Goldplat

Resource expansion

Edison investment research

Tracking the gold price

Mining

Over the past five years Goldplat has operated an increasingly cash generative gold recovery business in South Africa and Ghana that has allowed it to become a market leader in this type of operation. The cash flows generated from these gold recovery businesses have been used to invest in and develop greenfield gold mining in Kenya, Ghana and Burkina Faso, with the Kilimapesa mine in Kenya achieving its first gold pour in January 2012. Following extensive research in West Africa, it was reasoned that a third centralised recovery should be built. Consequently Goldplat has registered a new trading company, Midas Gold SARL and feasibility studies are underway to establish an initial plant in Burkina Faso. Goldplat has the ability to finance these operations through its internal cash flow and is not highly leveraged to the gold price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/11	19.6	3.0	1.56	0.0	6.5	N/A
06/12	26.2	5.2	1.70	0.6	5.9	5.9
06/13e	28.6	4.8	1.93	0.0	5.2	N/A
06/14e	30.8	5.6	2.45	0.0	4.1	N/A

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

Cash-generative core business

Goldplat reported a strong operational performance in H113, with gold production up 16% y-o-y to 17,918oz and gold revenues rising 38% y-o-y to £15.48m. Profit before tax fell 34% to £1.56m, impacted by forex movements which are expected to reverse in H213. A £2.38m non-cash write-down of pre-production costs at Kilimapesa led to a net loss for the half year. £1.95m net cash and strong cash flows support a planned share buy-back programme. The gold recovery businesses in South Africa and Ghana remain the backbone of Goldplat's business, providing cash flow for growth.

Gold resources c 1Moz base (end-2012)

Goldplat's current resource total sits at 931koz Au. Recent exploration at Anumso in Ghana proved disappointing with a resource total of 167koz. Goldplat management has now stated it will not engage in gold projects with less than 30koz per annum production potential. Neither the Anumso nor Nyieme projects in Burkina Faso meet this criteria for further development and Goldplat is now looking at options including disposal or vending into other entities. (NB: This may result in impairment to assets).

Valuation: Revision on Kilimapesa and West Africa

Given operational losses at Kilimapesa and production from the mine halving, we have revised our valuation. In our base case, we model forecast production rates at recovery operations in South Africa, Ghana and Burkina Faso, and the Kilimapesa mine in Kenya for 11 years (FY13-23). Using a US$1,676/oz long-term gold price yields a 19.7p/share dividend discount model valuation. The sum-of-the-parts valuation equates to 24.6p/share, including the attributable value of the JORC resources at Nyieme and Anumso and the residual resource at Kilimapesa.

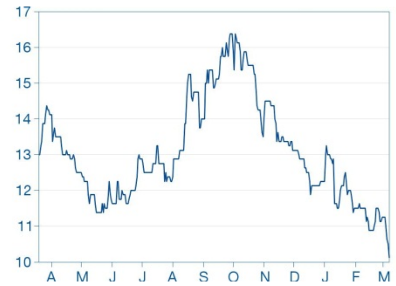
8 March 2013

Price	10.1p
Market cap	£17m

ZAR8.70/US$1; £1/US$1.60

Shares in issue	168.4m
Free float	98.2m
Code	GDP
Primary exchange	AIM
Other exchanges	N/A

Share price performance



%	1m	3m	12m
Abs	16.5	30.9	38.0
Rel (local)	14.4	21.1	18.6
52-week high/low		16.13p	10.1p

Business description

Goldplat is using its position as a small profitable gold producer from its gold recovery operations in Ghana and South Africa to become a mid-tier producer by acquiring conventional mining assets in Kenya, Ghana and Burkina Faso.

Next events

Preliminary results	October 2013

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Investment summary

Company description: African gold evolution

Goldplat plc (Goldplat) differentiates itself from other gold producers in that it derives its main source of production through recovery operations of other gold companies' residual mining "waste" products and tailings from small scale miners. Such "waste" includes by-products of the mining process such as woodchips, carbon fines, gear grease, smelting slag, mill liners and slimes dam returns. The recovery operations essentially act as a service to the gold companies in the safe and economic disposal of mining by-products. Goldplat has carried first mover advantage in this sector to become the market leader in the process with a dominant position of some 60% in the South African market at Goldplat Recovery Pty Ltd (GRL) and the only recovery operation in West Africa, Gold Recovery Ghana Ltd (GRG) which effectively acts as a barrier to entry to competitors. The GRG recovery unit at Tema in Ghana is now to be developed into a centralised recovery plant to service West Africa and not just Ghana alone. By building on the gold recovery business Goldplat has been able to free itself of the constraints of geology and can effectively choose which material from its inventory stockpiles it wishes to process and thereby manage the grades of gold, costs of input and ultimately the gold output. It can also perform this at a low capital cost compared to traditional mining operations. Through the success in this unique operation, Goldplat has been able to acquire small, low-cost conventional mining assets such as the now producing Kilimapesa mine in Kenya, the Anumso gold exploration project in Ghana, and the Nyieme licence in Burkina Faso. Furthermore to ensure increasing profits in the recovery business Goldplat has undertaken research in Burkina Faso which identified significant volumes of tailings from small scale miners at good grades. On the back of this research management has made the decision to establish a new tailings processing unit in Burkina Faso and a new trading company, Midas Gold SARL (Midas) to operate it whilst at the same time considering plans to do the same with Kilimapesa to service the East African gold fields.

