base-case valuation**

Estimated resources	oz	370,000
Applied multiple	Number	63.0
<b>Implied EV</b>	<b>C\$m</b>	<b>23.3</b>
Less net debt, minority	C\$m	0.3
<b>Implied Equity</b>	<b>C\$m</b>	<b>23.0</b>
<b>Risk-adjusted value (@ 50% discount)</b>	<b>C\$m</b>	<b>11.5</b>
Number of shares	m	87.8
Value per share	C\$	0.13
Current share price	C\$	0.08
Upside/(downside)	%	64%

Source: Edison Investment Research

**Scenario analysis**

Poor visibility and lack of compliant resource data prompts a close look at our valuation scenario analysis, which is shown in Exhibit 6 below. Our net debt estimate takes into consideration additional investments that might be needed to deliver a larger resource base (we inflated the C\$10/oz number to C\$12/oz to allow for potential cost overruns). On the basis of this, Frontline's current market valuation implies an intrinsic resource of only 130koz of gold. Our base case c 370koz resource discovery would put the stock on an EV/Resource multiple of just C\$20/oz, the lowest in our West African pre-production junior gold universe (see Exhibit 7). At the moment, Frontline stock trades at 1x P/NAV, which, in our view, reflects high execution and financing risks. We believe that the risk of possible failure to deliver a meaningful resource is visible and should not be overlooked by investors. That said, we believe that the company has quality assets that are potentially capable of large scale gold discovery subject to the appropriate exploration expenditure.

**Exhibit 6: Frontline's valuation scenarios**

<b>Difference</b>	<b>-32%</b>	<b>Base case</b>	<b>35%</b>	<b>103%</b>	<b>170%</b>	<b>238%</b>
Estimated resource, oz	250,000	370,000	500,000	750,000	1,000,000	1,250,000
Applied multiple	63.0	63.0	63.0	63.0	63.0	63.0
<b>Implied EV, C\$m</b>	<b>15.8</b>	<b>23.3</b>	<b>31.5</b>	<b>47.3</b>	<b>63.0</b>	<b>78.8</b>
Less net debt/minority, C\$m	0.3	0.3	1.8	4.8	7.8	10.8
<b>Implied equity, C\$m</b>	<b>15.5</b>	<b>23.0</b>	<b>29.7</b>	<b>42.4</b>	<b>55.2</b>	<b>67.9</b>
Risk-adjusted equity, C\$m	7.7	11.5	14.8	21.2	27.6	34.0
Number of shares, mn	87.8	87.8	87.8	87.8	87.8	87.8
Value per share, C\$	0.09	0.13	0.17	0.24	0.31	0.39
Current price, C\$	0.08	0.08	0.08	0.08	0.08	0.08
Upside/(downside)	10%	64%	111%	202%	292%	383%

Source: Edison Investment Research

**Peer valuation**

To derive the appropriate target EV/Resource multiple for Frontline's valuation we looked at a number of the public junior gold companies with a predominant exploration focus on West Africa. Most of these companies are of a larger scale than Frontline and already have an NI 43-101 compliant resource. For the purpose of Frontline's valuation we therefore chose companies that have not yet reached the production stage. In addition, we believe that the applied 50% valuation discount fully captures the company's execution risk in absence of NI 43-101 compliant resource data.

**Exhibit 7: Junior gold peer group relative valuation**

Note: Priced at 16 August 2011.

	Price (C\$)	M cap (C\$m)	EV (C\$m)	Attributable resources (koz)			EV/Res.	Mcap/Res.
				M&I	Inferred	Total		
<b>In production</b>								
Avnef Gold	0.53	125.5	109.5	816	199	1,015	107.9	123.6
Avion Gold	2.23	905.8	894.7	1,280	2,072	3,352	266.9	270.2
Resolute Mining	1.41	658.5	790.4	5,121	3,074	8,195	96.4	80.4
Endeavour Mining	2.44	276.9	79.9	1,919	891	2,810	28.4	98.6
<b>Weighted average</b>							<b>175.6</b>	<b>173.1</b>
<b>In exploration</b>								
Orezone	3.6	322.6	272.6	2,321	2,170	4,491	60.7	71.8
Volta	1.76	235.7	206.2	1,384	1,553	2,937	70.2	80.3
PMI Gold	0.54	131.8	88.2	389	1,168	1,557	56.6	84.7
Oromin	0.94	96.6	96.6	2,186	357	1,106	87.4	87.4
Signature Metals	0.02	51.7	37.7	-	-	1,029	36.7	50.3
Riverstone Resources	0.52	55.7	51.7	730	1,119	1,849	28.0	30.1
<b>Weighted average</b>							<b>62.8</b>	<b>73.8</b>

Source: Company data, Bloomberg, Edison Investment Research

## Financials

All of Frontline's projects are at a very early stage of exploration and are unlikely to be in production in the medium term. The company has been consistently reporting net losses and negative operating and free cash flows. In 2010, Frontline published a net loss of C\$4.1m, including C\$3.2m of property write-down related to the sale of the Jubilee Zinc project, and an EBITDA loss of C\$1.0m. In Q111, its EBITDA and net loss reached C\$0.7m and C\$0.6m respectively. As of March 2011, the company had a net cash position of C\$0.7m. However, taking into consideration all recent equity placements, the company is likely to become cash negative after completing its Niaouléni field exploration programme, which is expected to trigger some C\$3m in expenditure in H111. While we believe that prudent working capital management and operating cost control might keep the cash balance positive in FY11, going forward the company will need to tap equity markets to cover operating costs and fund further exploration and growth.

