

Analyst, Retail Research Services  
Peter Arden 613 9235 1833

Authorisation  
Peter Quinton 613 9256 8768

## Gold Road Resources Ltd (GOR)

### Higher grades in North Zone and further very positive metallurgy results at Gruyere

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$0.155**  
**Target (12 months)**  
**\$0.28** (unchanged)  
**Risk**  
**Speculative**

**Expected Return**

Capital growth	<b>81%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>81%</b>

**Company Data & Ratios**

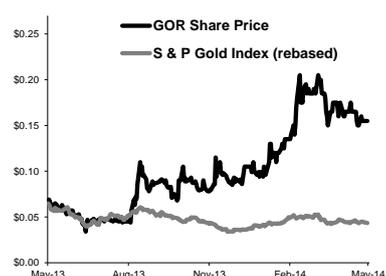
Enterprise value	<b>\$67m</b>
Market cap	<b>\$80m</b>
Issued capital	<b>513.6m</b>
Free float	<b>90%</b>
Avg. daily val. (52wk)	<b>\$0.13m</b>
12 month price range	<b>\$0.034 - \$0.22</b>
GICS sector	<b>Materials</b>

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)	0.175	0.14	0.067
Absolute (%)	-11.4	14.8	131.3
Rel. Market (%)	-11.5	12.8	126.8

**Absolute Price**



SOURCE: IRESS

### Consistent higher grades give North Zone added attraction

Although the North Zone of the exciting and substantial Gruyere gold deposit of Gold Road Resources Limited (Gold Road), is narrower than the Main Zone to the south, recent drilling has intersected consistently higher grade gold mineralisation (averaging 1.5g/t to 3.5g/t) in the North Zone over a strike length of 550m. An 18-hole drilling program at the North Zone intersected gold mineralisation across the full width of the mineralised Gruyere Tonalite, the average true width of which is 75m and the Gruyere Tonalite has now been shown to extend to a vertical depth of at least 200m. Using a 1.0g/t cut-off, 14 of the 18 recent holes contained intersections over 1.0g/t over significant widths and at that cut-off grade, the average gold grade of the mineralised intervals is 2.0g/t.

Gold Road has seven drilling rigs at Gruyere as the company takes advantage of lower contract drilling rates to more rapidly drill out the central Main Zone of the deposit to expedite the Mineral Resource estimate. Once Gold Road has a Resource with appropriate classifications, it can then be used for detailed development studies.

### More positive metallurgical results include heap leachability

Gold Road's initial metallurgical testwork yielded very encouraging results indicating high gravity and very high total cyanidation recovery rates with very rapid leach kinetics at a standard grind size (P80 at 75µ). Further recent metallurgical testwork has built on those impressive results, indicating high gravity (50% to 52%) and total cyanidation recovery results (over 95%) are achievable at coarser grind sizes (P80s at 106µ and 125µ) with oxygen sparging indicating lower leach residence times. Initial heap leach simulation tests gave promising results with gold recoveries of 70% in only 24 hours.

### Extensional drilling confirms Gruyere mineralisation model

Recent extensional drilling has confirmed the interpreted structural controls and higher grade trends. Gold mineralisation has been shown to extend to 600m below the surface in the central part of the deposit, which has a strike length of at least 2,200m. Recent drill holes targeting the eastern hangingwall margin of the Gruyere Tonalite successfully demonstrated a consistently higher grade in this portion of the shear zone as predicted, confirming the interpreted stacked geometry.

