Gold Road (GOR) Update based on a Pre - Diggers 2015 Visit to Gruyere

(by Keith Goode : 10 September 2015)

We/ERA attended a mixed broker/media/investor visit ahead of Diggers' 2015 to Gold Road's Gruyere on 2 August 2015, at which the Stage 1 of the PFS was discussed with the decisions behind the throughput rate of 7.5mtpa, together with an exploration update, and a visit to the then progressing deep EIS drillhole.

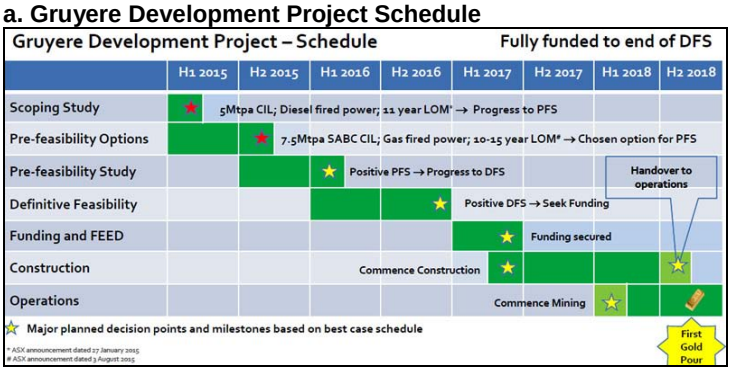
Since our last Gold Road report dated 25 March 2015 at 35.5c with a one year target of >50c, based on a 5%NPV @US$1150/oz & A$ of US75c, GOR raised ~$39m (on 4 June from 89.3m fpo shares at 44cps) to complete the DFS (as shown in Figure 1a), together with an SPP to result in the current 686.4m shares in issue or a ***~$250m** market cap at ~37cps*. Our current **BUY target is >45c** for a market cap of **>$300m** (according to our/ERA March 2015 model, adjusting for a gold price of ~US$1120/oz, A$ of 70USc, and 686m shares in issue, GOR's 5%NPV is **~75c per share or ~ a $510m** market cap, with conservative capex, and no allowance for exploration upside).

The key points from the visit were :

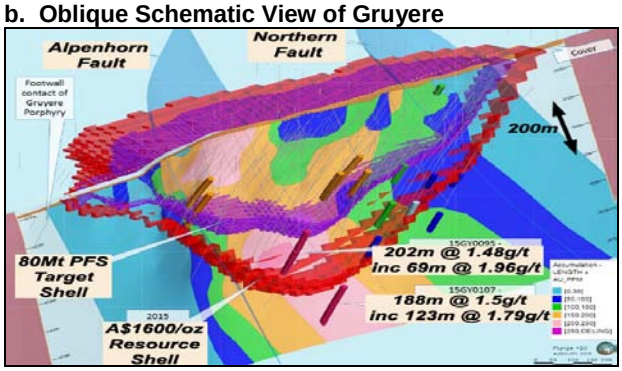
- Post the raising, at the end of June 2015, Gold Road held ~$50m cash which can easily finance Gruyere through to the completion of the **DFS by the end of 2016**.
- The size of the **plant** to treat Gruyere is to be a rated **7.5mtpa** (hard, which means it could initially treat >8mtpa), for gold production averaging ~**250kozpa from 2H2018**.
- **Capex could be closer to $400m to $450m** based on the scoping study and our/ERA's March 2015 model, factoring in the APA Group building and owning the gas pipeline and power station.
- Long ~120m to 200m intersections of 1.5g/t to 1.8g/t below the ~450m deep pit shell infer that sub-level **caving** (after the open-cut) may be a possibility.
- Continuing progress is being made on a number of exploration targets looking for the **next orebody** in one of GOR's other goldfield targets along the Yamarna greenstone belt.

