

## Gold Road Resources Ltd

### NEW LARGE SCALE GOLD PROJECT AT GRUYERE - WA

#### Capital Structure

ASX Code	GOR
Shares	516 m.
Perf rts	2.0
Options	18.7 m.
Share Price	\$ 0.330
Market Cap	\$ 170 m.
Cash (est)	\$ 8 m.
Resource EV/oz	\$ 32 \$/oz

#### Valuation

Valuation	\$m	\$/shr
Gruyere O/Pit	\$ 359	\$ 0.41
Gruyere Extended	\$ 46	\$ 0.05
Central Bore	\$ 12	\$ 0.01
Yamarna Belt	\$ 21	\$ 0.02
Options	\$ 2	\$ 0.00
Cash	\$ 8	\$ 0.01
Corporate	-\$ 16	-\$ 0.02
	<b>\$ 433</b>	<b>\$ 0.49</b>

Source: Strachan Corporate

#### Board & Management

Ian Murray	Executive Chairman
Ziggy Lubieniecki	Executive Director
Russell Davis	Non Exec. Director
Martin Pyle	Non Exec. Director
Kevin Hart	Co. Secretary

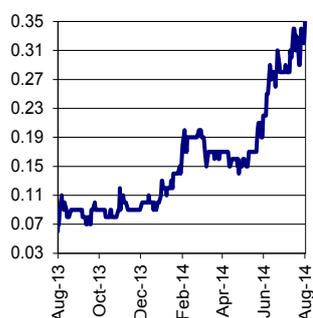
#### Opinion\*

The +3.8 moz Gruyere gold discovery is a game changer for Gold Road. Feasibility and financing work should result in a decision to mine during H2 2015, leading to production at ~190 Koz pa by early 2017.

Gold Road has an endowment of over 5.1 million ounces of gold on its Yamarna Belt permits. Well defined exploration targets provide it with a clear likelihood that over time, the company will continue to expand its gold Resources at Yamarna.

Peter Strachan.

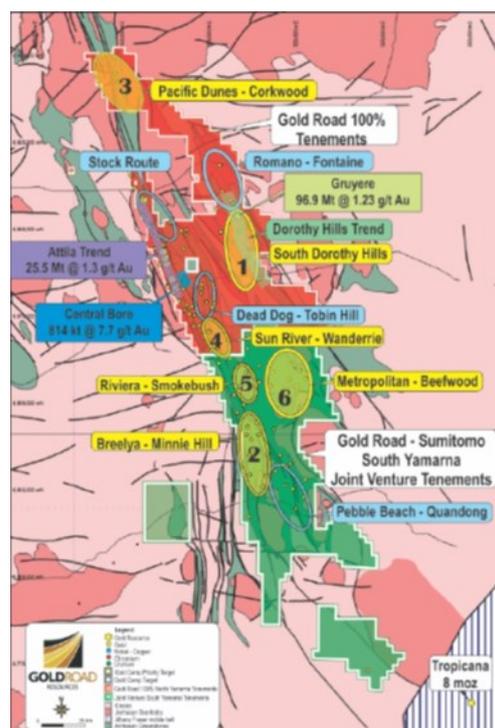
\*No recommendation is offered for this commissioned research.



#### Investment Drivers

- ◆ Strachan Corporate expects that Gold Road's 3.8 moz Gruyere Resource in 97 mt of mineralisation will convert into a Reserve containing 2.7 moz of gold in 68 mt of ore.
- ◆ Modelling indicates that processing ore at 5 mt pa will produce up to 189 Koz pa at an estimated cash cost of ~A\$780 per ounce to deliver net after tax profits of \$50 to \$60 million pa at a gold price of A\$1,400/oz. Strachan Corporate estimates an NPV<sub>8</sub> of A\$359 million for Gruyere or A\$139/oz of gold mined, which compares favourably with current market capitalisation of \$168 million.
- ◆ Gold Road could develop the Gruyere deposit using traditional project finance backed up by equity however, given the vast scale and potential of its wholly owned and JV permits, attracting a partner to fund development and take an interest in the entire province may be a lower risk approach.
- ◆ Exploration at the Toto prospect adjacent to Gruyere during H2 '14, holds promise to discover a Gruyere look-a-like deposit.
- ◆ A 50/50 Joint Venture funded by Sumitomo Metals is exploring southern parts of the Yamarna Belt. High grade, dolerite hosted gold mineralisation has identified with a similar style to the high grade deposits found around Kalgoorlie-Boulder.
- ◆ The high grade Central Bore gold deposit, with a Resource containing 201 Koz at an average grade of 7.7 g/t Au in a narrow vein structure is likely to provide valuable top-up ore during early production at Gruyere.