### Price target retained at \$0.28 with more exploration upside

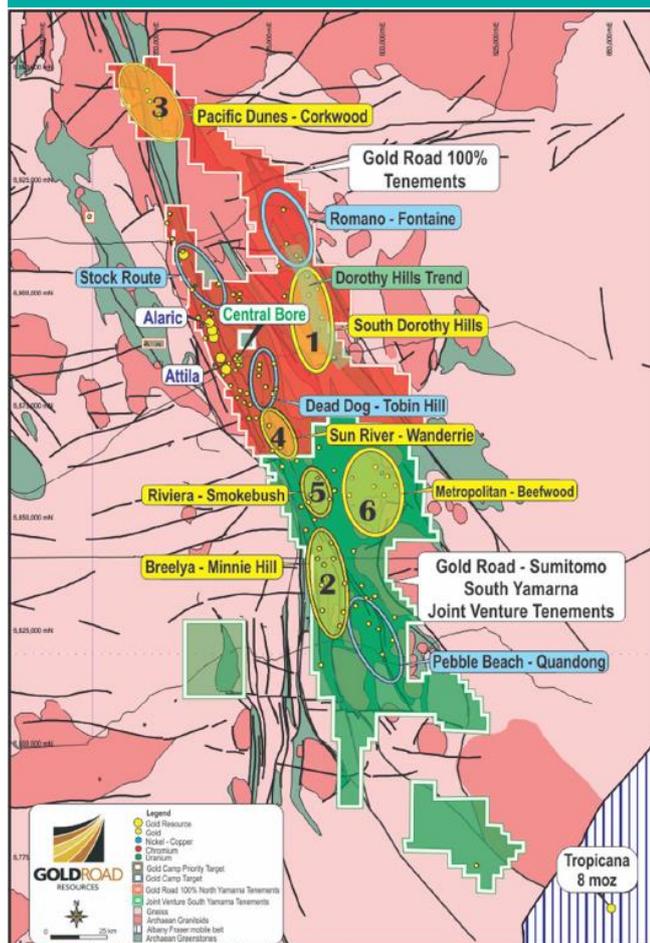
Gold Road is expediting the Gruyere resource drill-out and Resource estimate to move rapidly into development studies while continuing with the exploration of other priority gold camp targets in the Yamarna Project. We are very encouraged by the recent supportive drilling and metallurgical test results that continue to demonstrate that Gruyere is a large, robust gold system with very favourable metallurgical recovery characteristics that give it considerable development optionality. We retain our base case valuation of \$0.34 per share but have raised our upside valuation 6% to \$0.69 per share. Whilst retaining our 12-month target price for Gold Road at \$0.28 per share, we continue to see upside beyond that from ongoing exploration success and de-risking. We retain our recommendation for Gold Road as a **Buy with Speculative risk**.

# Higher grade North Zone mineralisation

Gold Road has announced that drilling at the northern end of the Gruyere deposit in the company's wholly-owned Yamarna Gold Project in the South Dorothy Hills camp target (Figure 1) has returned confirmatory high grade results. Key features of this are:

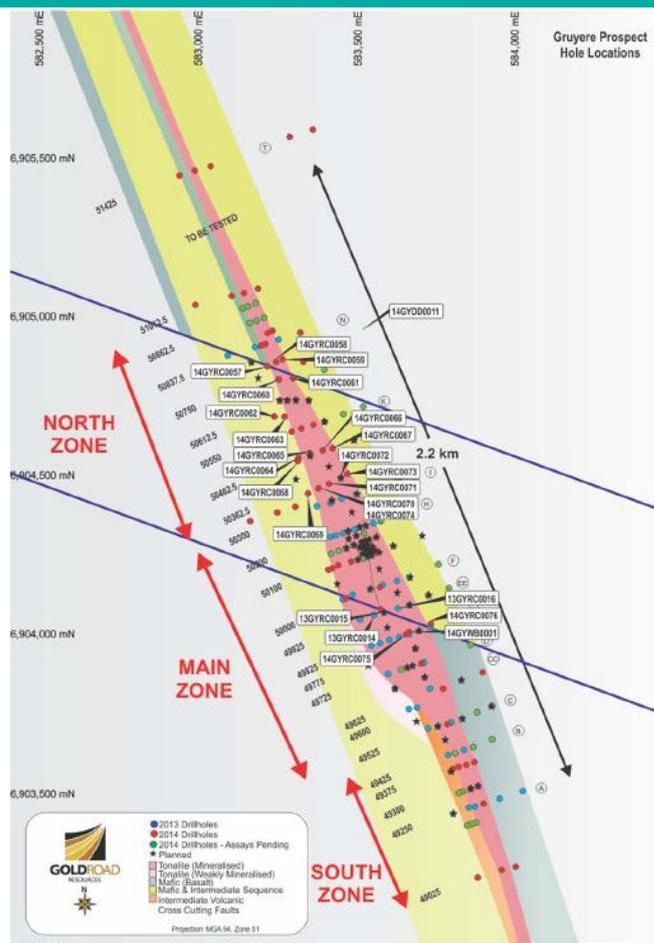
- An 18 hole RC drill program has been carried out at the northern end (North Zone) of the gold mineralised Gruyere Tonalite body over a strike length of 550m (Figure 2) and across the full width of the Gruyere Tonalite (Figure 3), which has an average true width over that strike length of 75m and extends to a vertical depth of at least 200m;
- The drilling has intersected consistently higher grade gold mineralisation (1.5g/t to 3.5g/t) than in the wider central or Main Zone to the south with broad zones of over 1g/t and over 45% of the individual intersections grading over 1g/t, 20% over 2.0g/t and 37 individual assays of exceeding 5.0g/t (Figure 4 on page 3);
- At a gold cut-off grade (cog) of 0.5g/t, the average gold grade of the mineralised intervals in the 18 holes is 1.6g/t and at a cog of 1.0g/t, the average grade is 2.0g/t; and
- Significant intersections include **31m at 3.25g/t from 52m including 24m at 4.07g/t from 57m** in 14GYRC0060; **63m at 2.79g/t from 85m including 58m at 2.96g/t from 86m** in 14GYRC0061; **57m at 2.39g/t from 51m** including 33m at 2.75g/t from 51m in 14GYRC0058; **82m at 1.65g/t from 56m, 24m at 2.04g/t from 160m and 29m at 1.47g/t from 201m** in 14GYRC0062; **99m at 1.65g/t from 106m** in 14GYRC0074; 55m at 1.77g/t including **22m at 2.64g/t from 107m** in 14GYRC0059; **47m at 1.7g/t from 123m** in 14GYRC0073; and 34m at 1.28g/t from 80m in 14GYRC0073.

