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Gold Road Resources Ltd (GOR)

Large gold geochemical anomaly near Gruyere is big in size and significance

Recommendation
Buy (unchanged)
Price
\$0.285
Target (12 months)
\$0.33 (previously \$0.28)
Risk
Speculative

Expected Return

Capital growth	16%
Dividend yield	0%
Total expected return	16%

Company Data & Ratios

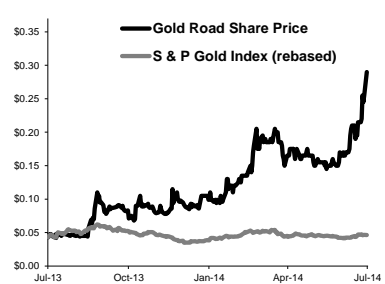
Enterprise value	\$141m
Market cap	\$148m
Issued capital	515.4m
Free float	90%
Avg. daily val. (52wk)	\$0.2m
12 month price range	\$0.036 - \$0.295
GICS sector	Materials

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)	0.155	0.19	0.06
Absolute (%)	83.9	50.0	375.0
Rel. Market (%)	85.0	50.1	365.0

Absolute Price



Large gold geochem anomaly is 2km south of Gruyere

Gold Road Resources Ltd (Gold Road) has discovered a major gold anomaly with coincident magnetic anomalies at the Toto Prospect, located 2km south of the company's exciting Gruyere Prospect in the Yamarna Gold Project at the eastern edge of the Yilgarn in Western Australia. Since its discovery nine months ago, the nature and extent of the gold mineralisation at Gruyere has marked it as one of the most significant new gold discoveries in Australia for several years and points to its potential to be part of a major gold system with other significant mineralisation. The style of gold mineralisation at Gruyere is quite different from the usual gold mineralisation in the fabulously well-endowed Yilgarn Craton of WA, having strong porphyry affinities.

Successful testing of Toto anomaly would add to re-rating

The large gold anomaly at the Toto Prospect has a strike length of 3km and width of up to 1.2km. It occurs above the Dorothy Hills Shear Zone and there are strong similarities to the geological setting and gold anomaly at Gruyere, where a Maiden Resource, which we estimate could be at least 3Mozs, is currently being prepared. We believe successful testing of the Toto gold anomaly could contribute to a further re-rating of Gold Road. Meanwhile, ongoing regional exploration of the company's other priority camp scale targets could continue to demonstrate the high potential for further major gold discoveries within the company's extensive Yamarna tenements.

Toto anomaly very significant for Gruyere, Yamarna Project

We regard the major Toto geochemical anomaly as particularly significant, not only in terms of potentially adding value to the nearby Gruyere deposit but because it upgrades Gold Road's large Yamarna Gold Project, demonstrating the potential for really major gold systems and multiple major (potentially multi-million ounce) gold deposits to occur in the Yamarna Greenstone Belt. Gold Road has the largest land position in the Yamarna Belt and we believe the most prospective areas. The Toto anomaly further validates the company's priority gold camp targeting strategy.

Target price lifted to \$0.33 with further exploration upside

Gold Road has recently completed the Gruyere resource drill-out and is now moving to finalise the Maiden Resource estimate as soon as all analyses have been received and interpreted. The company will then move rapidly into development studies while continuing with the exploration of other priority camp targets in the Yamarna Gold Project. Currently Gold Road is conducting an aircore drilling program at the Riviera-Smokebush camp target in the Sumitomo-South Yamarna Joint Venture area.

We have raised our equity adjusted base case and upside valuations by 19% to \$0.43 and \$0.87 per share respectively from a combination of ascribing modest values to the potential for significant gold mineralisation at the Toto Prospect and the impact of lower dilution from the higher share price for potential additional shares issued in FY15. Whilst we have also raised our price target for Gold Road by 18% to \$0.33 per share, we continue to see more upside from ongoing exploration success and de-risking as the nature and extent of the potential gold endowment at Yamarna is better recognised. We retain our recommendation for Gold Road as a **Speculative Buy**.