Valuation: Still cheap on base case with further upside

We revise our valuation assumptions concerning production output, ramp up and residual resources at the Kilimapesa mine. We have also revised our Gold EV/Resource multiples which have fallen to US$198.23 for each measured gold ounce, US$134.36 for each indicated ounce and negative (US$5.04) for each inferred ounce. Our base case sum-of-the-parts valuation is 24.6p/share with potential for upside if the company is able to replenish gold bearing material stockpiles at the GRL, GRG and Midas gold recovery units on an indefinite basis (FY13-32) as well as continuing production at Kilimapesa to FY32. If Goldplat executes this expansion plan, our sum-of-the-parts valuation is 34.1p/share.

Sensitivities: Replenishment of stockpiles

Upside exists in the replenishment and build-up of the inventory stockpiles at GRL and GRG and the establishment of the new processing unit in Burkina Faso, Midas. Goldplat limits its geological risk through its recovery operations in South Africa and Ghana. Growth however, is expected to remain organic at the GRL operations with profits growing from the introduction of an additional kiln, tailings projects and strategic relationships with Rand Refinery. Potential minor growth exists through increased grade thresholds with a minimum 500g/t required by Rand Refinery for processing of fine carbon contracts. This will ensure that those fine carbon products will require further processing at Goldplat's facilities to bring them up to >500g/t.

Goldplat's geopolitical risk is confined to South Africa, Kenya, Ghana and Burkina Faso. Mining nationalisation remains a risk in these countries, particularly with the recent legislation tabled in Kenyan Parliament referring to a 35% required Kenyan equity interest in any projects.

Financials: Strong underlying cash generation

Goldplat reported a strong operational performance in H113 with gold production up 16% y-o-y to 17,918oz and gold revenues rising 38% to £15.48m. Despite a temporary increase in administrative costs resulting from the change in CEOs, operating profit increased 3% to £2.06m. Profit before tax fell 34% to £1.56m, affected by the £2.38m non-cash write-down of pre-production expenditure at Kilimapesa.

As at 31 December 2012, net cash remained healthy at £1.95m, allowing the company to continue to grow the business in strong market conditions for gold producers. Strong cash generation provides a solid base to fund capital expenditure at Midas and fund greenfield exploration.

For FY12, a maiden dividend was paid at a cover of 2.83 times. Whether Goldplat wishes to sustain a dividend payout going forward may depend on the degree of cash absorption by capital investment in the Midas gold recovery unit in Burkina Faso, and on revised long-term production estimates at Kilimapesa to 5,000oz per annum.

Goldplat management has proposed an 18-month share repurchase plan to repurchase up to 10% of the current shares in issue, which will ultimately boost earnings per share in ensuing years. Management will propose the share buy-back plan at an extraordinary general meeting (EGM) on 22 March 2013.

Company description: Evolving gold producer

Goldplat is the holding company of a group which produces gold on the African continent. Goldplat has become a market leader in the recovery of precious metals from mining infrastructure and waste by-products. Its clients include Anglogold Ashanti, Gold Fields and Golden Star. Following its strategy of developing into a self-financing, profitable gold recovery and mining company in Africa, the company has purchased interests in a range of conventional greenfields exploration assets throughout the African continent, along with a new processing unit in Burkina Faso. It currently has six principal assets:

- An 85% interest in Goldplat Recovery Pty – with operations in South Africa. The remaining 15% is held by Black Economic Empowerment (BEE) entity Amabubesi Capital Pty Ltd. A further 11% is required to be held by BEE entities by 1 May 2014.
- A 100% interest in Gold Recovery Ghana Ltd – with operations in Ghana.
- A 100% interest in Kilimapesa Gold Pty – with assets and operations in Kenya.
- A 90% interest in Anumso Gold Exploration – with exploration assets in Ghana.
- A 100% interest in the Nyieme Licence – with exploration assets in Burkina Faso.
- A 100% interest in Midas Gold SARL – a trading company established in Burkina Faso.