Figure 1 - Target areas in Gold Road's Yamarna Gold Project



SOURCE: GOLD ROAD RESOURCES LTD

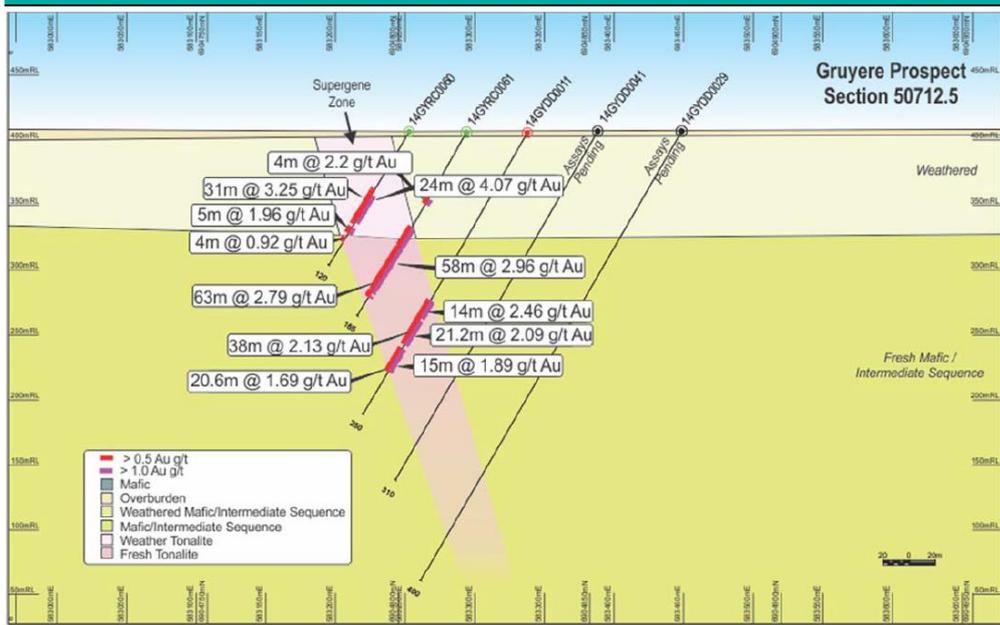
Figure 2 - Map of drill holes and sections at Gruyere Prospect