SOURCE: IRESS

Large gold geochemical anomaly at Toto

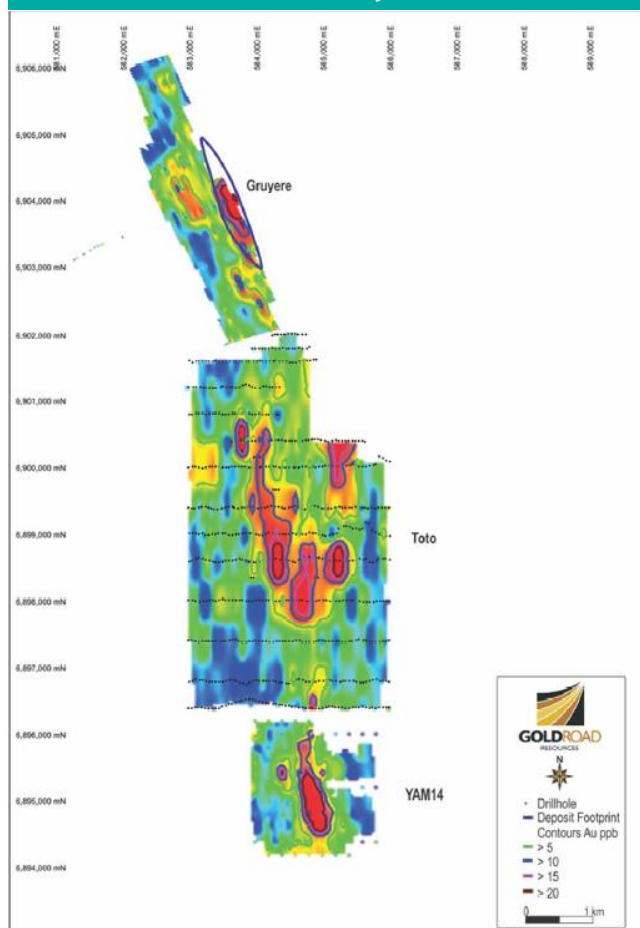
Major gold anomaly at Toto Prospect mineralisation development

Gold Road has identified a very extensive gold geochemical anomaly (Figures 1 and 2) from interface rotary air blast (RAB) drilling across the extension of the major Dorothy Hills Shear Zone. It is a similar geological setting to, and 2km south of, the company's recent Gruyere gold discovery (Figures 4 and 5 on page 3). Key features of the anomaly are:

- It occurs at the Toto Prospect located between Gruyere and YAM14. It is 3km long and up to 1.2km wide and it is defined by greater than 10 parts per billion (ppb) gold values;
- It lies above an interpreted flexure in the Dorothy Hills Shear Zone and to the northwest of an interpreted major granitic intrusive (purple hatched shape in corner of Figure 2);
- There are three discrete parallel trends of anomalous (greater than 15ppb) gold values that are coincident with three linear magmatic anomalies; and
- The northern part of the Toto anomaly is located about 2km south of the major Gruyere gold deposit, which is the subject of a pending Maiden Resource.