#### GOR - Major Project Location



Source: Gold Road

## Introduction

*Gold Road controls an entire proven gold province*

Gold Road's permits dominate the entire Yamarna Shear Zone, located in the remote eastern portion of WA's Yilgarn Craton. The Yamarna Shear Zone is a major deep-seated mineralising feature stretching about 500 kilometres in a roughly north-south orientation. The Shear Zone extends south towards the +5 moz Tropicana gold deposits owned by AngloGold and Independence Group.

*Permits extend south towards AngloGold's Tropicana Deposit*

This mantle-tapping shear is similar in character to other major systems located to the west, including the Laverton Shear Zone, with over 40 million ounces of discovered gold and the +40 million ounce, Leonora Shear Zone.

Combined Resources in several deposits along the Attila Trend on the west of the Yamarna Belt, totalling 1.06 moz grading 1.3 g/t, plus a small high-grade gold discovery of 0.2 moz grading 7.7 g/t at Central Bore discovered during 2010, have now been augmented by a 3.8 million ounce Resource at Gruyere, where a scoping study has been commissioned for delivery during Q1, 2015, leading towards Definitive Feasibility work and financing during 2015/16 and construction by mid 2016.

## Gruyere

*3.8 moz grading 1.23 g/t Au, 41% M & I*

Results compiled from a June/July 2014 drilling programme at the Gruyere gold discovery capture mineralisation within an A\$1,550 per ounce pit shell to deliver an estimated Resource in-place of:-

**96.9 million tonnes grading 1.23 g/t Au, containing 3.84 million ounces of gold.**

The Gruyere orebody has been drilled to a depth of over 600 metres and tested along a strike length of 2.2 kilometres. The almost vertical mineralised tonalite has very shallow cover of 2 to 5 metres in the south and up to 60 metres in the north with widths varying from 25 metres in the north to 190 metres at its thickest southern portion. Gold grade tends to increase in the north and there is a zonal differentiation with large blocks of ore, likely to produce at close to 1.8 g/t Au into a mill. Strachan Corporate has identified potential beyond a bounding fault in the north, to outline an additional 3.5 mt of ore grading around 2.8 g/t Au and suggests that mining high grade, shallow supergene oxide ore, found to cover some of the orebody's northern portion, will offset overburden removal costs for open pit mining.

*2.6 moz within an A\$1,400/oz pit shell*

To date, 41% of the Gruyere Resource is classified as Measured and Indicated but work is planned to upgrade more of the Inferred Resource. Applying the current gold price of ~A\$1,400 per ounce to constrain a pit shell over Gruyere delivers a total estimated Resource of **66.3 mt grading 1.23 g/t, containing 2.6 moz of gold**, which is close to the Reserve estimate that Strachan Corporate has used to evaluate the project.

*Gruyere Resource upside to 5.1 moz*

Strachan Corporate estimates an 'in-pit' gold Resource at Gruyere which is effectively a Reserve, containing approximately 2.6 million ounces of gold in 67 million tonnes of mineralisation to a depth of 350 metres.

Gruyere Estimate	mt	g/t Au	moz
Upside (S/C target)	133	1.20	5.1
Resource (GOR)	97	1.23	3.8
Reserve (S/C est)	67	1.21	2.6

Source: Strachan Corporate

Strachan Corporate estimates further Resource potential to a total of 5.1 million ounces in 133 million tonnes of mineralisation grading 1.2 g/t gold to a depth of 500 metres at Gruyere.