SOURCE: GOLD ROAD RESOURCES LTD

NOTE: BLUE LINES ARE FAULT STRUCTURES

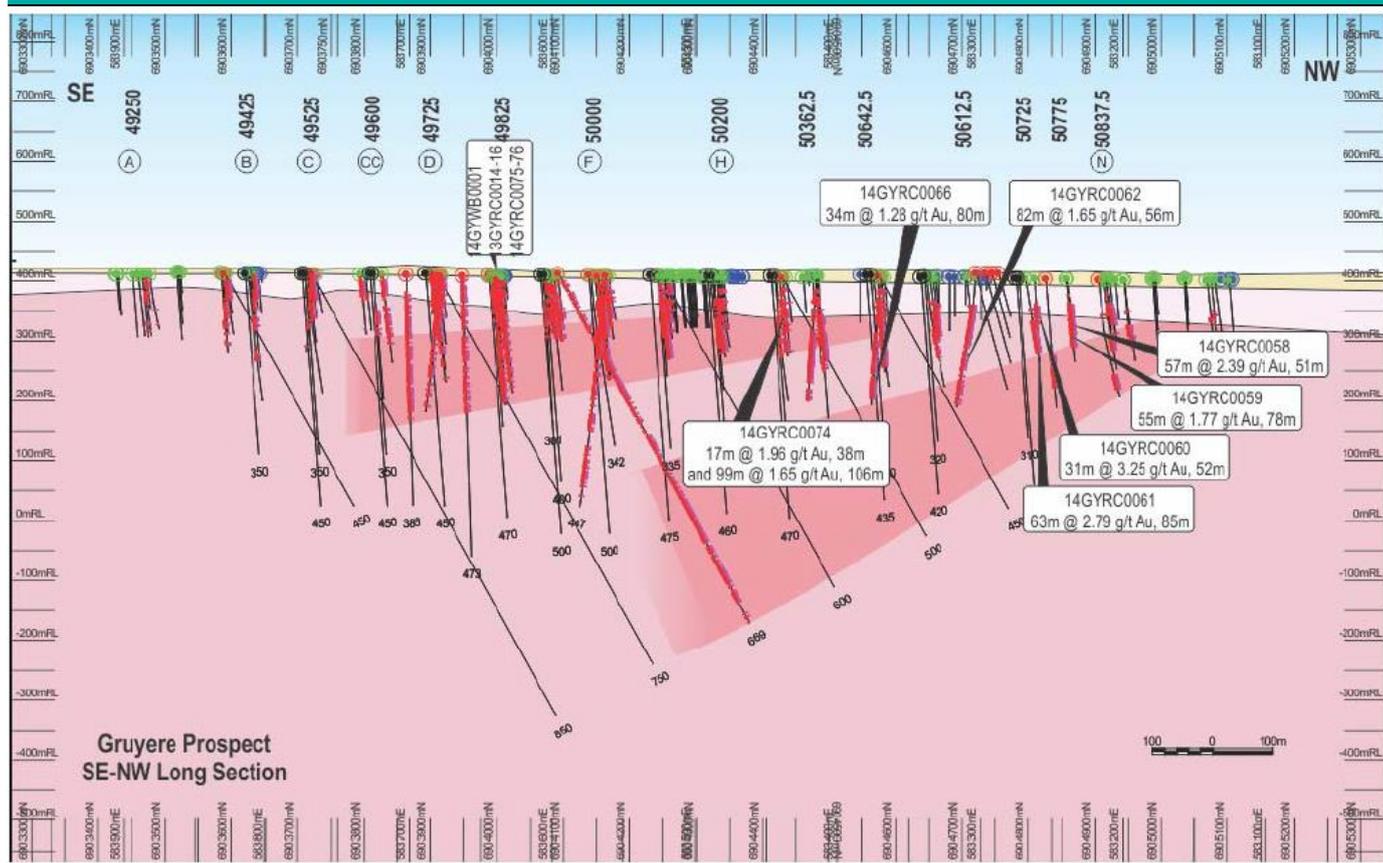
Figure 3 - Gruyere cross section showing significant North Zone intersections and geology



SOURCE: GOLD ROAD RESOURCES

The North Zone overall seems to be characterised by a higher degree of deformation and more intense alteration compared to the Main Zone while a clear supergene enrichment zone is identified for the first time at Gruyere with an intersection of 24m at 4.07g/t from 57m down hole in hole 14GYRC0060 (Figure 3) from entirely within the Lower Saprolite Zone that could represent a target for significant shallow high grade mineralisation along the entire strike of the Gruyere Prospect where deeper weathering occurs.

Figure 4 - Long section through Gruyere Prospect highlighting recent significant drill intersections



SOURCE: GOLD ROAD RESOURCES NOTE: RED BARS REPRESENT ASSAYS ABOVE 0.5G/T AND PURPLE BARS ARE FOR ASSAYS ABOVE 1.0 G/T. BLUE DRILL COLLARS ARE FOR 2013 HOLES, RED DRILL COLLARS ARE FOR 2014 HOLES WITH ASSAYS; GREEN COLLARS ARE FOR 2014 HOLES WITH ASSAYS PENDING; AND BLACK COLLARS ARE FOR PLANNED HOLES.

