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Gold Road Resources Ltd (GOR)

3.8Mozs Gruyere maiden gold Resource

Maiden gold Resource at Gruyere is already in a pit shell

Gold exploration and development company, Gold Road Resources Ltd (Gold Road) announced on 4 August 2014 a larger than expected Maiden Resource of 3.8Mozs of gold at an average grade of 1.23g/t at its Gruyere Prospect in the Yamarna Gold Project at the eastern side of the Yilgarn in Western Australia. The gold mineralisation at Gruyere is one of the most significant new gold discoveries in Australia for several years. The Gruyere Resource has been constrained in a major open pit shell at a gold cut-off grade of 0.7g/t and at a gold price of \$A1,550/oz (well above spot but in keeping with the modelling practice of other gold companies recently) and it is contained within a much larger mineralisation envelope that we estimate is well over 5Mozs and which is open at depth and along strike.

The Gruyere Resource includes a small Measured component and a significant Indicated component that underpins a Scoping Study. This Scoping Study is planned for completion in the first quarter of 2015 depending on the outcome of the current exploration programs at the recent Toto discovery nearby. Significant progress has already been made on metallurgical, hydrological, geotechnical and environmental studies as part of the Scoping Study.

Gruyere lifts resource base to 5.1Mozs

The Gruyere Resource lifts Gold Road's gold resource base to 5.1Mozs. Other resources include the small high grade Resource at Central Bore and the Resource at Atilla. Meanwhile, further drilling at the Toto Prospect and regional exploration of other priority camp scale targets is continuing the company's search for additional gold mineralisation within its extensive Yamarna tenements.

Toto anomaly highlights Yamarna Project's potential

We regard the major Toto geochemical anomaly as particularly significant. Toto has the potential to add value to the nearby Gruyere deposit and it confirms Gold Road's large Yamarna Gold Project is capable of hosting multiple major gold systems. The recent discovery of gold mineralisation in differentiated dolerites at Minnie Hill South in the Sumitomo - South Yamarna Joint Venture is also particularly significant and is being actively followed-up.

Base case valuation lifted to \$0.47 with exploration upside

We believe the full significance of the Gruyere Resource is yet to be recognised by the market and that the company is trading at a discounted valuation to its peers. Gold Road is a highly speculative investment.

We have raised our equity adjusted base case valuation by a net 9% to \$0.47 per share and our upside valuation by a net 5% to \$0.91 per share from the net effect of: the higher than expected Maiden Resource at Gruyere; a 4% decrease in our forecast \$A gold prices (from slightly higher \$US gold prices offset by higher \$US/\$A exchange rate forecasts); and lower dilution from using a slightly higher share price for potential additional shares issued in FY15 and FY16. We see upside from ongoing exploration and de-risking at Gruyere and the Yamarna Gold Project generally as active follow-up and regional exploration programs continue to expand the potential gold endowment at Yamarna. We retain our **Speculative Buy** recommendation for Gold Road.

Recommendation

Buy (unchanged)

Price

\$0.295

Valuation

\$0.47 (previously \$0.43)

Risk

Speculative

Expected Return

Capital growth **59%**

Dividend yield **0%**

Total expected return **59%**

Company Data & Ratios

Enterprise value **\$142m**

Market cap **\$152m**

Issued capital **515.4m**

Free float **90%**

Avg. daily val. (52wk) **\$0.3m**

12 month price range **\$0.043 - \$0.365**

GICS sector

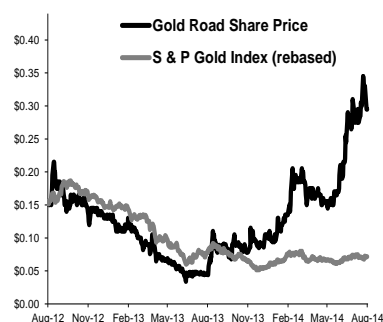
Materials

Disclosure: Bell Potter Securities acted as lead manager in the \$10m placement in March 2014 and received fees for that service.