Goldplat Recovery Pty Ltd (GRL) – South Africa

GRL operates from a 22 hectare site near Benoni, Gauteng in the centre of the East Rand Goldfield. The recovery unit is capable of treating material as diverse as woodchips, carbon dust, mill grease, screen oversize from slimes, smelting slag, bio-leach residues, mill liners and slimes dam return water. The recovery operations at GRL and GRG are essentially margin driven with little commodity price leverage. Profitability will continue to be driven by increasing efficiencies and production.

Goldplat's operations are neither legally protected nor is any of the intellectual property (IP) considered proprietary but it has been able to exploit its first mover advantage, such that it now has considerable barriers to entry. The barriers to entry are the size of the operation and although there is no specific IP, the combination of standard and non-standard gold recovery techniques to produce the last ounce is self-developed. GRL has built a wide variety of contracts that it can offer to prospective clients which range from removing low grade material from the client company's site for a negligible charge (typical) to production sharing agreements for high grade material. In addition to the value creating aspects of its business plan, GRL provides client companies with an economic waste disposal solution that meets environmental obligations. Through this business model, GRL and Goldplat have built a substantial blue-chip customer base which includes Anglogold Ashanti, Goldfields, Harmony, Lonmin and Impala Platinum.

To continue growth in the recovery operations, and improve flexibility, GRL is in the process of installing additional circuits to the current recovery operations. These include a fluidised bed incinerator to increase its ability to bid for fine carbon contracts from other mining companies and it will also assist in reducing current stockpiles of gold-bearing material. GRL is also focussing on the re-processing of its existing five year life-of-mine (LOM) slimes dam of c 0.5Mt at 3g/t Au with a carbon-in-leach (CIL) plant nearly commissioned. Test sampling conducted by Goldplat has shown that the operation should improve profitability with minimal capital requirements and operations beyond the initial five year slimes dam. GRL has also secured an additional rotary kiln for ZAR5m (c US$575k), enabling incineration of stockpiled high-grade woodchips and in particular the safe and non-toxic disposal of electrical waste which GRL was not able to perform previously without creating poisonous dioxins. Goldplat has also signed an agreement with a wholly owned subsidiary of Central Rand Gold Ltd (CRG) to recommence gold mining at the Crown Reef and CMR mines in the Central Rand area in South Africa. Subject to due diligence, Goldplat intends to reclaim the high-grade pillars at these mines in return for a 5% net smelter royalty. The ore is intended to be processed at the GRL recovery operations, which would provide simple logistics. Capital expenditure of c ZAR500k (US$60k) would be needed to reach mining production of 200t/month at a grade of 15g/t Au, and is expected to result in a cost per ounce in the lower-quartile range. A recent test run was completed; however, Goldplat is not prepared to move ahead on mining the pillars until safety can be guaranteed. It is expected that third party contractors will be employed to mine the pillars. However, it should be noted that the right to mine the CRG assets does not actually increase output in the long-term, but increases the flexibility of the operations as management essentially operates GRL as a margin business.

Gold Recovery Ghana Ltd (GRG) – Ghana

Located at Tema in Ghana, GRG is strategically situated in the heart of West Africa's gold producing region with access to material from Mali, Guinea, Burkina Faso, Cote d'Ivoire, Senegal, the Democratic Republic of the Congo and Mauritania. The region is also imbued with 'Free Zone' status, meaning GRG will enjoy tax free status until 2015 and will be liable for only 8% corporate tax after that date.

Similar in concept to the South African gold recovery operation, the central GRG site is smaller in scale than its South African counterpart. As GRG is the only gold recovery unit in West Africa it has been extremely successful in building its inventory stockpile of gold bearing material, especially given the fact that GRG also treats fine carbon and that all gold mines in Ghana are encouraged by the Ghanaian government to send their carbon material to Goldplat for recovery. An increase in tailings procured for toll treatment has seen a corresponding increase in GRG gold production with results for FY12 marking the first time that the profitability of Ghanaian recovery operations exceeded those earned in South Africa. The toll-processing agreement with the Nzema Gold Mine (Endeavour Mining) was performing well and has been a significant factor in the increase in gold production for FY12.

GRG operating profits are currently broken down into these percentages:

- Tema CIL – 35%.
- Nzema Gold Mine Toll – 55%.
- Fine carbon gold Recovery – 10%

Thus, GRG is much more of a toll and tailings treatment operation. Goldplat management notes the need to increase long-term contracts with the gold majors to increase the recovery side of the business.