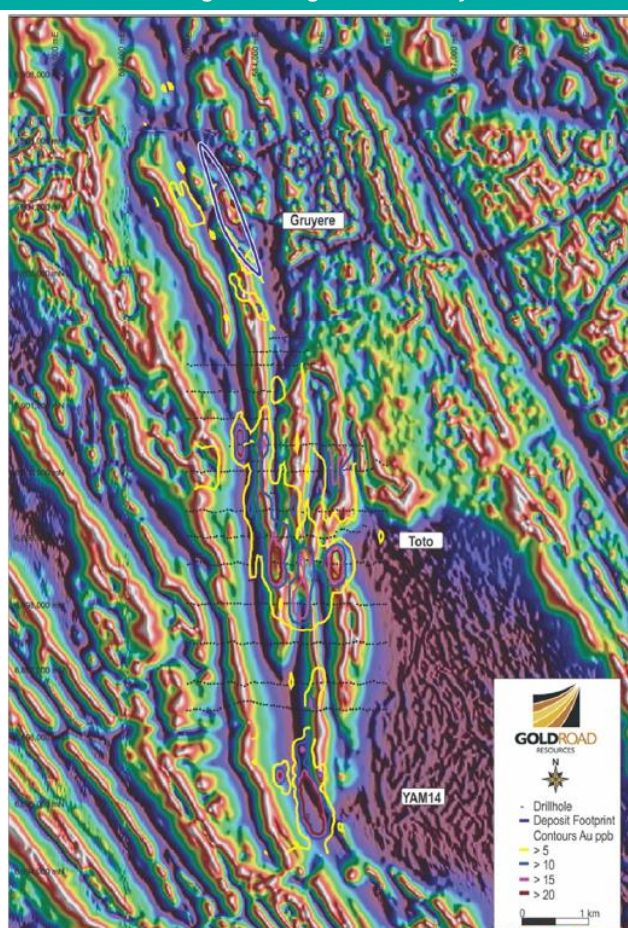
The coincident magnetic highs within the Toto gold anomaly support the interpretation that the potential gold mineralisation which has given rise to the gold anomaly could be part of a major shear-hosted mineralising system like Gruyere. It should be pointed out that the incomplete-looking nature of the gold anomaly, particularly in the north-eastern corner of Toto and to the east of Gruyere, relates to the fact that the anomaly shown in Figure 1 has only been derived by all the same type of interface RAB drilling. There is older geochemical sampling in the remaining area.

Figure 1 – Detailed contour map of gold geochemical results over Gold Road's Dorothy Hills Trend



SOURCE: GOLD ROAD RESOURCES LTD

Figure 2 – Map of gold anomalies superimposed over RTP magnetic image over Dorothy Hills Trend



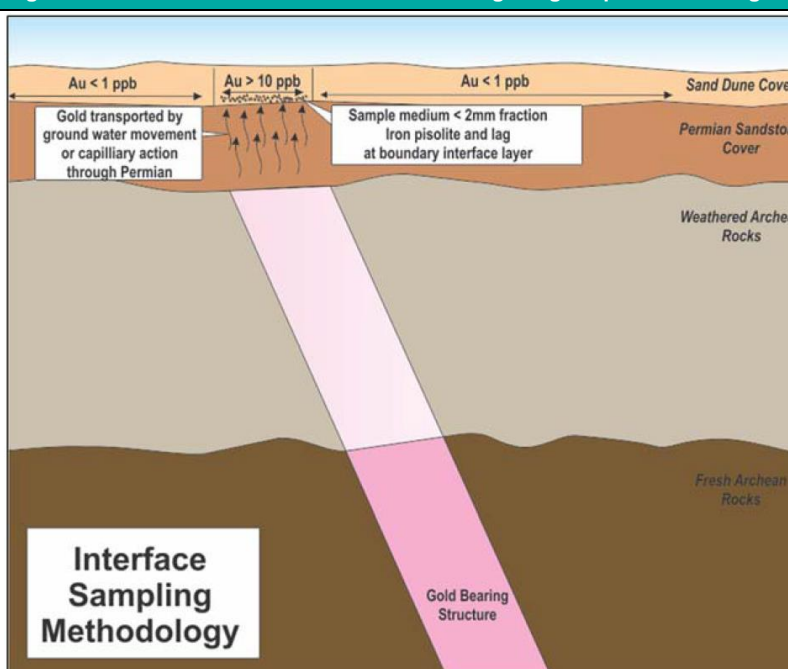
SOURCE: GOLD ROAD RESOURCES LTD

Toto gold anomaly defined by the same interface sampling used at Gruyere and other recent discoveries

The Toto anomaly was defined by interface sampling, which consisted of the RAB drill penetrating the predominantly ubiquitous Recent-age sand dune cover down into the Permian sandstone. A single sample is collected from the upper contact surface of the cemented and iron-rich Permian sandstone, which is sieved to a less than 2mm fraction to produce a 100g sample that is sent for analysis for gold at a 1 ppb detection limit.