## Equity financing

As shown in Exhibit 8, Frontline has successfully funded its operations via equity financing. Over the course of 2009/11, the company has raised almost C\$7m (excluding shares placed for assets) in net proceeds that were consequently spent on asset acquisitions and financing the exploration programme at Niaouléni. That said, in July 2011, Frontline has failed to complete an announced share offering of C\$4.0m as only the first tranche has been finalised, bringing some C\$0.7m to the company. We believe that investors' growing risk aversion on the one hand, and lack of clarity on the resource potential of its flagship Niaouléni operation on the other, might have resulted in the poor reception of the latest share issue. At that stage, Frontline's CEO and President Walter Henry supported the company by providing it with C\$0.3m in the form of a short-term debt facility bearing 10% interest. Needless to say, the company's ability to raise more financing through equity or debt will remain the key to its success in its exploration of current and prospective mining properties.

**Exhibit 8: Frontline's equity placement history (excluding shares used in asset acquisitions)**

<b>Date</b>	<b>Shares (000s)</b>	<b>Price (C\$)</b>	<b>Gross proceeds C\$ 000s</b>	<b>Net proceeds C\$ 000s</b>
Mar-09	4,000	0.10	400	257
Dec-09	12,783	0.17	2,173	2,216
	2,518	0.19	478	
<b>Sub total</b>	<b>19,301</b>	<b>0.16</b>	<b>3,052</b>	<b>2,473</b>
Jan-10	600	0.10	60	60
Aug-10	3,226	0.16	500	437
Dec-10	22,898	0.14	3,206	2,893
	3,161	0.17	537	
<b>Sub total</b>	<b>29,885</b>	<b>0.14</b>	<b>4,303</b>	<b>3,389</b>
Feb-11	1,900	0.14	266	662
	3,259	0.17	554	
Mar-11	320	0.10	32	32
Jun-11	4,420	0.15	663	643
<b>Sub total</b>	<b>9,899</b>	<b>0.15</b>	<b>1,515</b>	<b>1,336.383</b>
<b>Total</b>	<b>59,085</b>	<b>0.15</b>	<b>8,870</b>	<b>7,199</b>

Source: Frontline Gold, Edison Investment Research

**Exhibit 9: Financials**

	C\$'000	2009	2010	2011e	2012e
31-December		GAAP	GAAP	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cost of Sales		0	0	0	0
Gross Profit		0	0	0	0
<b>EBITDA</b>		<b>(305)</b>	<b>(1,043)</b>	<b>(986)</b>	<b>(1,013)</b>
<b>Operating Profit (before amort. and except.)</b>		<b>(354)</b>	<b>(1,056)</b>	<b>(1,000)</b>	<b>(1,021)</b>
Intangible Amortisation		0	0	0	0
Exceptionals		0	(3,190)	0	0
Other		0	(23)	0	0
<b>Operating Profit</b>		<b>(354)</b>	<b>(4,268)</b>	<b>(1,000)</b>	<b>(1,021)</b>
Net Interest		0	5	0	0
<b>Profit Before Tax (norm)</b>		<b>(354)</b>	<b>(1,051)</b>	<b>(1,000)</b>	<b>(1,021)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(354)</b>	<b>(4,264)</b>	<b>(1,000)</b>	<b>(1,021)</b>
Tax		0	163	0	0
<b>Profit After Tax (norm)</b>		<b>(354)</b>	<b>(911)</b>	<b>(1,000)</b>	<b>(1,021)</b>
<b>Profit After Tax (FRS 3)</b>		<b>(354)</b>	<b>(4,101)</b>	<b>(1,000)</b>	<b>(1,021)</b>
Average Number of Shares Outstanding (m)		47.6	77.8	87.8	87.8
EPS - normalised (c)		(0.7)	(1.2)	(1.1)	(1.2)
EPS - normalised and fully diluted (c)		(0.7)	(1.2)	(1.1)	(1.2)
EPS - (IFRS) (c)		(0.7)	(5.3)	(1.1)	(1.2)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>4,837</b>	<b>4,499</b>	<b>7,708</b>	<b>9,700</b>
Intangible Assets		0	0	0	0
Tangible Assets		4,837	4,499	7,708	9,700
Investments		0	0	0	0
<b>Current Assets</b>		<b>2,380</b>	<b>2,464</b>	<b>51</b>	<b>51</b>
Stocks		0	0	0	0
Debtors		0	74	27	27
Cash		2,380	2,367	0	0
Other		0	24	24	24
<b>Current Liabilities</b>		<b>(422)</b>	<b>(737)</b>	<b>(1,196)</b>	<b>(4,209)</b>
Creditors		(422)	(737)	(913)	(913)
Short term borrowings		0	0	(284)	(3,297)
<b>Long Term Liabilities</b>		<b>0</b>	<b>(95)</b>	<b>(95)</b>	<b>(95)</b>
Long term borrowings		0	0	0	0
Other long term liabilities		0	(95)	(95)	(95)
<b>Net Assets</b>		<b>6,795</b>	<b>6,131</b>	<b>6,468</b>	<b>5,447</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>(120)</b>	<b>(799)</b>	<b>(764)</b>	<b>(1,013)</b>
Net Interest		0	(5)	0	0
Tax		0	(163)	0	0
Capex		(24)	(2,660)	(3,218)	(2,000)
Acquisitions/disposals		(200)	(42)	(4)	0
Financing		2,638	3,655	1,336	0
Dividends		0	0	0	0
Net Cash Flow		2,294	(13)	(2,651)	(3,013)
<b>Opening net debt/(cash)</b>		<b>(86)</b>	<b>(2,380)</b>	<b>(2,367)</b>	<b>284</b>
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
<b>Closing net debt/(cash)</b>		<b>(2,380)</b>	<b>(2,367)</b>	<b>284</b>	<b>3,297</b>

Source: Company data, Edison Investment Research