Figure 1. Gruyere Development Project Schedule and Oblique Schematic View of Gruyere

a. Gruyere Development Project Schedule



b. Oblique Schematic View of Gruyere

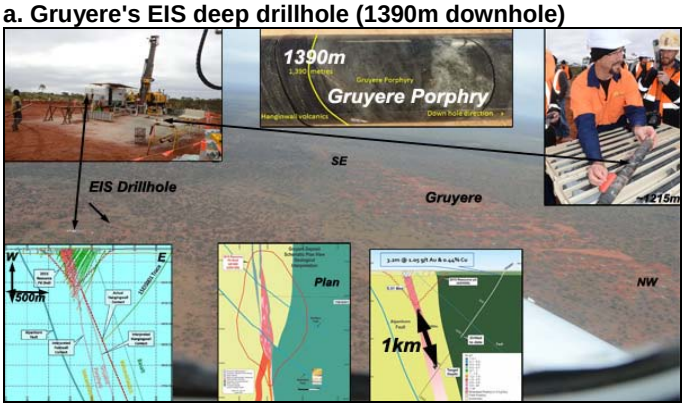


Gruyere Resource

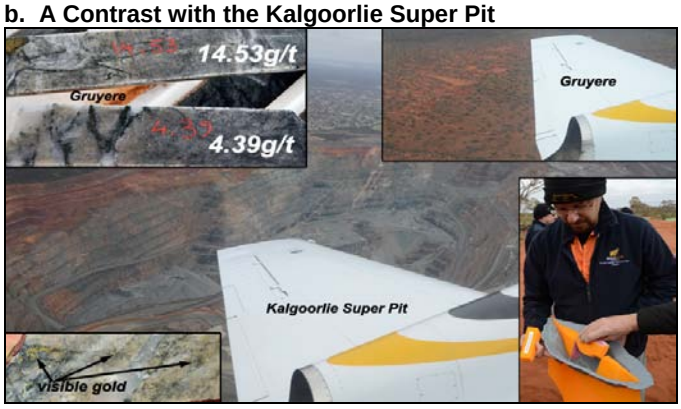
Gold Road reported its revised **5.5moz (137.8mt @ 1.24g/t) ore resource** at Gruyere as shown schematically in Figure 1b on 28 May 2015 of which 3.4moz (87.5mt) is in the Measured and Indicated category, with the *next resource update* expected in September/October 2015.

Figure 2. Gruyere's EIS deep drillhole, and A Contrast with the Kalgoorlie Super Pit

a. Gruyere's EIS deep drillhole (1390m downhole)



b. A Contrast with the Kalgoorlie Super Pit



Gruyere has now been interpreted as a **porphyry**. It does not resemble PXG's Castle Hill/Kintore tonalite or Gryphon's Nogbele granodiorite/tonalite) and instead appears to be an albite-altered monzonite porphyry with quartz-carbonate veining and sulphide mineralisation that can have higher values (of ~14.5g/t & 4.4g/t, or even visible gold as shown inset in Figure 2b) than the ~1.2g/t resource grade. Figure 2b also shows a contrast with the Kalgoorlie Super Pit that was flown over on the way to Gruyere.

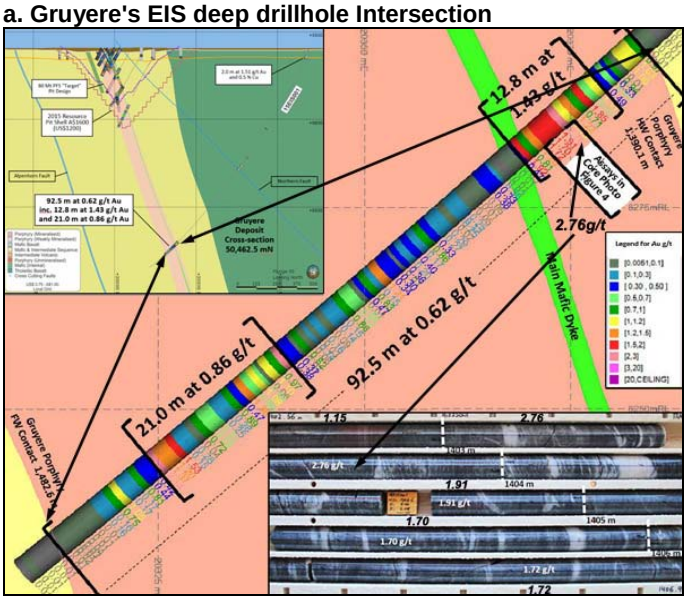
At the time of the site visit in early August 2015, the EIS deep drillhole as shown located in Figure 2a, was in progress and "flares" of encouraging sheared veins were being made approaching the expected intersection of Gruyere, as shown inset in the Figure, with the actual intersection at ~1390m downhole (~1110m below surface) reported on 10 August. Of interest was the unexpected intersection of 3.2m @ 1.05g/t & 0.44%Cu and a length of bucky quartz (possible structure?) near surface in the EIS drillhole and whether it has any significance, or results in reconsideration of the current planned TSF location.