Midas Gold SARL (Midas) – Burkina Faso

In order to embed itself further into the West African gold scene, Goldplat management undertook research into the potential of Burkina Faso as a country in which to build a third gold processing unit. Given Burkina Faso is the fourth largest gold producer in Africa, after South Africa, Mali and Ghana, Goldplat has registered Midas Gold SARL as the trading company of Goldplat's Burkina Faso gold recovery unit. Original plans were for replicating the GRG operations. However, Goldplat management believes that Midas would best be used as a toll treatment operation initially for small-scale mine operations as it minimises the capex required for infrastructure. Given this consideration, a Scoping Study conducted by Goldplat suggests a cost of US$1.5-2m on a carbon-in-leach (CIL) plant. GRG will remain as the production hub for West Africa in the near term. Feasibility reports are currently underway into the development of the unit and initial designs have been drawn. The site chosen is within the vicinity of the Nyieme licence. Midas is preparing an Environmental Report, which is the final report required in order to submit an operating licence application.

Kilimapesa Gold (Kilimapesa) – Kenya

The Kilimapesa Gold project located on the Migori Archaean Greenstone belt in south west Kenya represents the northern continuation of the famed Lake Victoria goldfield in Tanzania which includes African Barrick Gold's (ABG) multi-million ounce North Mara mine. In November 2011, Goldplat secured a 21 year Mining Licence and became the country's first gold project to have received a mining licence in 48 years. In January 2012, Goldplat poured its first gold from the Kilimapesa mine in Kenya. This gold pour marked a significant milestone as a mining company, as it represented the culmination of many years of effort to develop a profitable mining operation. Production of doré continues on-site with the gold sold to Rand Refinery Limited in South Africa. With grades and recoveries forecast at c 5g/tonne and +80% respectively we anticipate the production of c 5,000oz Au within two years. This is dependent upon an increase in plant capacity. Cash flows from gold production are being used to self-finance underground development and new mill capacity. Management expects that the costs to upgrade the current plant from 25t/day to 125t/day will be in the vicinity of US$1.2m. There is also an estimated US$1.25m to spend on mining capex over 18 months to better develop the Kilimapesa mine, including improvements in rail infrastructure and mine locomotives within Adit B and exposing enough orebody to allow for the production of 5,000oz per annum. The initiative taken to improve Kilimapesa operationally has resulted in new personnel including a new site accountant and mine manager. Goldplat management raised the possibility that if a favourable outcome with the Kenyan government proceeds, it may choose to set up a gold recovery operation to service the gold majors just across the border in Tanzania.

Goldplat's JORC-compliant resource at Kilimapesa now stands at 8,715,291 tonnes at 2.4g/t Au for c 671koz allowing Goldplat to safely mine and produce 5,000oz pa.

Kenya's Natural Resources Ministry has asked mining companies in Kenya, which include Goldplat to submit proposals on how to comply with local ownership rules introduced in October. Published in a gazette on 12 October a law that seeks to mandate a 35% minimum local equity participation in mining licences aims to boost the mining industry's contribution to the nation, as reported in the Nairobi-based newspaper the Business Daily on 27 September. Legal opinion taken by Goldplat suggests that this legal notice does not apply retrospectively to Kilimapesa's Special Mining Lease No. 27. This is reinforced by the announcement from the Kenyan Attorney General on 11 January 2013 that the legislation did not apply retrospectively to Base Resources' (BSE:ASX) Kwale Mineral Sands Project. Russell Lamming (CEO) of Goldplat expressed surprise at the demand for 35% equity participation but was "happy for local participation at the right level and with the right people."

Anumso Gold Exploration (Anumso) – development ceased

Based on the Kilimapesa experience the company has set a minimum production threshold of 30,000oz per annum per operation. Goldplat holds a 90% interest in the Anumso Gold exploration project, a 10 year renewable mining lease for gold and associated minerals covering an area of 29km^2 in the highly prospective Ashanti region in Ghana. A maiden JORC compliant resource of 167,110oz of gold was announced in December 2012 after a 32 hole, 6,125m diamond drilling (DD) campaign (as well as incorporation of three historic drill campaigns). Since the JORC resource at Anumso does not meet Goldplat management's internal investment criteria it will not be developed, instead Goldplat management is intent on realising value either through outright or partial sale.