The interface RAB drilling enables the sampling of the interface between the base of the generally shallow Recent dune sand cover and the top of the underlying Permian sediments (generally sandstone). It is an effective way of sampling the weathered Permian palaeosurface, which is regarded as having captured the geochemical signature of any underlying mineralisation in the Archaean. This is represented diagrammatically in Figure 3. This method of sampling was used effectively by Gold Road to identifying the discovery anomalies over the Gruyere Deposit and the YAM14 and the Breelya-Minnie Hill Prospects in the second half of 2013. Follow-up drilling of those anomalies led to the significant gold discoveries at each of these target areas.

Figure 3 – Schematic cross section of Yamarna geological profile showing interface layer sampled



SOURCE: GOLD ROAD RESOURCES

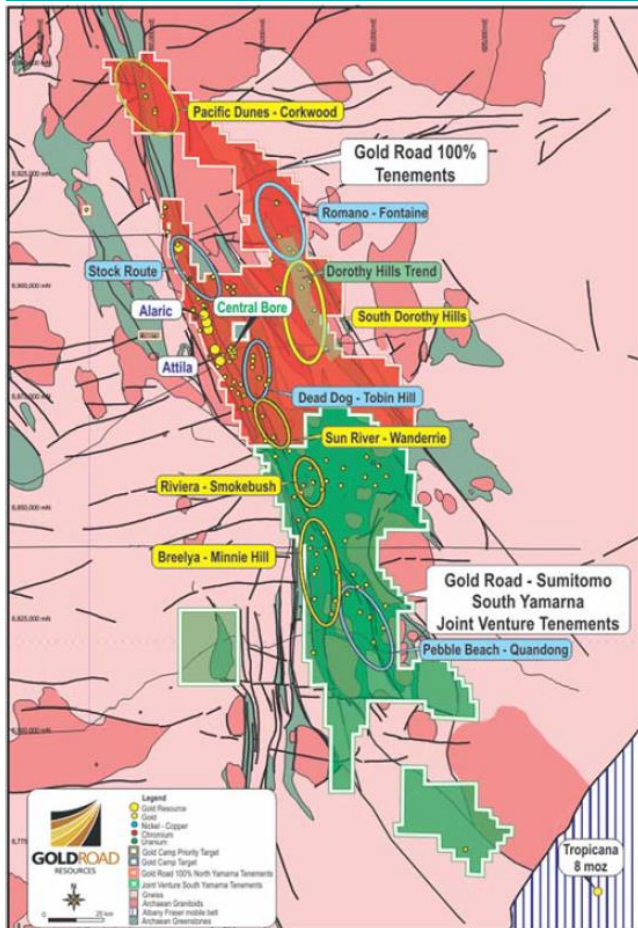
Future Work Program at Toto and Elsewhere in the Yamarna Gold Project

Gold Road is planning a follow-up program of aircore drilling to test the identified Toto Prospect gold anomaly. This will involve aircore holes being drilled to refusal at the top of the fresh rock in the underlying Archaean rocks. The aircore holes will be drilled on the same east-west drill lines as were used for the interface RAB drilling but with the aircore holes spaced at 50m on those lines. The aircore holes will be sampled for gold through the weathered Archaean weathering profile and a single sample will be taken at the end of each hole that will be assayed for gold and an additional multi-element suite. Any further coherent gold anomalism identified from the aircore program will then be tested by follow-up reverse circulation (RC) drilling.

The follow-up aircore program at the Toto Prospect is scheduled to begin in the September 2014 Quarter. 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 Wanderrie-Sun River Gold Camp targets. Gold Road is currently doing a RAB/aircore drilling program at the Riviera-Smokewood Camp target in the Sumitomo-South Yamarna Joint Venture (SSYJV) tenements in the southern part of the Yamarna Gold Project.