Recent drilling highlights some localised high grade zones including **19 metres grading 6.35 g/t Au** in hole 14GYDD0045 and **10 metres grading 5.94 g/t Au** in hole 14GYRC0033A, mostly in the northern portion of the deposit. Best intersections from a gram-metre perspective include **52.2 metres grading 3.17 g/t Au, 169.2 metres grading 2.15 g/t Au and 238.3 metres grading 1.21 g/t Au.**

*Excellent metallurgical recovery with ~50% of gold into low cost gravity*

Metallurgical test work indicates that while Gruyere’s tonalite host rock is hard, it is also brittle and not particularly abrasive. Gold recovery of over 95% is indicated with over 50% of the gold likely to report to a low cost gravity recovery circuit. Test work will now determine how coarsely the ore can be ground to achieve optimum recovery. Strachan Corporate thinks that a grind size of P90 105 or even 120 microns, instead of the goldfield standard of 75 microns, could be acceptable which would deliver significant process cost savings.

*Good timing for low capital cost development*

Geotechnical drilling indicates competent rock where steep open pit wall slopes are acceptable at Gruyere. Consistency of mineralisation along 2 kilometres of strike and over widths of up to 190 metres should result in an extremely low waste-to-ore mining ratio of less than 3 to one, once pre-stripping has been carried out.

Development will involve establishment of accommodation, a new airstrip and process water bore-field. Completion of development phase at many large projects in WA is likely to result in opportunities to purchase excellent second hand accommodation, while the cost of engineering and other services in WA is now much more competitive than in past years. Power supply options are opening up as AngloGold is bringing gas to its Tropicana mine via a new pipeline. Ultimately, a mine at Gruyere could feed off a regional power grid or seek to establish a spur pipeline to bring gas for what may become a 30-40 Mw local power need.

*Potential low cost block caving for deep ore*

Strachan Corporate models a 13 year open pit mine-life at Gruyere, mining ore to a depth of about 350 metres below the surface to produce 2.48 million ounces of gold at an annual output of around 190,000 oz from treatment of 5 mt pa of ore. This project could address about half the project’s estimated Resources, leaving opportunity for further pit deepening or development of a block caving, underground development if mineralisation can be followed at depth below 600 metres.

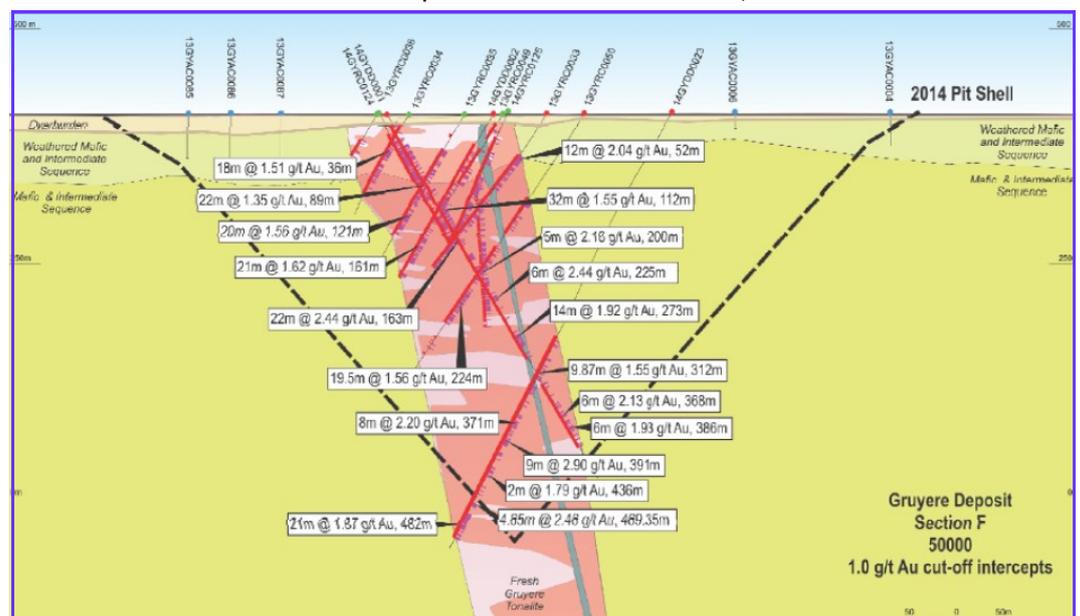
**Gruyere Summary**

CAPEX	\$ 330 m.
Mine life	13 years
Tonnes	66.5 mt
Grade	1.21 g/t Au
Production	2.48 moz
oz pa ~	190 Koz pa
C1 cash cost	778 A\$/oz
Post tax NPV <sub>8</sub>	\$359 m.