Nyieme Licence (Nyieme) – development ceased

Located 270km south-west of Burkina Faso's capital, Ouagadougou, the 246km^2 Nyieme Licence was acquired from the vendor, Sanu (BVI) Limited in 2009. The 3,100m RC drilling programme that was completed at the Nyieme Licence in July 2011 defined a JORC compliant resource of 92,589oz Au (1.395Mt at 2.06g/t). Goldplat undertook Whittle optimisation analysis to look at the feasibility of a small opencast operation to underpin growth into Burkina Faso with a site in the vicinity of the Nyieme licence being selected for the Midas gold recovery unit enabling cost control in the processing of mineable ore should Nyieme be developed into a mine. Like Anumso, Nyieme does not meet management's internal investment criteria of potential gold production of 30,000oz per annum and consequently will not be developed further. As with Anumso, Goldplat management is intent on realising value either through outright or partial sale.

Management

Goldplat has a strong management team of in-house mining and metallurgical expertise, contract management and cost control skills. The senior management and board members are as follows:

- Russell Lamming (CEO) is a qualified geologist with an honours degree in geology from the University of the Witwatersrand and a Bachelor of Commerce in Economics from the University of Natal in South Africa. Mr Lamming has held a directorship of a South African mining consultancy and worked as a precious metals equity analyst for Deutsche Bank.
- Ian Visagie (Finance director) is a chartered accountant with 20 years of experience in mining. Mr Visagie trained and qualified with KPMG in Pretoria. He joined Goldplat in 1997 having previously worked at Consolidated Modderfontein (Cons Modder) and then Gravelotte Mines.
- Brian Moritz (Chairman) is a chartered accountant and former senior partner of Grant Thornton, in which role he was registered by the LSE as a nominated adviser, qualified executive and Listed Company sponsor for companies seeking admission to AIM. He is on the board of directors of a number of junior mining and exploration companies, the majority of which operate in Africa.

- Dr Robert Pitts Smith (Executive Director) holds a PhD in Chemical Engineering and a MBA. Dr Pitts Smith has been involved in the precious metals recovery industry for 33 years having originally joined Golden Dumps Research Limited in 1979. In 1992 he joined Gravelotte Mines, where he worked with Demetri Manolis, the former CEO of Goldplat. Dr Pitts Smith joined Goldplat in 2003.

Valuation

Revision of sum-of-the-parts valuation

Our base case sum-of-the-parts valuation for Goldplat equates to 24.6p/share.

We have previously valued Goldplat using a long-term gold price of US$1,350/oz. Given that Edison's long-term gold price forecast is derived from a regression analysis with the US monetary base, the start of QE3 has affected our estimate of the future long-term gold price and this valuation has been adjusted to reflect this. At this stage we estimate expanded QE3 will last at least until mid-2013 and add c US$640bn to narrow money (ie comparable to QE1 and QE2), which implies a long-term gold price of US$1,676/oz.

GRL, GRG and Midas – gold recovery units

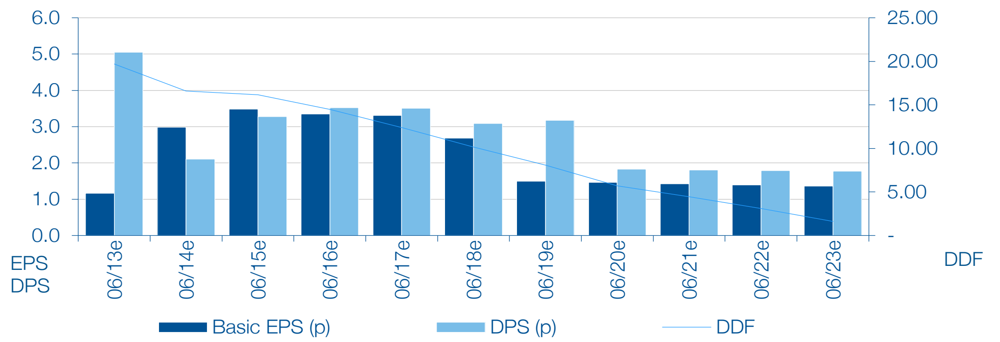
In deriving a value for Goldplat we have made a number of assumptions about the likely operational performance of the group in the future. As a base case we assume that Goldplat treats its existing stockpiles at GRL in South Africa and continues to replenish them from FY13-23. GRL is a mature business and we assume it is able to maintain a gross margin percentage of 22.5% throughout these years of production. We assume the same with GRG in Ghana but only from FY13-18 as it is an early stage business still building its contract base. We assume that GRG maintains a gross margin percentage of 19.5% as per management guidance. The historical five year gross margin percentage earned at GRG has averaged 23.2%. We have not included any forecast revenues and costs from Midas in our valuation.