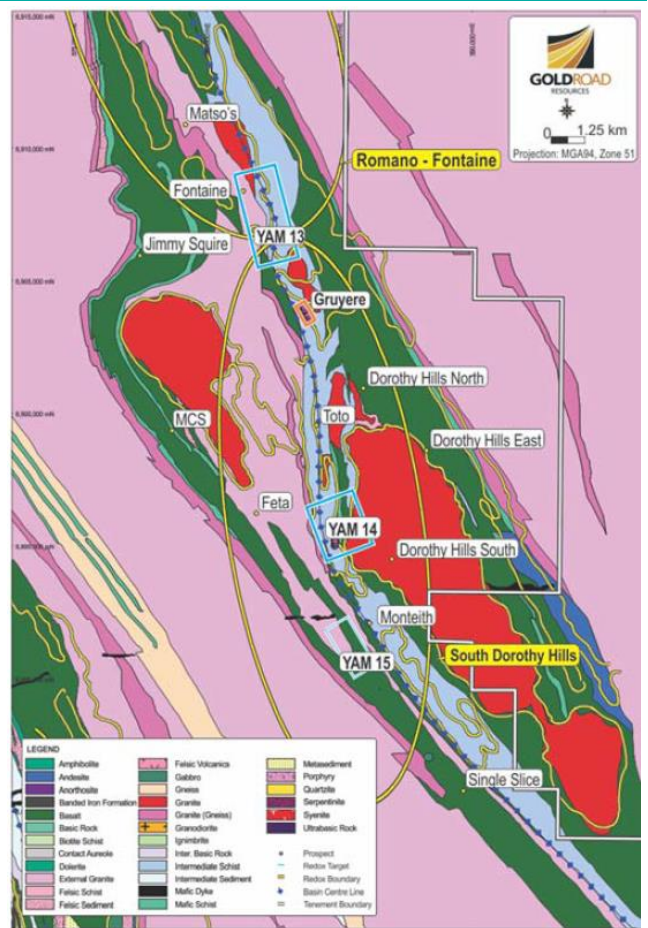
Follow-up aircore drilling program planned to test Toto anomaly with RC drilling to follow and RAB/aircore drilling at other Yamarna camp scale targets

Figure 4 - Target areas in Gold Road's Yamarna Gold Project



SOURCE: GOLD ROAD RESOURCES LTD

Figure 5 - Map of Dorothy Hills Trend showing Toto Prospect



SOURCE: GOLD ROAD RESOURCES LTD

Gold price reflects US dollar weakness

The gold price has recently rebounded back to around \$US1,320 after having fallen to a low of around \$US1,240 in early June 2014, its lowest level in four months. The price of the precious metal had been affected by perceptions that there were reduced risks to the global financial situation from an easing in European geopolitical tensions following the election in Ukraine and indications, some indications of improvement in the US economy and significant technically-based selling. Recent data on the US economy has cast more doubt on the strength and reliability of the recovery, leading to further weakness in the value of the US dollar and a corresponding move back to gold.

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

Overall so far in 2014, the gold price has continued to show far more resilience than most forecasters were expecting and notwithstanding the likelihood of further relatively brief periods of weakness, we expect the gold price to continue to remain well supported while the US economy remains sluggish. From an Australian perspective, the gold price continues to trade in a relatively narrow range between about \$A1,300 to \$A1,400 and we anticipate it will continue to trade in that range for the balance of 2014 and into 2015.

The main factors influencing the gold price in 2014 have been the variable but relentless physical purchases by China and continued weakness in the value of the US dollar (exacerbated by periods of relative weakness in the USA economy). We continue to see these two factors being the key influences on the gold price in 2014 and beyond.

We have not changed our gold price and \$A forecasts.

