

17 October 2011

## Frontline Gold

Year End	Revenue (C\$)	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	(1.1)	(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: Site visit and update

With an excellent local exploration team and property located near an existing gold mine Frontline Gold's Menderes project in western Turkey has high potential for a new gold deposit. Frontline Gold is expecting approval of drilling permits by mid-November to follow up on encouraging results from geochemical and geophysical surveys. In addition, recent assay results from the Niaoulemi project in Mali prove continuity of existing mineralised zones.

#### Menderes site visit: High gold potential confirmed

We visited Frontline's Turkish properties where we met with the company's CEO and local exploration team. We believe that Menderes has an excellent potential to host low-sulphidation, gold mineralised epithermal vein system. Located only 1.2km and along strike from an existing Au producer, the Menderes project could provide valuation upside to Frontline Gold's assets. That said, any progress on the project is subject to raising more financing, which, given the current equity market conditions, may be an issue for the next three-to-six months. We estimate at least C\$0.25m is needed to get the preliminary resource estimate at the property.

#### Niaoulemi: 80% of diamond drilling processed

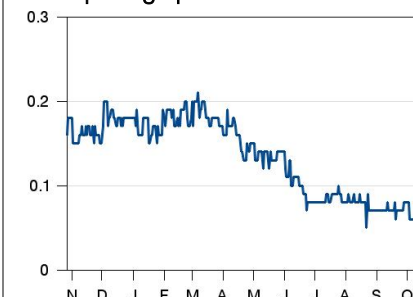
According to the company, recent Au assay results from diamond drilling (1.76 g/t over 8.5m, 8.42 g/t over 3m, and 8.84 g/t over 1m) from 50m step-out holes suggest up- and down-dip continuity of known mineralised zones within the South Niaoulemi mineralised structure. In addition, assays from reverse circulation drilling have potentially increased the R1 mineralised structure within the Gouingoudougou area between 150m and 400m in width. These results suggest good continuity over several mineralised zones or structures.

#### Valuation: Maintaining target of C\$12m

We make no changes to our valuation of the company as we are waiting for more details on Niaoulemi's drilling update and further progress with the Menderes exploration and resource delineation. Our indicative risk-adjusted valuation of Frontline (based on an estimated resource at Niaoulemi) therefore remains at C\$12m.

Price C\$0.06  
Market Cap C\$5m

#### Share price graph



#### Share details

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

#### Price

52 week High Low  
20c 6c

#### Balance Sheet as at 31 March 2011

Debt/Equity (%) N/A  
NAV per share (p) 0.08  
Net cash (£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 Niaoulemi 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

#### Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

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## **Menderes site visit: High gold potential confirmed**

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The Menderes project comprises four permits consisting of 62km<sup>2</sup> in a region of known epithermal veins hosting gold and base metals. A recent site visit confirms the excellent potential of the property hosting Au-mineralised epithermal veins. The gold producing mine, Efemcukuru (Eldorado Gold), is located 1.2km west of one of Frontline Gold's permits. The Efemcukuru gold mine 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. There are two mineralised veins, Kestane Beleni and the Kokarpinar veins, which are currently being mined and explored, respectively, by Eldorado Gold. The Kokarpinar vein appears to outcrop within Frontline Gold's property and is known to contain anomalous precious and base metal values. Two historical workings have also been identified and these adits have also returned anomalous Ag, As, Cd, and Mn values. Several drill targets have been identified based on IP and geochemical anomalies. Frontline Gold is currently awaiting approval of drilling permits and funding to begin an exploration drill programme.

Having said that, we note that the company lacks financing to undertake the drilling, which means that the project will likely to be delayed until equity market conditions improve for the company to raise additional funding. Our rough estimates suggest that the company may need at least C\$0.25m on drilling to be able to establish the preliminary resource estimate for the property.

## **Niaouleni: 80% of diamond drilling processed**

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The company has received approximately 80% of the assays from a 960m diamond drilling completed last May. The main objective of the diamond drilling programme was to follow up on previous drilling on the South Niaouleni gold mineralised structure where 1.06g/t Au over 5.5m and 2.16g/t Au over 6.5m were intersected in holes N-11-DD-23 and 24 respectively. Results, reported 12 October 2011, confirm that the known gold zones have excellent continuity both up and down dip from previous holes. The results to date indicate that the Niaouleni South area contains at least three gold mineralised zones to a depth of 150 metres. They are open the south and are cut to the north by a late diabase dyke. Gold mineralisation was, however, found immediately north of the dyke and continues to the north.