Price Performance

	1mth	3mths	12mths
Price (\$A)	0.295	0.155	0.045
Absolute (%)	0.0	90.3	555.6
Rel. Market (%)	-0.2	89.7	548.4

Absolute Price



SOURCE: IRESS

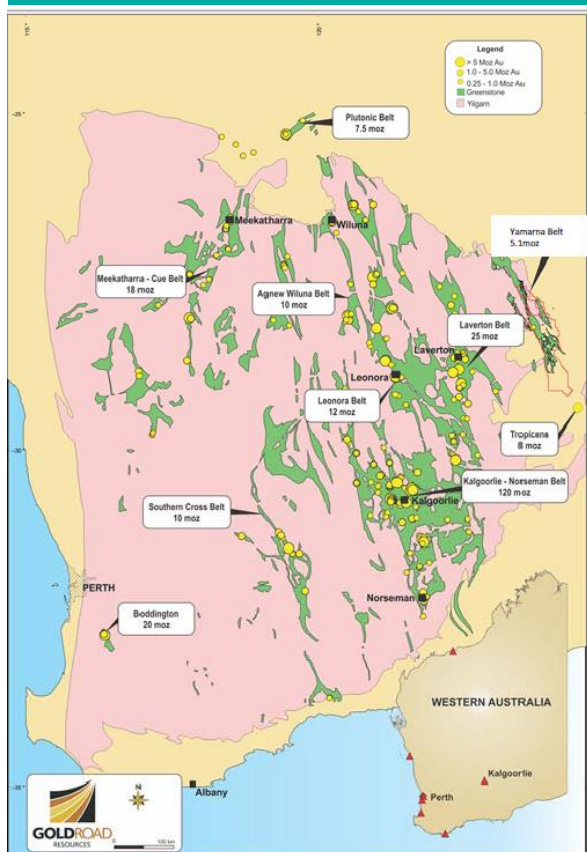
Gruyere Resource puts Gold Road up there

The Gruyere Maiden Resource is one of the largest Maiden Resources for an ASX-listed company in recent years and it is constrained in a pit shell

Gold Road has recently announced a Maiden Resource of 3.8Mozs at an average gold grade of 1.23g/t for its exciting Gruyere deposit within the company's large Yamarna Gold Project in the Yamarna Belt at the far east of the Yilgarn Craton in WA (Figures 1 and 2). The Gruyere Resource is one of the largest maiden resources announced by an ASX-listed company in recent years. Key features of the Gruyere Resource are:

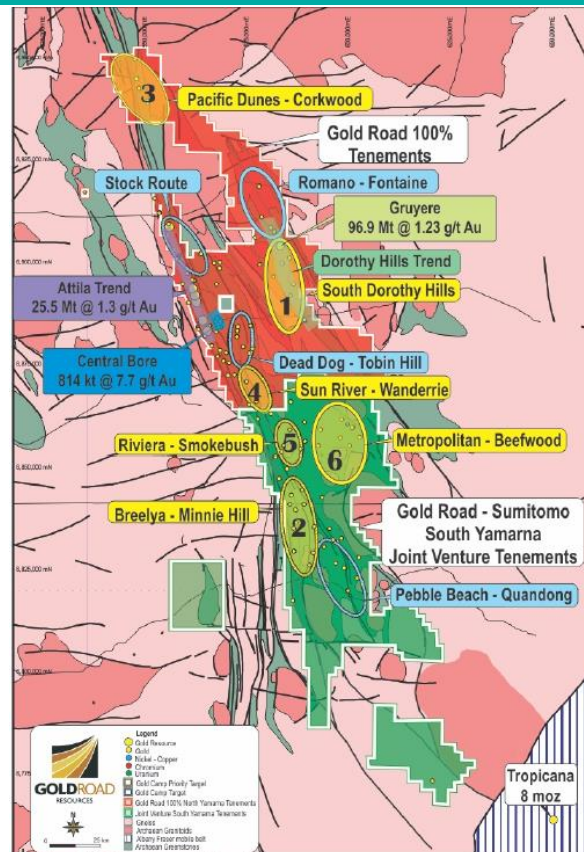
- The mineralisation at Gruyere occurs at a flexure point within the regionally significant Dorothy Hills Shear Zone (Figure 3). The Resource is based on a locally consistently mineralised and steeply east-dipping porphyry intrusive that is now an altered tonalite. It has a horizontal width from 7 to 190m and averaging 90m (Figure 4) that has been drilled to depths of 600m below surface and remains open below that (Figures 5 and 6) and it occurs over a strike length of at least 1.8km;
- The Resource has been constrained in a pit shell at a cut-off grade of 0.7g/t defined using a \$A1,550 gold price (in keeping with recent resource calculations by peers) and comprises a small Measured component and a significant Indicated component;
- The Resource was discovered and evaluated very efficiently based on a total of 38,000m of drilling (of which 11,600m was diamond and 26,400m was RC) in a period of under 10 months at a total cost of about \$7M or only \$2/oz; and
- There are three orders of control on the Gruyere mineralisation, which is interpreted to have developed in the tonalite in response to a reverse-dextral shearing structural event in which north-west striking thrust faults are an important control. Higher grade mineralisation, which is best developed in the north of the deposit, is associated with increased deformation, quartz-veining and alteration that includes accessory pyrite-pyrrohotite-arsenopyrite with sphalerite-molybdenite in higher-grade areas. Visible free gold is observed in quartz veins, vein margins and in mafic minerals in fracture fill.