The deep EIS mineralised intersection of what is now known as the Gruyere porphyry was reported on 8 September as 92.5m @ 0.62g/t from 1390m including 12.8m @ 1.43g/t from 1397m (with a peak of 1m @ 2.76g/t) & 21m @ 0.86g/t from 1448m as shown in Figure 3a and in line with other intersections at Gruyere, such as 188m @ 1.5g/t , 83m @ 0.98g/t and 90m @ 0.35g/t. Taken in context, the location of the EIS intersection appears to be contained in a lower grade zone, north of the main mineralised trend, consistent with the other lower grade intersections, as shown in Figure 3b.

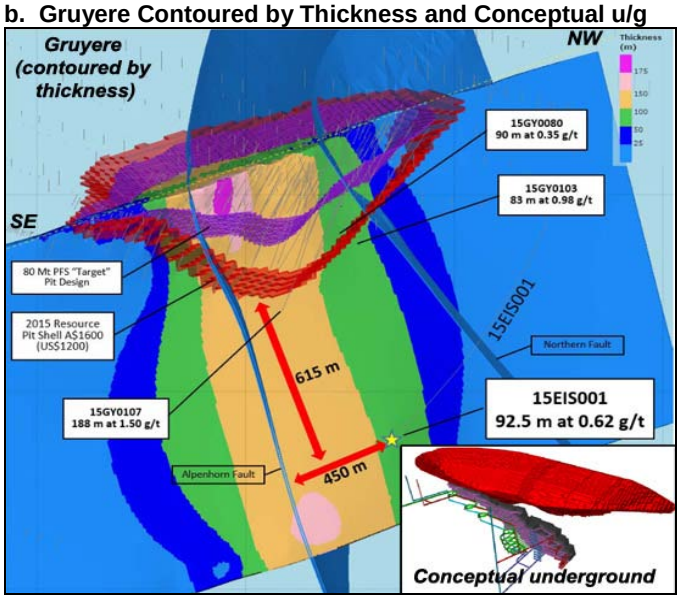
Theoretically (ERA's view), the EIS intersection infers that Gruyere's total resource has the **potential to exceed 10moz.**

Figure 3. Gruyere's EIS deep drillhole Intersection, & Gruyere Contoured by Thickness and Conceptual u/g

a. Gruyere's EIS deep drillhole Intersection



b. Gruyere Contoured by Thickness and Conceptual u/g



Mining and Treatment at Gruyere

The proposed initial 3 pits concept to mine Gruyere has remained unchanged, with the pre-strip still ~14.5mt, for a LOM strip ratio of 1.9 to 2.7 : 1 including the pre-strip, and a SR of 1.7 to 2.5 : 1 excluding the pre-strip, based on a A$1400/oz pit shell and a mining rate of ~7.5mtpa for average annual gold production ~250kozpa. The designed pit is ~1.9km long x 650m wide and ~450m deep, for a possible 13 year life.

Due to intersections of ~188m @ 1.5g/t ~50m below the designed pit shell or 123m @ 1.8g/t from 638m, a conceptual study assuming panel or sub-level caving when the open-cut has finished has been broadly evaluated (by AMC) as shown inset in Figure 3b. Of course to take such an action would require material infill and studies to assess Gruyere's ore capability to cave, which now becomes a future project.