## **Valuation update: C\$12m target maintained**

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We make no changes to our valuation of Frontline as we are waiting for more details on Niaouleni drilling results and maiden resource data as well as further progress on Menderes exploration and resource delineation. Our risk-adjusted fair equity valuation of the company is based on the target EV/Resource multiple of US\$63/oz and an estimated resource potential of Niaouleni of at least 370,000oz. We applied no value for Menderes and Poly/Stewart, which might represent an additional valuation upside. We note that our pre-production junior gold universe has been de-rated slightly with the weighted-average EV/Resource multiple falling from C\$63/oz (as of the date of our Frontline initiation) to C\$57/oz as the sector has not been immune to the general financial markets turmoil. Frontline stock remains at the same C\$0.08/share level, which puts it on an estimated C\$20/oz EV/Resource multiple (based on our estimate for the company's Niaouleni resource potential).

**Exhibit 1: Junior gold peer group relative valuation**

Note: Priced at 13 October 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>								
Avnel Gold	0.52	123.1	107.2	816	199	1,015	105.6	121.3
Avion Gold	2.16	877.4	866.3	1,280	2,072	3,352	258.4	261.8
Resolute Mining	1.69	789.2	921.1	5,121	3,074	8,195	112.4	96.3
Endeavour Mining	2.10	238.3	41.3	1,919	891	2,810	14.7	84.8
<b>Weighted average</b>							<b>175.3</b>	<b>168.0</b>
<b>In exploration</b>								
Orezone	3.47	310.9	260.9	2,321	2,170	4,491	58.1	69.2
Volta	1.32	176.8	147.3	1,384	1,553	2,937	50.1	60.2
PMI Gold	0.58	141.6	97.9	389	1,168	1,557	62.9	90.9
Oromin	0.90	92.5	92.5	2,186	357	1,106	83.6	83.6
Signature Metals	0.02	51.7	37.7	-	-	1,029	36.7	50.3
Riverstone Resources	0.65	69.6	65.6	730	1,119	1,849	35.5	37.7
<b>Weighted average</b>							<b>57.2</b>	<b>68.8</b>

Source: Company data, Bloomberg, Edison Investment Research

**Exhibit 2: Financials**

	C\$'000	2009	2010	2011e	2012e
31-December		GAAP	GAAP	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		0	0	0	0
Cost of Sales		0	0	0	0
Gross Profit		0	0	0	0
<b>EBITDA</b>		(305)	(1,043)	(986)	(1,013)
<b>Operating Profit (before amort. and except.)</b>		(354)	(1,056)	(1,000)	(1,021)
Intangible Amortisation		0	0	0	0
Exceptionals		0	(3,190)	0	0
Other		0	(23)	0	0
<b>Operating Profit</b>		(354)	(4,268)	(1,000)	(1,021)
Net Interest		0	5	0	0
<b>Profit Before Tax (norm)</b>		(354)	(1,051)	(1,000)	(1,021)
<b>Profit Before Tax (FRS 3)</b>		(354)	(4,264)	(1,000)	(1,021)
Tax		0	163	0	0
<b>Profit After Tax (norm)</b>		(354)	(911)	(1,000)	(1,021)
<b>Profit After Tax (FRS 3)</b>		(354)	(4,101)	(1,000)	(1,021)
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>		4,837	4,499	7,708	9,700
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>		2,380	2,464	51	51
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>		(422)	(737)	(1,196)	(4,209)
Creditors		(422)	(737)	(913)	(913)
Short term borrowings		0	0	(284)	(3,297)
<b>Long Term Liabilities</b>		0	(95)	(95)	(95)
Long term borrowings		0	0	0	0
Other long term liabilities		0	(95)	(95)	(95)
<b>Net Assets</b>		6,795	6,131	6,468	5,447
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		(120)	(799)	(764)	(1,013)
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>		(86)	(2,380)	(2,367)	284
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
<b>Closing net debt/(cash)</b>		(2,380)	(2,367)	284	3,297

Source: Edison Investment Research, company accounts

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