Figure 1 – Regional map of the Yilgarn showing Yamarna Belt



SOURCE: GOLD ROAD RESOURCES LTD

Figure 2 – Map showing Gold Road's Yamarna gold targets



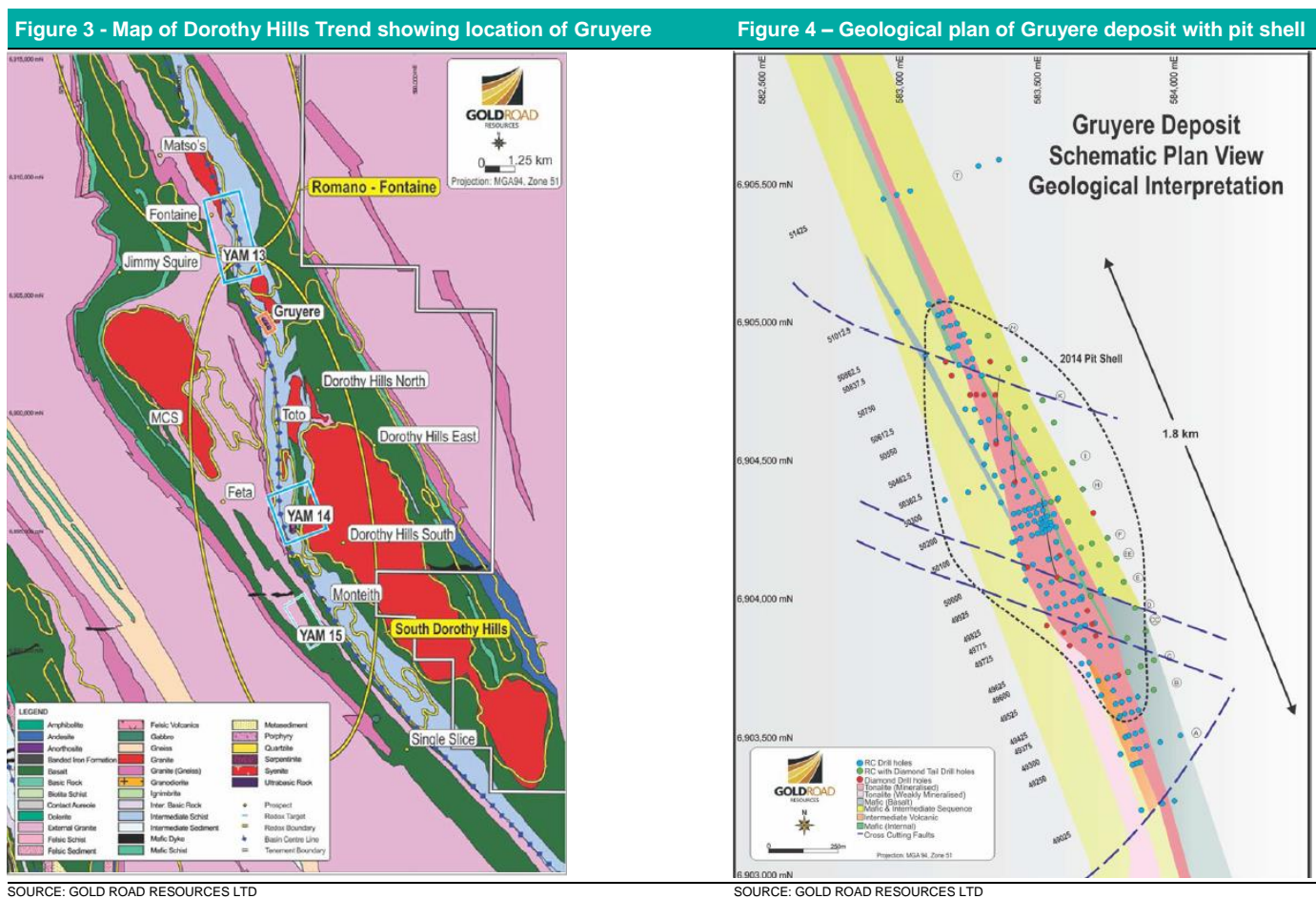
SOURCE: GOLD ROAD RESOURCES LTD

Further exploration upside in and around Gruyere

Upside to the Gruyere Resource exists to the north and at depth and the potential for gold mineralisation at Toto is currently being tested

The Gruyere Resource is defined within an extensive mineralisation envelope that we estimate is well over 5Mozs and which is open at depth and along strike. Gold Road plans to carry out further drilling at Gruyere to expand the Resource and there is also the exciting Toto gold geochemical anomaly located 2km to the south of Gruyere between Gruyere and YAM14 (Figure 3). The company has recently completed a follow-up program of aircore drilling at the Toto Prospect for which results are awaited. The Toto anomaly has a strike length of 3km and width of up to 1.2km with similarities to the original Gruyere anomaly. If the aircore drilling returns positive results, Gold Road plans to further evaluate the Prospect by RC drilling and, if warranted, diamond drilling. Because of its proximity to Gruyere, the results at Toto could have a material bearing on Gruyere developments.

In late 2013 the company discovered what now seems to be a relatively small deposit of mostly near surface gold mineralisation at YAM14 (Figure 3), which is located about 9km to the south of Gruyere and is interpreted to be a largely supergene deposit. YAM14 could become a supplementary source of ore for processing in association with the Gruyere deposit.



SOURCE: GOLD ROAD RESOURCES LTD

SOURCE: GOLD ROAD RESOURCES LTD

Gold Road plans to further explore the Dorothy Hills Shear Zone given its prospectivity and proximity to Gruyere. The company recently completed a similar RAB Interface-aircore drilling program to the Toto program at the MCS target area (Figure 3), which did not detect significant gold anomalism at the interface of the sand dune cover and the Permian sandstone above the Archaean stratigraphy. Assay results for additional aircore drilling completed during the recent program are still awaited to confirm the presence or otherwise of any anomalism in the Archaean rocks.