Source: Strachan Corporate

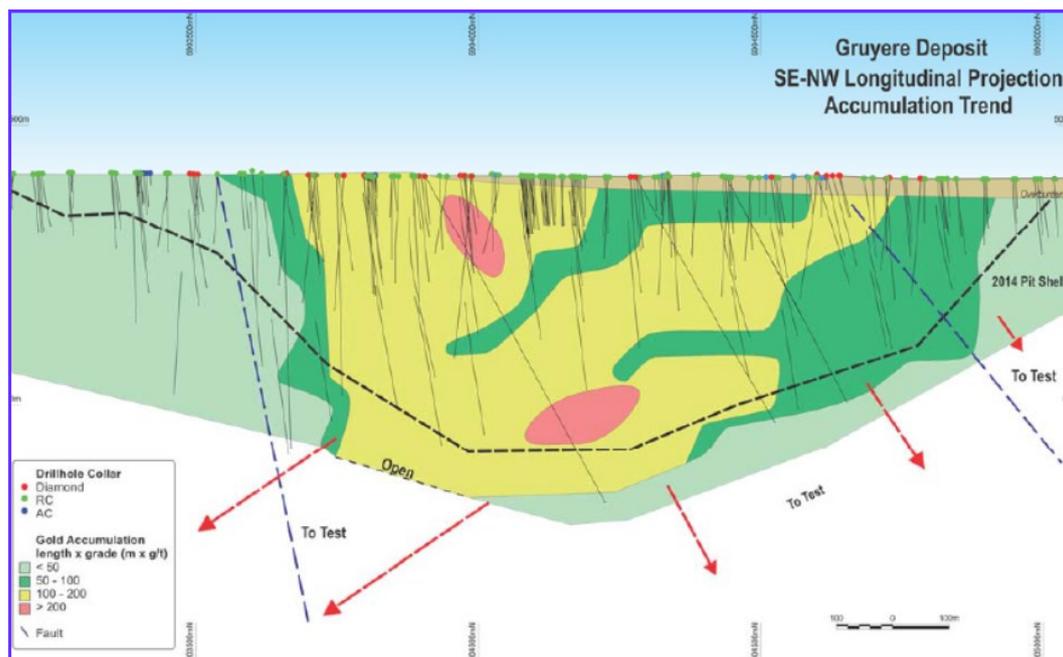
Applying a life-of-mine gold price of US\$1,300 or about A\$1,400 per ounce to gold produced, delivers a project that Strachan Corporate estimates to have an estimated after-tax NPV<sub>8</sub> of \$359 million, which compares favourably with Gold Road’s current market capitalisation of around A\$170 million.

*Low waste-to-ore open pit*



Source: Gold Road

Gruyere - long-section



Source: Gold Road

The Southeast-northwest longitudinal projection of the Gruyere deposit illustrates gram-metre contours of metal accumulation showing traces of all drilling completed. This work highlights areas of potential for extension of Resources at depth and along strike that will be tested by ongoing drilling.

**Toto**

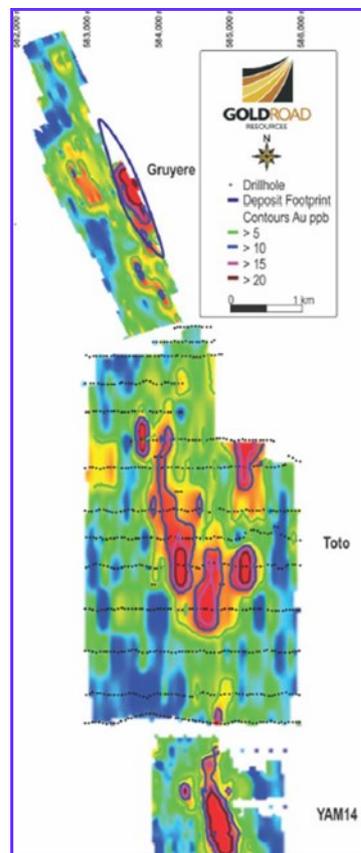
The Toto anomaly sits between Gruyere and the YAM14 anomaly, where a small pod of gold mineralisation has been outlined. RAB drilling has outlined a set of parallel geochemical soil anomalies at Toto, about four kilometres south and along trend from Gruyere. This anomaly appears to be three or four times the size of the Gruyere anomaly and is thus a prime target for RC drilling to test what lies beneath.