These latest results confirm our previous expectations of a significant zone of higher grade gold mineralisation in the North Zone. We are particularly impressed with the continuing overall consistency of the mineralisation, even though it is in a zone of considerably greater deformation and alteration. At this stage we are retaining our most recent estimate for a Mineral Resource Estimate for Gruyere of around 3Mozs at an average grade of about 1.1g/t but we note that there is potential for an upgrade to this from these latest results. We also note that the North Zone is growing in importance and could represent a significant higher grade part of the deposit that rivals the Main Zone for early development considerations, especially if, as expected, it has favourable metallurgical characteristics.

## Further positive metallurgical test results

The company's initial metallurgical test program on Gruyere mineralisation achieved very impressive results with total gold recoveries of 96% to 98%; indicative gravity recoveries of 52% to 69%; and very rapid gold extraction rates during cyanidation based on samples ground to 80% passing (P80) 75 $\mu$ .

Gold Road has recently completed further metallurgical test work on mineralised Gruyere material. The key aspects of this work and summary results are:

- Two 5kg composite samples comprising oxide, transition and fresh material, with an average head grade of around 1.6g/t were subject to different and coarser grind rates than in the previous test work;
- Cyanidation recoveries were over 95% at P80s at 106 $\mu$  and 125 $\mu$  with air sparging<sup>1</sup>;
- Oxygen sparging increases the leach kinetics during the first few hours and improves recovery rates by 1% to 2%
- Gravity recoveries of around 50 – 52% were obtained;
- Rapid leaching of the gravity tails generally gave good gold recoveries (except where the cyanide levels decreased) so that overall, very high gold recovery rates were achieved for all samples of 95.4% to 97.4%;
- Initial heap leach simulation tests (involving intermittent bottle rolls as a rough approximation to the heap conditions) gave promising results with rapid gold recoveries of 70.3% in 24 hours, levelling out at 81.2% after 96 hours. It is noted that the heap leach simulation tests were done on material that was ground far finer than is usual for heap leaching and therefore much more definitive coarse grained column testing is required to get a more accurate idea of the likely response of the ore to heap leaching.

The ongoing metallurgical test work on Gruyere continues to yield positive results of high gold recoveries across a growing range of conditions (grind sizes, leach times, gravity separation and leaching conditions). There is still much more detailed test work to be done to fully understand and optimise the recoveries for Gruyere overall and for each major ore type in particular but it is very encouraging that at this early stage, the results are consistently pointing to favourable metallurgical processing outcomes.

We regard the initial simulated heap leach testwork as particularly encouraging although we note that only limited simulations have been carried out. We think it is imperative that coarser crushed (to at least 10mm to 15mm size fractions and even larger) column testing is done to better establish the amenability of Gruyere ore for heap leaching. We believe heap leaching offers a potentially very important processing method for Gruyere given that a potentially large amount of lower grade material is likely to be mined in the course of operations at Gruyere.

Note1. Sparging refers to the addition of air or oxygen into the leach vessels to maintain dissolved oxygen levels

While heap leaching is usually reserved for particular low value types of less attractive orebodies or development scenarios, we believe heap leaching could provide a very valuable adjunct to the development at Gruyere, which is likely to be mainly based on a large scale CIL operation preferentially treating higher grade ore.

As part of its ongoing pre-development concept studies, Gold Road intends to carry out further metallurgical test work on various aspects of the Gruyere mineralisation including:

- recovery behaviour at coarser grind sizes and under different leaching conditions;
- comminution characteristics of the ore;
- rock hardness; and
- more detailed heap leach recovery investigations under coarser crush sizes.

This work is anticipated to be completed in the September 2014 quarter.

## Extensional drilling confirms ore model

Recent deeper diamond drilling by Gold Road has achieved significant results relating to higher grade gold mineralisation at the Gruyere Prospect. Key features of this are:

- The most recent results from deeper diamond drilling have confirmed the interpreted structural controls and higher grade trends;
- Gold mineralisation has been shown to extend to 600m below surface and it still remains open at depth and has a strike length of at least 2,200m;
- The gold mineralisation continues to exhibit exceptional continuity and scale;
- The northern zone of the Gruyere mineralisation has been intersected now by seven drill holes and they all display consistent intersections grading between 1.5g/t to 3.5g/t over the full width of the Gruyere Tonalite and to vertical depths of up to 200m below the surface;
- Several drill holes targeting the eastern hangingwall margin of the Gruyere Tonalite successfully demonstrated a consistently higher grade in this eastern portion of the shear zone as predicted, confirming the interpreted stacked geometry of internal flat-dipping higher grade alteration or lode zones; and
- Extensions to two holes drilled into the middle of the deposit earlier in the year have added considerable depth extent (100m and 80m) to the central part of the gold mineralisation at Gruyere while one of these holes also showed that the mineralisation is another 25m wider in the host tonalite intrusive at depth