We believe the Maiden Mineral Resource estimate at Gruyere is more meaningful than many other Maiden Resources because it is constrained by a pit shell (Figures 4 – 6) and has been independently audited. The Resource is based on a cut-off grade of 0.7g/t gold and a gold price of \$A1,550/oz. While the gold price used for the Resource estimate is above the current spot price (of around \$A1,410/oz), it is similar to the prices used by other gold companies for recent Resource modelling. The Mineral Resource estimate was calculated using the Ordinary Kriging process and it was independently audited and confirmed as valid by specialist resource consultants, Optiro Pty Ltd.

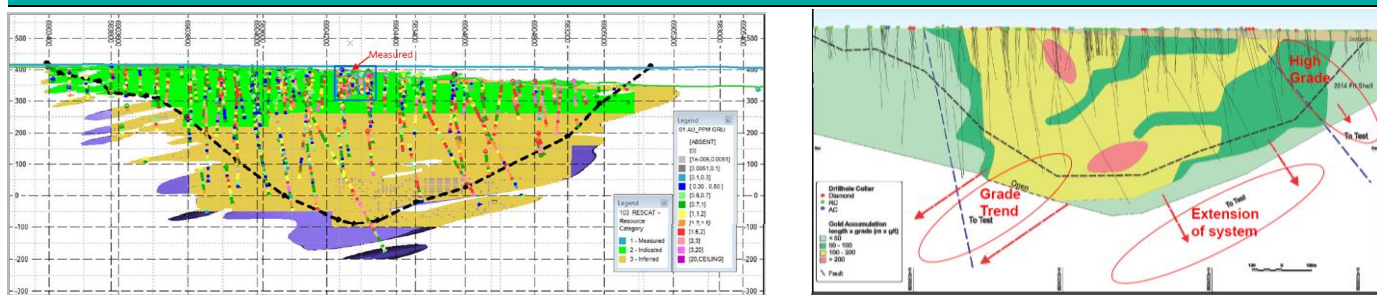
Gold Road’s Gruyere Resource is more meaningful because it is constrained by a pit shell and has been independently audited and validated

The company conducted a small program of close-spaced drilling (at 12.5m by 12.5m to 25m by 25m spacings) at Gruyere in the centre of the deposit, which was designed to evaluate the continuity of the mineralisation and it has enabled the estimation of a small Measured Resource (Table 1). The Measured Resource has a higher grade of 1.4g/t, which may be a function of where the drilling was done but it may also indicate the potential for an upgrade to the whole resource from closer spaced drilling.

The Indicated Resource (Table 1) was estimated from drilling on lines at 30m to 40m easterly separations and are 100m apart in a north-south direction that also included scissor holes on section, along strike holes and scissor holes spaced at 50m between the 100m sections. The Measured and Indicated components account for 41% of the total Resource.

We believe that future infill and extensional drilling at Gruyere, which Gold Road is planning to do as part of its ongoing development work, will increase the size of the Resource and upgrade the quality of it, with considerable scope for extensions at depth and to the north (where there is high grade mineralisation).

Figure 5 - Longitudinal projection showing Gruyere resource classifications Figure 6 – Long section with Gruyere exploration upside



SOURCE: GOLD ROAD RESOURCES LTD

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The Gruyere Mineral Resource estimate gives Gold Road a total resource base of 5.1Mozs (Table 1), catapulting the company to the eighth largest ASX-listed gold company.

Gruyere catapults Gold Road to number eight for total gold resources of ASX-listed gold stocks

Table 1 - Summary Mineral Resource estimates for Gold Road

Project Name	Tonnes (Mt)	Grade (g/t Au)	Contained Metal (Koz Au)
Gruyere¹ (2014) (0.7 g/t)	96.93	1.2	3,838
Measured	1.43	1.4	62
Indicated	38.76	1.2	1,515
Inferred	56.74	1.2	2,260
Central Bore² (2013) (1.0 g/t)	0.81	7.7	201
Measured	0.043	26.6	36.7
Indicated	0.43	8.7	119
Inferred	0.34	4.1	45
Attila Trend³ (2012) (0.5 g/t)	25.53	1.3	1,060
Measured	8.38	1.4	389
Indicated	9.36	1.2	373
Inferred	7.79	1.2	298
Total	123.27	1.3	5,098