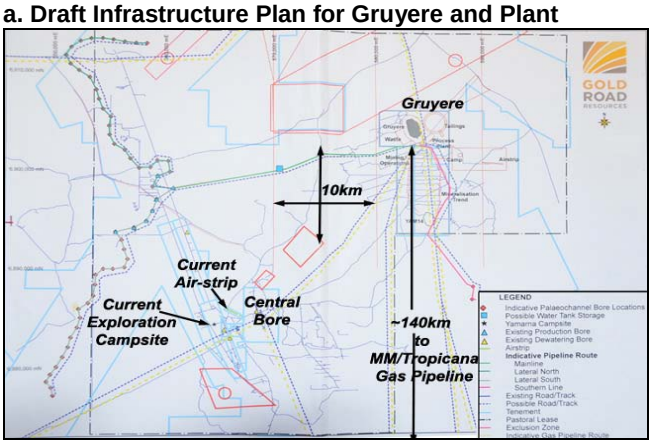
No costs or capex have as yet been given apart from those in the scoping study as reported on 27 January 2015, being a 5mtpa plant with capex of ~$360m and mining costs of $11.50/t based on a 1.6:1 SR, plus processing at $19.90/t for a total of $34.20/t including admin & refining of $1/t and royalties & levies of $1.80/t. The $360m included $190m for a processing plant, $13m for the TSF and $85m for systems ($15M) and infrastructure including a 250-person permanent camp plus $52m for Gruyere's pre-strip and pre-mining development, and $20m for establishing underground mining of Central Bore.

Or an upscaled 7.5mtpa with capex of $435m to $480m, mining costs ~$11.30 to $11.50/t and processing at $17.70 to $19.90/t. However the $11.50/t mining cost included ~$57m or ~$1.05/t for the Central Bore underground over the LOM, which has since been excluded, along with its $20m capex requirement.

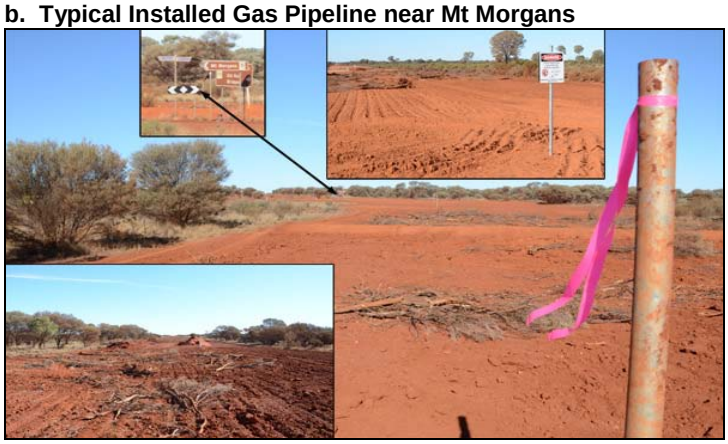
Recoveries were estimated at 95%, and depend on grind size with 95% to 97% in oxide (being the first ~20mt to a depth ~70m). In our/ERA modelled report of March 2015, we estimated initial capex of $325m to June 2018 plus $45m for the first stage of pre-strip and $12m for the second stage of pre-strip on the basis of increasing the capacity from 5mtpa to 7.5mtpa after 2 years, with a further $155m in the upgrade and another $12m for sustaining capex. But we/ERA are often overconservative in our capex forecasts, & our forecasts would have included possibly $30m to $50m for a diesel power station and storage facilities.