The latest drill results continue to confirm the company's model of the gold mineralisation at Gruyere and to make the case for Gruyere being an exceptionally strong and consistently well mineralized deposit. Gold Road is continuing with its high rate of drilling activity for the drill-out of the deposit with the objective of having a Maiden Resource by the end of the September 2014 quarter.

A sense of the continuity and scale of the gold mineralisation is given by the following total intersections from some of the recent drill holes:

- 398m at 0.91g/t from 12m in 14GYDD0001;
- 653.2m at 1.13g/t from 16m in 14GYDD0008;
- 229.5m at 0.98g/t from 3m in 14GYDD0009; and
- 196m at 1.33g/t from 35m in GYDD0010.

## Base case valuation retained; upside valuation lifted

We have retained our equity adjusted base case valuation for the company's Yamarna Gold Project but we have raised our upside valuation by 6% to \$0.69 to reflect the additional potential from the recent drilling and metallurgical test results.

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 <sup>1</sup> (\$ M)	15.0	25.0
Share price assumed (\$)	0.155	0.155
Number of shares to be issued (M)	103.5	172.5
Total number of shares on issue at year end(M)	617.1	789.6

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 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 (totalling 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 \$13M with no debt (Table 2) after having recently raised \$10M in a share placement at \$0.175 per share. The company also has a very constructive exploration agreement with Sumitomo Metal Mining (Sumitomo), which is sole funding up to \$8M of exploration in the SYJV over the period to 31 December 2016 to earn a 50% interest.

**Table 2 - Summary of valuations of Gold Road**

Assets	Base Case		Upside Case	
	\$ M <sup>1</sup>	¢/share <sup>1,2</sup>	\$ M <sup>1</sup>	¢/share <sup>1,2</sup>
Yamarna Gold Project – Central Bore, Attila, Gruyere	225	28	473	59
- Other wholly-owned and SYJV areas <sup>3</sup>	12	2	38	5
Other Exploration Assets	1	0	3	1
Total Exploration Assets	239	29	514	64
Corporate	(13)	(2)	(13)	(2)
Net Cash <sup>4</sup>	53	6	53	7
<b>TOTAL ASSETS</b>	<b>279</b>	<b>34</b>	<b>553</b>	<b>69</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

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

2. BASED ON EQUITY ADJUSTED DILUTED CAPITAL OF 809.6M 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

## Recommendation

Gold Road is an attractive and well-funded gold exploration and development company with proven technical capability. Post the recent placement, we estimate the company currently has about \$13M 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 locations in the district.

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

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 at least eight other partially or completely untested priority camp-scale gold targets within its extensive Yamarna Gold Project, we continue to believe the company has good potential to discover additional substantial gold deposits by successfully applying its proven exploration targeting methodology at Yamarna. We have largely retained our risk-adjusted NPV-based valuations for Gruyere, retaining our base case valuation at \$0.34 per share and raising the upside valuation by 6% to \$0.69 per share to reflect the potential additional potential from the recent drilling and metallurgical results. We have continued to apply a significant discount of 20% to the base case valuation for uncertainty until Gruyere is better defined (such as by a Maiden Resource estimate) to maintain our 12-month target price for Gold Road of \$0.28 per share.

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

## 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
- Adverse weather and operational issues
- Changes to government policy
- Adverse environmental and other regulatory issues
- Cost overruns or operational delays
- Adverse 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 the Gruyere - YAM14 corridors to the south of the Gruyere Prospect and at the Breelya-Minnie-Hill Prospect in the SYJV area
- 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
- Testing of the 9km long structural corridor zone in between the southern extent of Gruyere and the YAM14 discovery
- 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
- Further exploration success at the YAM14 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 bankable feasibility study (BFS) on Gruyere and related deposits
- Successful completion of a BFS 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 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.*

**Bell Potter Securities Limited**

ACN 25 006 390 7721

Level 38, Aurora Place  
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

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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.