NOTES:

- Gruyere Mineral Resource reported to JORC 2012 standards, at 0.70 g/t Au cut-off
- Central Bore Mineral Resource reported to JORC 2004 standards, at 1.0 g/t Au cut-off
- Attila Trend Mineral Resource (including Attila South and North, Khan, and Khan North deposits) reported to JORC 2004 standards, at 0.50 g/t Au cut-off

All figures are rounded to reflect appropriate levels of confidence. Apparent differences may occur due to rounding.

SOURCE: GOLD ROAD RESOURCES LTD

Future work program at Toto and elsewhere in the Yamarna Gold Project

Follow-up aircore drilling program to test Toto anomaly completed with RC drilling pending and RAB/aircore drilling at other Yamarna camp scale targets

Gold Road recently completed a follow-up program of aircore drilling to test the Toto gold anomaly with assay results awaited. Any further coherent gold anomalism identified from that program will then be tested by follow-up reverse circulation (RC) drilling and diamond drilling. Follow-up drilling has also been completed at the Breelya-Minnie Hill discovery in the Sumitomo-South Yamarna Joint Venture (SSYJV) area with results awaited.

The company is also planning to carry out additional RAB/aircore drilling programs at the Pacific Dunes – Corkwood (to complete program started at end of 2013) and Sun River-Wanderrie Gold Camp targets in the 100% owned part of the Yamarna Gold Project. Gold Road recently completed a RAB/aircore drilling program at the Riviera-Smokebush Camp target and plans to do initial RAB/aircore drilling at the Metropolitan-Beefwood target, both being in the SSYJV tenements in the southern part of the Yamarna Gold Project (Figure 2).

Gold price stalls as US economy limps higher

The gold price has generally averaged over \$US1,300/oz since late June 2014 but it seems to have stalled at that level. The price of the precious metal has recovered from a period of weakness during which the US economy was showing definite signs of recovery that was generally predicted to flow into a sustainable lift in US interest rates. Predictions of such rate rises have become a bit more muted recently but are expected to occur as the US economy continues to undergo a weaker than previously expected recovery.

Official information on the purchase of gold by China is only released periodically and has not been made available for some time. Anecdotal evidence indicates that the Chinese Government and/or significant private Chinese interests continue to be major purchasers of gold in the major gold markets and therefore will continue to be a major driver of the gold price. We maintain that the value of the US dollar is a major influence on determination of the gold price and that although the gradual improvement in the USA economy may lead to higher US interest rates, the USA Government is still likely to pursue policies that tend to result in relative weakening in the value of the US currency.

From an Australian perspective, the gold price continues to trade in a relatively narrow range between about \$A1,300 to \$A1,400 with the effect of the higher \$US gold price generally balanced by appreciation in the Australian currency. We anticipate the \$A gold price will continue to trade in that range for the balance of 2014 and into 2015.

We have revised our gold price and \$A forecasts (Table 2). We have slightly increased our forecast gold prices in \$USA terms and we have also increased our forecasts for the \$US/\$A exchange rate, leading to a net decrease in forecast Australian dollar gold prices.

The gold price seems likely to continue to be largely driven by China's physical purchases and the value of the US dollar

Table 2 - Changes to forecasts for gold prices and \$US/\$A exchange rates

Year to June	2015E	2016E	2017E	2018E
New				
Gold (\$US/oz)	1,265	1,290	1,290	1,290
\$US/\$A exchange rate	0.91	0.90	0.90	0.90
Gold (\$A/oz)	1,390	1,433	1,433	1,433
Old				
Gold (\$US/oz)	1,250	1,275	1,275	1,275
\$US/\$A exchange rate	0.88	0.85	0.85	0.85
Gold (\$A/oz)	1,420	1,500	1,500	1,500
Change				
Gold (\$US/oz)	1%	1%	1%	1%
\$US/\$A exchange rate	3%	6%	6%	6%
Gold (\$A/oz)	-2%	-4%	-4%	-4%