Kilimapesa – production downsized

The producing Kilimapesa mine was originally forecast to produce 10,000oz per annum on an on-going basis. This estimate has been revised on the back of guidance provided by Goldplat management and the fact the mine has been suffering operational losses. Edison's base case for Kilimapesa gold production is now 5,000 oz per annum over 11 years at a cash cost of US$1,050/oz.

On the above assumptions we revise the valuation of Goldplat's recovery businesses (GRL and GRG) and the Kilimapesa mine to 19.7p/share on the value of the theoretical stream of potential dividends to shareholders for the period FY13-23 (discounted at 10% per annum to reflect general equity risk) as depicted in Exhibit 1.

Exhibit 1: Goldplat's basic EPS and maximum DPS forecasts FY13-23



Source: Edison Investment Research

We also ascribe value to the remaining residual JORC resource at the Kilimapesa project based on the updated production plans that would have the current gold resources at Kilimapesa mined over FY13-23. A summary of our valuation of Goldplat's Kilimapesa project's gold resources is presented in Exhibit 2. To the remaining residual resource, we apply the resource multiple of US$21.00 per total ounce of JORC compliant gold. This we calculate from the value of an average weighted ounce across the categories for 'inferred', 'indicated' and 'measured' ounces at the Kilimapesa project. We value the residual resource in present terms at a discount rate of 17.5% (given ore sterilisation) over a period of 10 years for a valuation of 0.97p/share.

Exhibit 2: Summary of residual resource valuation at Kilimapesa (post-mined FY12-23)

Description	Measurement (ounces) (US$)
Resource (Measured, Indicated & Inferred) - Gold Au (oz)	671,446
Mine production plan (FY12-23) - Gold Au (oz)	49,105
Residual Resource (oz)	622,341
Kilimapesa - EV/Resource weighted average (US$/oz)	21.00
Valuation of Residual Gold Resources (US$m)	13,067,301
Valuation of Residual Gold Resources (p/share) (10yr/17.5% d.r.)	0.97

Source: Edison Investment Research (FX - ZAR8.70/US$1; £1/US$1.60)

West African – JORC resources

In the Edison publication Gold – New benchmarks for old, published in November 2012, we calculated average values of (US$5.04), US$134.36 and US$198.23 for 'inferred', 'indicated' and 'measured' ounces listed in London, respectively. Applying these to the JORC resource ounces for Nyieme and Anumso projects of 259,625oz yields a value of US$10.5m, or 3.90p/share.

Sensitivities and opportunities

We see five major sensitivities attached to Goldplat and its valuation. These are the gold price performance, operational issues at the Kilimapesa mine, resource nationalism within Kenya, execution risks at the Midas gold recovery unit in Burkina Faso and the ability to monetise divestment of the Anumso and Nyieme assets.

GRL and GRG – gold recovery units

Goldplat maintains a relatively strong margin business at the GRL and GRG gold recovery units. These units are expected to account for c 96% of the gold ounces produced in FY13. The historical five year average gross margin percentages earned at GRL and GRG are 27.7% and 23.2% respectively. We expect GRL and GRG to maintain gross margin percentages close to 22.5% and 19.5% respectively. GRL and GRG are relatively unaffected by changes in the gold price; thus the stock would make a strong defensive play on a falling gold price and does not suffer the same commodity price risk that a highly leveraged gold company would. GRL and GRG are limited in operational longevity. Essentially the continuing operations of GRL and GRG are reliant on their ability to replenish their stockpiles of gold bearing materials. The current stockpiles of gold bearing materials (GRL: 11 years, GRG: six years) is relatively small (but continues to grow) which may limit investor attention until further conventional gold exploration success is achieved.

Kilimapesa – reaching for production capacity

The Kilimapesa mine in Kenya has suffered operational losses in the first half of FY13 related to increasing unit costs with the ramp up to full production. Goldplat expects to rectify this in H213 and has bolstered on-site management at Kilimapesa. As a consequence management has now revised the long-term forecast output to 5,000oz per annum from an original 10,000oz per annum at full production and full production capability has been pushed out from FY14 to FY15. Whilst improvements are expected in H213, the subsidiary is expected to only break even for FY13.

Kilimapesa remains sensitive to geological and grade continuity risk as well as commodity price risk similar to other conventional gold mining operations. There is also the risk of resource nationalism in Kenya with the introduction of the proposed 35% minimum local equity participation in mining licenses. Upside at Kilimapesa exists in the form of continued resource delineation at Kilimapesa Hill, as well as the nearby Vim Rutha and Red Ray targets.

Midas – a matter of execution

The Midas gold recovery unit to be built in Burkina Faso provides Goldplat with the opportunity to benefit from a centralised recovery unit in Africa's fourth largest gold producing nation. Execution and operational risks remain, with the plant still to be built and production not expected until 2015.