Figure 4. Draft Infrastructure Plan for Gruyere and Plant, & Typical Installed Gas Pipeline near Mt Morgans

a. Draft Infrastructure Plan for Gruyere and Plant



b. Typical Installed Gas Pipeline near Mt Morgans



Capex for the 7.5mtpa plant may be much closer to ~$400m to $450m given that costs have reduced and the power station and ~140km pipeline inferred in Figure 4a, could be constructed, owned and operated by and connected to APA's new gas pipeline from Murrin Murrin to Tropicana (that is apparently already in use) on a BOO (build own operate) basis, which significantly reduces the estimated capex and risk. The gas pipeline can be installed extremely quickly as shown near Dacian's Mt Morgans in Figure 4b, and is under the soil with little surface expression apart from the poles showing its route and occasional signposts. The branches left on the ground are part of standard rehabilitation, as in the seeds etc from them drop and reseed. With gas power including capital recovery, expected operating costs could be ~5c/Kwh lower than diesel powered.

The designed plant utilises an SABC circuit comprised of a sag mill, ball mill and pebble crushing circuit, with possibly a future secondary crushing circuit at a later date. HPGR (high pressure grinding rolls) were considered but then negated due to the maintenance downtime being experienced at Tropicana.

Although the optimal treatment rate of 7.5mtpa was *determined from multiple simulation*, there were also a number of underlying characteristics that negated the 10mtpa consideration, namely :

- there is a **quantum leap change** between 7.5mtpa and 10mtpa in terms of the **size of** plant, construction lead delivery time for the sag mill, size of operating gear etc, and consequently capex.
- a rate of 10mtpa could **stress the delineated water bore** fields providing process water, whereas 7.5mtpa can be achieved and even to some degree exceeded.
- the mine **life needed to be >10 years** for a gas pipeline contract and its economic viability.

Water quality is very good compared to the rest of the WA goldfields at 20K to 50K TDS, with the southern palaeochannel an extremely low ~5K TDS (higher numbers mean higher salinity, goldfields numbers >100K TDS are common). Low salinity process water usually results in higher recoveries. Infrastructure is overall good with established dirt roads and major / inland highway cross-Australia dirt roads nearby, plus an already operating dirt airstrip.

Exploration Upside and Coming Announcements

Having discovered the >5.5moz Gruyere, GOR's quest is to find the next one. As shown in Figure 5a, there is in fact very little to use in the Yamarna greenstone belt, in that it is not littered with old workings as shown by the yellow dots in the other greenstone belts shown in Figure 5a, from a GOR presentation.

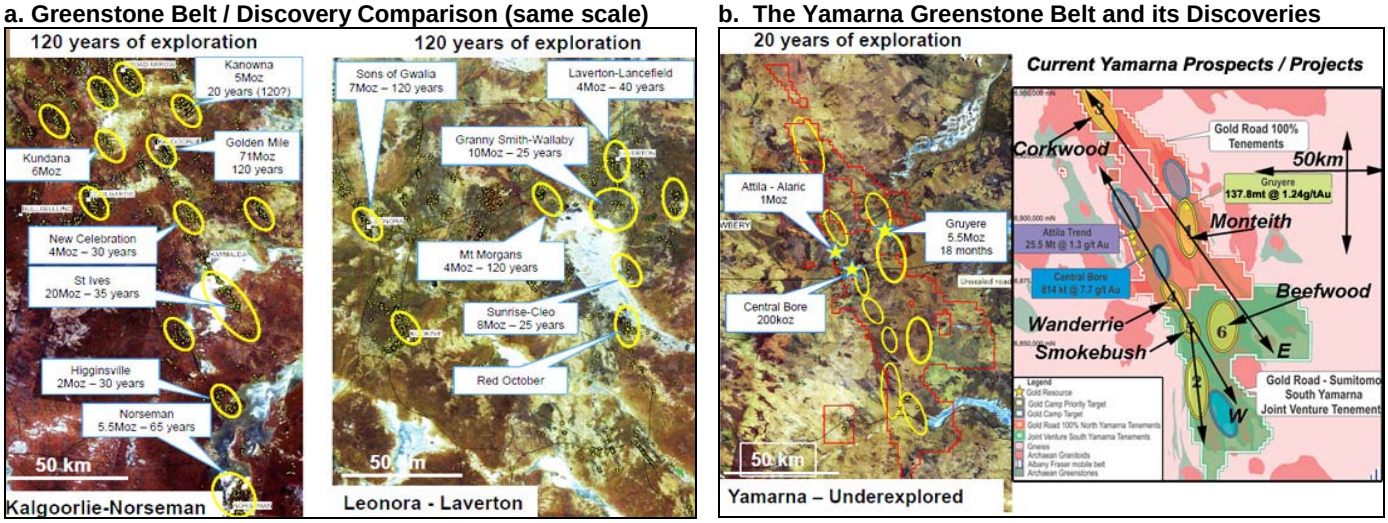
Many of the mine areas in the other greenstone belts date back to the mid 1890s and are hence brownfields, New Celebration is next to Jubilee which was named after Queen Victoria's Diamond Jubilee of 1897, Mt Morgans was 1896, St Ives was discovered in 1897 although mostly pegged by a Mr Ives in 1919, and there is an extensive old goldfield (Sons of Erin) at Higginsville. The town of Kanowna was used to build Kalgoorlie, and there are many old workings in the Laverton (eg Burtville) and Lancefield areas.