SOURCE: IRESS; BELL POTTER ESTIMATES

Higher valuations reflect Gruyere Resource

Our revised valuations reflect the net impact of the larger Gruyere Resource; net lower forecast \$A gold prices; and reduced dilution from the higher share price

We have increased our equity adjusted base case and upside case valuations for Gold Road by around 9% and 5% to \$0.47 and \$0.91 per share respectively (Table 4) to reflect the net impact of: the larger than expected Gruyere resource; the net reduction in forecast \$A gold prices; and lower dilution from the higher Gold Road share price (current price is 4% higher at \$0.295 compared to the previous valuations, using \$0.285 share price).

Our valuations are equity adjusted to take into consideration the likely impact of additional equity to be raised over the period of our forecasts (out to 2027). As shown in Table 3, we have assumed that Gold Road raises further equity capital over the next two years. We have conservatively assumed this raising will be done at the same share price as the current share price, even though we would actually expect the development studies will significantly progress the company over the next few years towards production. A successfully de-risked project provides the potential for a higher share price over time.

Table 3 - Forecast additional equity to be raised over the next few years

Year to June	2015e	2016e
Net amount to be raised ¹ (\$ M)	15.0	25.0
Share price assumed (\$)	0.295	0.295
Number of shares to be issued (M)	54.4	90.6
Total number of shares on issue at year end(M)	569.8	660.4

SOURCE: BELL POTTER SECURITIES

NOTE 1. AFTER CAPITAL RAISING COSTS

Our Gruyere/Central Bore/Attila valuations are largely based on Net Present Value (NPV) methodology. Our valuations for Gold Road's other exploration assets at Yamarna are based on our estimates, which are related to target size and geological characteristics.

Our base case valuation assumes that the Gruyere deposit contains a mining inventory of about 75Mt at an average grade of around 1.3g/t for about 3Mozs of contained gold with favourable geometry and metallurgical recovery characteristics. We estimate that a significant part of the deposit could have a strip ratio of about 1 and the overall strip ratio could be about 2.2. This could underpin very attractive financial viability from a simple and relatively quickly constructed large scale development that is also expected to incorporate processing of the higher grade parts of the existing resource base at Central Bore and Attila-Alaric. Our upside case valuation assumes that the Gruyere deposit is considerably larger (and/or includes other similar deposits nearby such as at Toto) and/or that other similar substantial deposits of gold are discovered elsewhere in the Yamarna Project.

We estimate Gold Road currently has cash of about \$8M (after completion of the significant Gruyere resource drill-out) with no debt. It also has a very constructive exploration agreement with Sumitomo Metal Mining (Sumitomo), which is sole funding up to \$8M of exploration in the SSYJV up to 31 December 2016 to earn a 50% interest.

Table 4 - Summary valuations for Gold Road

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ^{1,2}	\$ M ¹	¢/share ^{1,2}
Yamarna Gold Project – Gruyere, Central Bore and Attila (NPV)	262	39	517	76
- Other wholly-owned and SSYJV areas ³	22	4	64	9
Other Exploration Assets	1	0	3	1
Total Exploration Assets	285	42	584	86
Corporate	(13)	(2)	(13)	(2)
Net Cash ⁴	48	7	48	7
TOTAL ASSETS	319	47	619	91

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION EFFECTS

2. BASED ON EQUITY ADJUSTED DILUTED CAPITAL OF 680.4M SHARES

3. SUMITOMO HAS THE RIGHT TO EARN UP TO 50% INTEREST IN SYJV

4. BASED ON CASH BALANCE AT 30 JUNE 2014 LESS SUBSEQUENT ESTIMATED EXPENDITURE PLUS FORECAST EQUITY TO BE RAISED IN FY15 AND FY16

Gold Road Resources Ltd (GOR)