Financials

Goldplat reported a strong operational performance in H113, with gold production up 16% y-o-y to 17,918oz and gold revenues rising 38% y-o-y to £15.48m. Profit before tax fell 34% to £1.56m, affected by the £2.38m non-cash write-down of pre-production expenditure at Kilimapesa. £1.95m net cash and strong cash flows support the planned share buy-back programme.

Goldplat's FY12 included the maiden payment of a full-year dividend of 0.6p per share totalling £1.01m. This dividend came on the back of a 53% increase in pre-tax profit to £5.2m (2011: £3.4m). Featuring for the first time were profits earned from GRG in Ghana exceeding those earned from GRL in South Africa. A contributing factor being the zero corporate tax status in Ghana until the end of FY15.

Earnings

Basic EPS for FY12 was 1.70p, nine percent ahead of FY11 at 1.56p. Given the forecast gross margin of 22.5% at the GRL and 19.5% at GRG recovery units (including the Nzema gold mine toll treatment) and production from Kilimapesa in its second year using a long-term gold price of US$1,676/oz, we forecast an increase in EPS for FY13 to 1.93p, excluding any impact from the share buy-back programme.

Cash flow

Net cash flow for FY12 was £1.7m, built on the back of operating cash flow of £5.4m over the year. We anticipate stable operating cash flow in FY13 of c £5.4m as Goldplat seeks to reduce its trade payables balance that rose to £6.1m in FY12. We forecast a reduction in trade payables of c £1.9m in FY13 from FY12's high level. We also estimate a decrease in cash outflows from investing with no new acquisitions in FY13. Capex spending remains c £1.6m with the decision not to develop the Anumso and Nyieme projects countered by the increase in capex at Kilimapesa with a further US$2.45m to be spent over 18 months to upgrade the plant capacity to 125t/day. The possibility also exists that the Anumso and Nyieme projects may be sold in the near term. We forecast positive operating cash flow in FY14 of c £5.1m as Goldplat continues to benefit from a historically strong gold price, steady production and margin businesses in GRL and GRG and increasing production from the Kilimapesa mine.

Balance sheet

As at 31 December 2012, Goldplat had £1.95m in cash on the balance sheet, with no gearing contributing to a net asset position of £21.9m, allowing the company to continue to grow the business even in difficult market conditions. Under our base-case scenario, excluding any impact from the share buy-back programme, we forecast a net cash position at end-FY13 and FY14 to be c £6.9m and £9.9m respectively. We forecast that Goldplat will rectify the operational losses at the Kilimapesa mine and reach estimated full production of 5,000oz per annum in FY15. This will help continue to grow the net cash position in future years.

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Exhibit 3: Financial summary

£'000s	2010	2011	2012	2013e	2014e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	10,663	19,620	26,225	28,566	30,792
Cost of Sales	(6,914)	(14,952)	(19,777)	(21,749)	(23,321)
Gross Profit	3,749	4,668	6,448	6,818	7,471
EBITDA	2,292	2,916	4,928	5,105	5,874
Operating Profit (before GW and except.)	2,059	2,629	4,527	4,567	5,198
Intangible Amortisation	0	0	0	(2,373)	0
Exceptionals	0	425	0	0	0
Other	0	0	0	0	0
Operating Profit	2,059	3,054	4,527	2,194	5,198
Net Interest	(116)	374	717	270	419
Profit Before Tax (norm)	1,943	3,003	5,244	4,837	5,617
Profit Before Tax (FRS 3)	1,943	3,428	5,244	2,464	5,617
Tax	(713)	(472)	(600)	(670)	(844)
Profit After Tax (norm)	1,726	2,403	3,019	3,773	4,773
Profit After Tax (FRS 3)	1,230	2,956	4,644	1,794	4,773
Average Number of Shares Outstanding (m)	111.8	139.4	167.4	168.4	168.4
EPS - normalised (p)	1.37	1.56	1.70	1.93	2.45
EPS - FRS 3 (p)	0.93	1.96	2.67	0.75	2.45
Dividend per share (p)	0.0	0.0	0.6	0.0	0.0
Gross Margin (%)	35.2	23.8	24.6	23.9	24.3
EBITDA Margin (%)	21.5	14.9	18.8	17.9	19.1
Operating Margin (before GW and except.) (%)	19.3	13.4	17.3	16.0	16.9
BALANCE SHEET					
Fixed Assets	11,276	13,954	16,445	15,170	16,157
Intangible Assets	7,297	9,668	12,114	9,741	9,741
Tangible Assets	3,589	3,903	4,112	5,210	6,197
Investments	390	383	219	219	219
Current Assets	6,709	13,078	14,962	15,292	18,928
Stocks	3,825	3,367	4,524	3,575	3,834
Debtors	1,866	6,584	5,863	4,696	5,062
Cash	1,018	3,127	4,575	7,021	10,032
Current Liabilities	(3,844)	(4,794)	(6,306)	(4,372)	(4,221)
Creditors	(3,737)	(4,520)	(6,195)	(4,263)	(4,112)
Short term borrowings	(107)	(274)	(111)	(109)	(109)
Long Term Liabilities	(724)	(739)	(638)	(638)	(638)
Long term borrowings	(100)	(62)	(39)	(39)	(39)
Other long term liabilities	(624)	(677)	(599)	(599)	(599)
Net Assets	13,417	21,499	24,463	25,452	30,225
CASH FLOW					
Operating Cash Flow	1,431	777	5,418	5,444	5,099
Net Interest	(104)	(37)	731	270	419
Tax	(617)	(724)	(666)	(670)	(844)
Capex	(1,622)	(2,071)	(1,791)	(1,636)	(1,662)
Acquisitions/disposals	(73)	(1,124)	(2,047)	0	0
Financing	131	5,206	56	50	0
Dividends	0	0	0	(1,010)	0
Net Cash Flow	(854)	2,027	1,701	2,448	3,011
Opening net debt/(cash)	(1,551)	(811)	(2,791)	(4,425)	(6,873)
HP finance leases initiated	0	0	0	0	0
Other	114	(47)	(67)	0	0
Closing net debt/(cash)	(811)	(2,791)	(4,425)	(6,873)	(9,884)