Work so far has indicated a similar host rock style to that found at Gruyere.

News flow from planned RC drilling later in 2014 on Toto could provide a further re-rating if results indicate a replication of Gruyere style mineralisation.

**South Yamarna JV**

Sumitomo Metal Mining is earning a 50% interest in Gold Road's South Yamarna project area. Recent drilling at the Minnie Hill South and the Breelya prospects has delivered some high grade gold intercepts from dolerite rocks, which are the same type of rocks that have been found to host high grade gold deposits in the Kalgoorlie-Boulder-Kambalda region.



Source: Gold Road

*Anomaly is 4 X the size of that found at Gruyere*

*Japanese partner Sumitomo is funding exploration*

*High grade dolerite hosted gold*

Results include:

- ◆ 12 metres at 4.65 g/t Au from 135 metres; including 4 metres at 8.29 g/t Au from 136 metres
- ◆ 4 metres at 2.67 g/t Au from 103 metres; including 2 metres at 4.59 g/t Au from 106 metres
- ◆ 1 metre at 2.66 g/t Au from 89 metres, 4 metres at 2.72 g/t Au from 113 metres; including 1 metre at 8.99 g/t Au from 116 metres and 1 metre at 3.72 g/t Au from 122 metres and
- ◆ 2 metres at 1.64 g/t Au from 65 metres.

Early drilling by Sumitomo is being followed up with extensive, shallow geochemical drilling and some RC testing of existing anomalies, so a solid flow of exploration results can be expected through the September quarter with two rigs currently on site.

Mineralisation found at Minnie Hill Sth and Breelya is quite distinct from that found in the north at Gruyere. These projects hold potential for higher grade mineralisation, more akin to the sort of deposits found around Kalgoorlie.

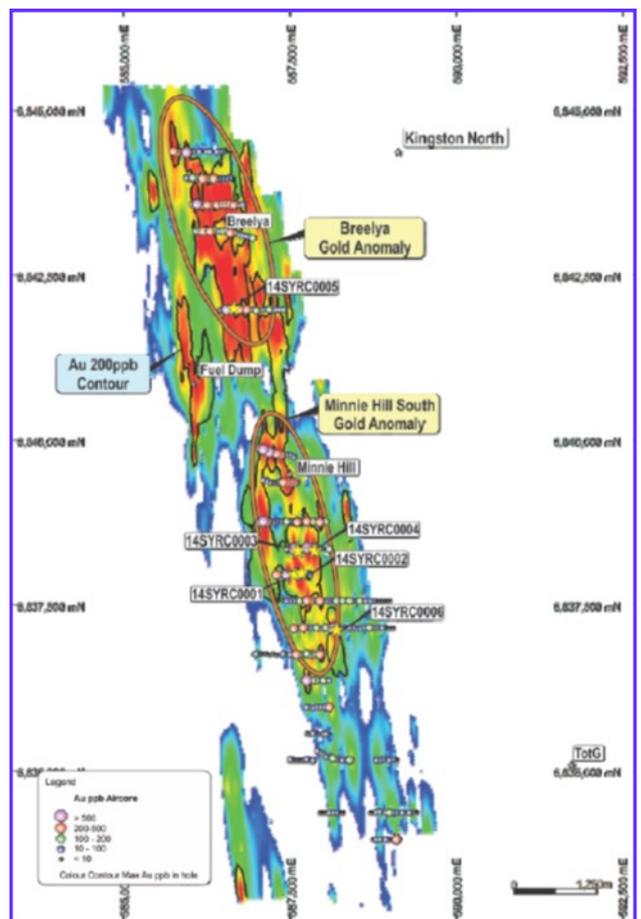
Higher grade mineralisation is likely to involve higher waste to ore open pit mining ratios, or may also support underground mining operations. Any ore outlined at these projects could prove to be a good regional project fit, with ore being mined and trucked north for processing at a processing plant located at Gruyere.