Within the belts shown, probably the north-south line of Granny-Smith to Sunrise and Red October is possibly the closest to virgin/new discoveries, as I can recall visiting them or viewing data as they were discovered.

However, the Yamarna greenstone belt has hardly anything when it comes to old workings as indicated in Figure 5b, yet alone old workings in delineated goldfields, there are even parts of Burkina Faso and South America that have more old workings and scratchings than along the Yamarna belt, mainly due to cover.

Figure 5. Greenstone Belt / Discovery Comparison (at the same scale), and Gold Road's Yamarna Belt

a. Greenstone Belt / Discovery Comparison (same scale) **b. The Yamarna Greenstone Belt and its Discoveries**



Consequently Gold Road has been taking a methodical systematic approach to discovery after its 2-year back to basics programme that resulted in its Gruyere discovery, being: rab-interface/aircore, follow-up targeted RC, then diamond, then infill once the discovery has been made. GORs other targets are at various stages in that time-line:

- Infill - Gruyere, using RC, aiming to get 80% into a measured resource.
- Diamond - **Smokebush** in the Southern Yamarna JV, 2 diamond holes and Sumitomo (GOR's JV partner) have extended the programme, following the encouraging laminated quartz (typically a grey coloured quartz) intercepts with pyrrhotite and biotite alteration within the Smokebush dolerite.
- RC - **Wanderrie**, following ~3g/t in bedrock and some >1g/t intercepts, with more Aircore planned.
- RC - **Corkwood**, following up a 1 to 1.5g/t intercept in a porphyry.
- Rab/interface - **Grevillea / Beefwood** - see p8 of ERA's March 2015 report, with assays pending.
- Aircore - **Monteith** - a 10km programme of 16 lines at 400m spacing, focusing on two structures, and a basin centre, with granite, and mafic intrusives.

GOR does also use diamond drilling to aid structural interpretation, and were considering diamond drilling a possible **re-interpreted porphyry host rock at Kahn**. **Kahn** (in the Attila-Alaric trend) **is being re-examined** as it has tramlines in aeromag. We/ERA have only encountered aeromag tramlines once before, being Red October/Kinross' Tasiast discovery in Mauritania. In which the tramlines represented either side of an anticline and although there were a number of low grade open-cuts on surface between the lines, the main discovery of Tasiast was made at depth within the anticline's core, which in long-section, plunged north and south from a southerly peak position (see www.eagleres.com.au : Paydirt : Dec 2010).

GOR was in the process of remodelling some of its resources such as Attila etc which could refine some of the resources and result in more robust delineated pits. Gold Road expected to spend ~$10m to $12m on regional exploration in the coming year to June 2016. In addition to the steady stream of target progress, Gold Road expected to produce a **revised resource** for Gruyere in September/October 2015, with **Stage 2 completion of its PFS** scheduled for **MQ 2016 and DFS** completion expected **in DQ 2016.**

Gold Road also reported on 4 September 2015, that after close of business on Friday 18 September 2015 **it is to be included in the S&P/ASX 300 Index.**