Source: Company data, Edison Investment Research

Edison investment research

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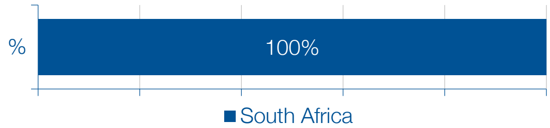
Revenue by geography



CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 10-14e	15.6%	ROCE 2013e	22.7%	Gearing 2013e	-0.5%	Litigation/regulatory	●
EPS 12-14e	20.1%	Avg ROCE 10-14e	20.0%	Interest cover 2013e	-16.9	Pensions	○
EBITDA 10-14e	26.5%	ROE 2013e	13.4%	CA/CL 2013e	3.5	Currency	●
EBITDA 12-14e	9.2%	Gross margin 2013e	23.9%	Stock turn 2013e	45.7	Stock overhang	○
Sales 10-14e	30.4%	Operating margin 13e	16.0%	Debtor days 2013e	60.0	Interest rates	○
Sales 12-14e	8.4%	Gr mgn / Op mgn 13e	1.5	Creditor days 2013e	54.3	Oil/commodity prices	●

Management team

CEO: Russell Lamming

Russell is a qualified geologist with an honours degree in geology from the University of the Witwatersrand and a Bachelor of Commerce in Economics from the University of Natal in South Africa. Russell has a wealth of experience in the resource arena, having held a directorship of a South African mining consultancy and having worked as a precious metals analyst for a leading international broker.

Finance director: Ian Visagie

Ian is a chartered accountant with 20 years' of experience in mining. Ian trained and qualified with KPMG in Pretoria. He joined Goldplat in 1997 having previously worked at Consolidated Modderfontein (Cons Modder) and then Gravelotte Mines.

Chairman: Brian Moritz

A chartered accountant by training, Brian is former senior partner of Grant Thornton, in which role he was registered by the LSE as a nominated adviser, qualified executive and Listed Company sponsor for companies seeking admission to AIM. He is on the board of directors of a number of junior mining and exploration companies, the majority of which operate in Africa.

Executive director: Dr Robert Pitts Smith

Dr Robert Pitts Smith holds a PhD in chemical engineering and a MBA. Dr Pitts Smith has been involved in the precious metals recovery industry for 33 years having originally joined Golden Dumps Research Limited in 1979. In 1992 he joined Gravelotte Mines and began working with Demetri Manolis, the former CEO of Goldplat. Dr Pitts Smith joined Goldplat in 2003.

Principal shareholders	(%)
Fitel Nominees Limited	30.08
HSBC Global Custody Nominees (UK) Ltd	8.23
Forest Nominees Ltd	4.50
Arthur Gibbons	3.52

Companies named in this report

Base Resources Ltd, African Barrick Gold, Anglogold Ashanti, Goldfields, Lonmin, Endeavour Mining, Impala Platinum, Goldstar, Harmony