Higher valuations reflect Toto, share price

Our revised valuations reflect the net impact of the extensive Toto gold anomaly discovery and reduced dilution from higher share price

We have increased our equity adjusted base case and upside case valuations for Gold Road by around 19% to \$0.43 and \$0.87 per share to reflect the potential value of the major gold geochemical anomaly discovery at the Toto Prospect to the south of Gruyere and for the impact of lower dilution from the higher Gold Road share price compared to our most recent valuations. Our previous valuations were based on a Gold Road share price at the time of \$0.155 but the current share price is 84% higher at \$0.285 reflecting various factors including the discovery of the major gold geochemical anomaly at Toto Prospect and the firmer gold 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 1, we have assumed that the company 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 1 - 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 (\$)	0.285	0.285
Number of shares to be issued (M)	56.3	93.8
Total number of shares on issue at year end(M)	571.7	666.9

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 are based on our estimates.

Our valuations for Gold Road are still dominated by our estimate of a Maiden Resource at Gruyere of at least 3Mozs

Our base case valuation assumes that the Gruyere deposit contains a resource of about 90Mt at an average grade of around 1.1g/t for about 3Mozs of contained gold with favourable metallurgical recovery characteristics in a deposit that has a significant width (a major part of it being at least 150m wide), giving a significant part of the deposit in that area an average strip ratio of about 1. This would give the overall development considerable initial attractive financial viability from a simple and relatively quickly constructed large scale development that could also incorporate the treatment of appropriate higher grade parts of the existing resource base at Central Bore and Attila-Alaric (where the total resource is 1.3Mozs at 1.5g/t). Our upside case valuation assumes that the Gruyere deposit is considerably larger (and may possibly include other similar deposits nearby) 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 \$7M (after completion of the significant Gruyere resource drill-out) with no debt after having recently raised \$10M in a share placement at \$0.175 per share. The company also has the very constructive exploration agreement with Sumitomo Metal Mining (Sumitomo), which is sole funding up to \$8M of exploration in the SSYJV over the period to 31 December 2016 to earn a 50% interest. After a considerable period of review if the significant results of 2013, exploration has resumed in the SSYJV with RAB/aircore drilling at the Riviera-Smokedwood Camp target at the southern end of the Yamarna Gold Project.

Table 2 - Summary valuations for Gold Road

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ^{1,2}	\$ M ¹	¢/share ^{1,2}
Yamarna Gold Project – Central Bore, Attila, Gruyere	234	35	493	73
- Other wholly-owned and SSJV areas ³	22	4	64	9
Other Exploration Assets	1	0	3	1
Total Exploration Assets	257	38	560	82
Corporate	(13)	(2)	(13)	(2)
Net Cash ⁴	47	7	47	7
TOTAL ASSETS	291	43	593	87

SOURCE: BELL POTTER SECURITIES ESTIMATES

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

2. BASED ON EQUITY ADJUSTED DILUTED CAPITAL OF 618.6M SHARES

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

4. BASED ON CASH BALANCE AT 31 MARCH 2014 LESS SUBSEQUENT ESTIMATED EXPENDITURE PLUS FORECAST EQUITY TO BE RAISED IN FY15 AND FY16

Our recommendation on Gold Road is based on the significance of Gruyere and the company being likely to achieve further exploration success

Our valuations are still significantly discounted for uncertainty until a Maiden Resource is defined at Gruyere

Recommendation

Gold Road is an attractive and well-funded gold exploration and development company with proven technical capability. We estimate the company currently has about \$7M in cash with no debt and is therefore well placed to continue a high level of exploration and development activity at the company's large Yamarna Gold Project. Gold Road is in the process of defining a substantial resource base that has potential to increase further from exploration successes at other prospects in the company's large tenement position.

We maintain our previous view that Gruyere is an outstanding world class discovery and is part of a large gold system which we estimate could contain at least 3Mozs.