**Corporate**

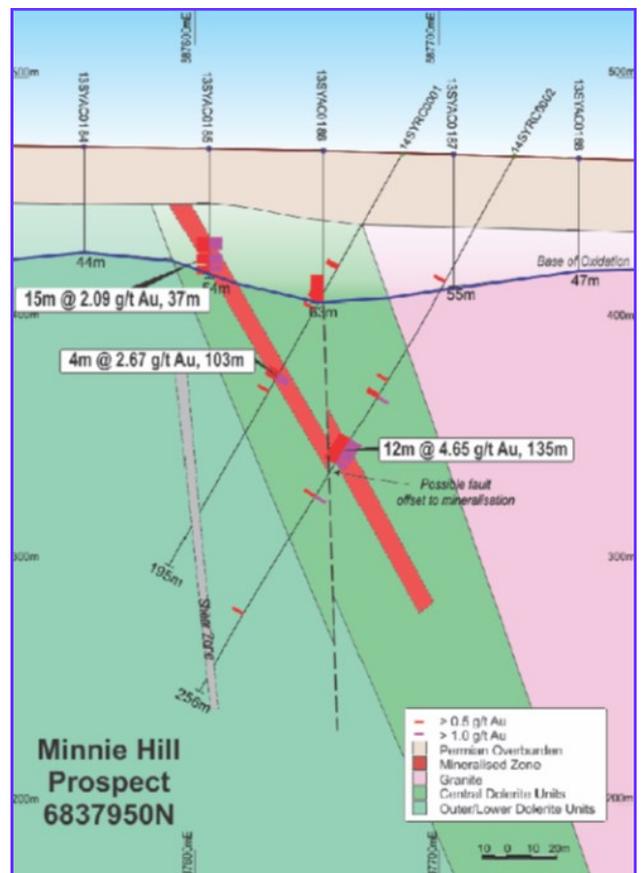
Ultimately, if Sumitomo likes the results it is seeing along the Yamarna Belt, it could decide to take a broader interest and join Gold Road to develop the Gruyere deposit and other targets that are now emerging.

*Similar style to Kalgoorlie*

*Possible partnership to development*



Source: Gold Road



Source: Gold Road

## Valuation

For the purpose of this analysis, Strachan Corporate assumes that Gold Road funds and develops its projects alone. However a more favourable option with lower equity dilution could be negotiated, such as introducing a partner to earn an interest by funding development. Such a partnership would free Gold Road to continue on a path of successful exploration while alleviating it from balance sheet stress associated with project finance.

Strachan Corporate takes a conservative approach, assuming that Gold Road raises a further \$116 million of equity at 33 cents to fund project development through 2015/16, with remaining capital to be project debt. However, depending on the outcome of ongoing exploration, the company may be in a position to avoid that level of shareholder dilution, raising funds at a higher price and delivering more value per share.

The Gruyere project is valued at \$406 million, made up of the NPV of a modelled project plus Resources minus 'Reserves' at a multiple of \$45 per ounce. Additional Yamarna value is estimated at \$33 million, with the high grade, 201 Koz Central Bore Resource valued at \$60/oz and the remaining low grade Resource at a nominal \$20 per ounce.

Valuation	\$m	\$/shr
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**Estimated value of \$433 million is two and a half times the company's current market price and when divided by expanded capital delivers a price target of 49 cents per share.**

Source: Strachan Corporate

Further exploration success at Toto or in the Yamarna South JV is sure to lift potential value while also reducing the potential number of new shares required to fund development.

Strachan Corporate estimates that Gold Road will earn \$48.1 million in 2019, equating to 5.5 cents per share on diluted equity. If the company trades on a modest PER of just 12 times earnings in 2019, the stock should be priced at 66 cents per share. Discounting that value target at 8% pa back to 2014 pricing indicates a current value target of 48 cents per share, which supports the net present valuation presented above.

*Sum of parts valuation of 49 cents per share*

*Discounted earning multiple valuation of 48 cps*

### Disclaimer

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