Company description

Gold Road owns 100% of the Yamarna Gold Project that covers about 4,900km² on the eastern edge of the Yilgarn Craton in Western Australia, which it has been exploring since 2006. Gold Road is exploring the northern half of the Project on its own and it has a joint venture (in which it is the manager) with Sumitomo Metal Mining, which may earn up to 50% in the southern half of the Project by expenditure of \$8M by December 2016. Gold Road has a total gold resource base at Yamarna (all in 100% owned northern part) of 5.1Mozs at an average grade of 1.3g/t, which is made up of 3.8Mt at 1.2g/t at Gruyere, 0.2Mozs at 7.7g/t at Central Bore and 1.1Mozs at 1.3g/t at the Attila Trend. Gold Road is actively exploring six high priority gold camp-sized targets at Yamarna.

Investment Thesis – Speculative Buy, Valuation \$0.47/sh (prev. \$0.42/sh)

We rate Gold Road as a Speculative Buy based on our valuation. We expect Gruyere to progress from the current Scoping Study and through to Definitive Feasibility Study, which is expected to show that it represents an attractive large scale gold development project. We are forecasting that the Gruyere project could be capable of treating at least 5Mtpa of ore through a conventional CIL processing plant to produce at least 200kozpa at C1 cash costs averaging around \$800/oz with a mine life of at least 10 years starting in about late 2017. We see considerable scope for an expansion of that production rate by including higher grade ore from other deposits within trucking distance such as Central Bore and the Attila Trend and potentially from other nearby discoveries such as Toto Prospect and YAM14 within the mineralised Dorothy Hills Shear Zone. We also see potential for further gold discoveries at Yamarna, particularly within the other four high priority and four priority targets but also at the almost 100 other targets in Gold Road's extensive tenements.

Valuation

Our valuation of gold Road is based on a risked sum-of-the-parts DCF valuation for the Gruyere, Central Bore and Attila Trend resources (using a discount rate of 10%) plus a nominal valuation for exploration.

Risks

The key risks highlighted are:

- **Gold price volatility:** The relatively liquid nature of gold makes it subject to wide fluctuations in price, particularly during more difficult economic times or major world events. Associated with gold price volatility are different gold price and foreign exchange rate outcomes to our forecasts;
- **Lack of exploration success:** The difficulty of exploring in the Yamarna district is related to the fact that the region has variable sand cover that overlies a variable but generally thin Permian sandstone sequence, which sits on the Archaean bedrock that hosts the gold mineralisation. This means that there is little or no outcrop and further complexity comes from the nature of the Archaean bedrock, which may contain greater than expected geological complexities that may be difficult to resolve without extensive drilling programs and may inhibit the definition of adequate resources and reserves;
- **Lack of funding:** Exploration companies generally do not have a source of revenue and so they require access to funding to enable them to carry out adequate exploration and related development activities in order to continue to develop their operations;

- **Metallurgical issues:** Notwithstanding that preliminary metallurgical test work has consistently given very positive outcomes with encouragingly very high gold recovery results from gravity and conventional CIL processing testwork, subsequent identification of adverse metallurgical characteristics may result from more detailed metallurgical investigations that lead to the need for more complicated and expensive processing requirements;
- **Regulatory and government approvals:** While there are currently no indications that there may be any difficulties with progressing through the necessary regulatory and government approvals processes to enable a suitable mining operation to be established, prolonged delays can result from adverse environmental or other regulatory issues and from the need to progress Native Title negotiations in a very careful and sensitive manner that can sometimes result in delays relating to changes in personnel or interpretations;
- **Weather impacts:** Cost overruns or operational delays can be caused by severe weather events because site access may be restricted due to the unsealed nature of roads and airstrips in the remote regions in which the company operates
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Disclosure: Bell Potter Securities acted as lead manager in the \$10m placement in March 2014 and received fees for that service.

Exploration Risk Warning:

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **Gold Road Resources Ltd** (of which a list of specific risks is highlighted within).

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