The recent discovery of an extensive gold anomaly with coincident magnetic anomalies at the Toto prospect within 2km of the Gruyere deposit along with the previous discovery of significant gold mineralisation at the Breelya-Minnie Hill target points to the potential for more significant gold mineralisation elsewhere in the extensive Yamarna Gold Project tenements, which are increasingly being seen as being in a favourable geological setting with strong geological similarities to the Kalgoorlie and St Ives districts.

We continue to see high potential for the Gruyere deposit to become the catalyst for a relatively rapid large scale gold development based on a central processing plant there. Along with development of a large scale and low cost mining operation at Gruyere initially, such a processing facility (that could also have a large heap leach processing capability added after a few years) could operate on a sufficiently large scale that could enable it to be highly efficient and deliver attractive returns from the successful development ultimately of multiple mines in the company's Yamarna Gold Project area.

With four other partially or completely untested high priority camp-scale gold targets and three priority camp-scale gold targets within its extensive Yamarna Gold Project, we continue to believe the company has very good potential to discover additional substantial gold deposits by successfully applying its proven exploration targeting methodology at Yamarna as evidenced by the recent gold geochemical anomaly at Toto. We have increased our equity diluted and risk-adjusted NPV-based valuations for Gold Road, lifting our base case and upside valuations by about 19% each to \$0.43 and \$0.87 per share respectively to reflect the exploration success at Toto Prospect and from the reduced dilution of the higher Gold Road share price. We have continued to apply a significant discount to the base case valuation for uncertainty until Gruyere is better defined (such as by a Maiden Resource estimate) but we have increased our 12-month target price for Gold Road by 18% to \$0.33 per share from these higher valuations.

Accordingly we retain our recommendation for Gold Road as a **Speculative Buy**.

Risks and Drivers

We identify the following as the main risks:

- Commodity prices and foreign exchange rates that are different to our forecasts
- Lack of exploration success and/or greater than expected geological complexities that may inhibit the definition of adequate reserves
- Lack of funding to carry out adequate exploration and development
- Subsequent identification of adverse metallurgical characteristics that may result in more complicated and expensive processing requirements notwithstanding that preliminary metallurgical test work has consistently given very encouragingly high recovery results
- Prolonged government approvals processes and adverse environmental or other regulatory issues
- Adverse weather and operational issues
- Changes to government policy
- Cost overruns or operational delays
- Inappropriate acquisitions of other assets that divert management effort and yield inadequate returns

We identify the following as the main share price drivers:

We have identified many upcoming events that could be significant share price drivers over the next few months and through to the next year or so:

- Fast-tracking of the resource interpretations and modelling for Gruyere to enable a substantial Maiden Resource to be estimated by the September 2014 quarter
- Further exploration success around Gruyere and in the 9km long Gruyere - YAM14 corridor to the south of the Gruyere Prospect such as at the Toto Prospect and at the Breelya-Minnie-Hill Prospect in the SSYJV area such as the recent discovery at Minnie Hill South
- Completion of the testing of the northernmost camp-sized target area of Pacific Dunes-Corkwood, which was only partially explored prior to the end of 2013 and from the initial drill testing at the Riviera-Smokewood Camp target in the SSYJV area at the southern end of the Yamarna Gold Project
- Positive outcome from the completion of the Gruyere scoping studies due for completion in the March 2015 quarter showing Gruyere is capable of being developed to achieve very attractive and significant economic returns, which may include establishment of a substantial regional gold processing plant (with initial annual ore processing capability of at least 4Mtpa) at Gruyere and incorporating the appropriate early processing of higher grade material from Central Bore, the Attila Trend and other locations (such as YAM14) where suitable gold mineralisation may be discovered
- Follow-up drill testing at the Toto and Breelya-Minnie Hill areas leading to significant resources being defined that add to the existing resource base at the time and fit into the definitive feasibility study (DFS) on Gruyere and related deposits
- Successful completion of a DFS into the development of a large scale gold operation at the company's Yamarna Gold Project based on Gruyere and other deposits
- Further exploration success from other camp-sized high priority and priority target areas within the company's large Yamarna Gold Project

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.