

Analyst, Retail Research Services
Peter Arden 613 9235 1833

Authorisation
Damien Williamson 613 9235 1958

Gold Road Resources Ltd (GOR)

Major depth extension for Gruyere gold mineralisation lifts resource potential

Recommendation
Buy (unchanged)
Price
\$0.17
Target (12 months)
\$0.28 (previously \$0.26)
Risk
Speculative

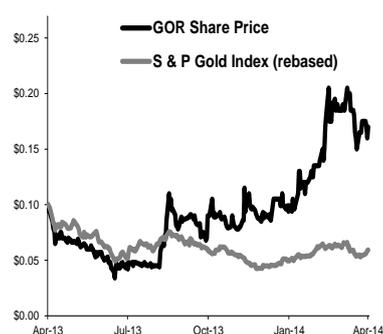
Expected Return	
Capital growth	65%
Dividend yield	0%
Total expected return	65%
Company Data & Ratios	
Enterprise value	\$74m
Market cap	\$88m
Issued capital	513.4m
Free float	90%
Avg. daily val. (52wk)	\$0.13m
12 month price range	\$0.034 - \$0.22
GICS sector	

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)	0.19	0.10	0.1
Absolute (%)	-8.1	71.7	70.0
Rel. Market (%)	-9.4	68.3	59.4

Absolute Price



SOURCE: IRESS

Higher grade Gruyere gold mineralisation in distinct zones

Further recent diamond drilling by gold exploration and development company, Gold Road Resources Limited (GOR) has increased the extent of the exciting new Gruyere gold discovery in the company's large Yamarna Gold Project in WA. It showed that the gold mineralisation continues to a depth of at least 500m below surface in the centre of the deposit. This points to a potentially much larger resource at Gruyere than previously thought and there is growing evidence that the deposit has distinctly higher grade zones of gold mineralisation with a shallow southerly plunge. The Gruyere gold mineralisation occurs over a strike length of at least 2.2km. We have increased our estimate of the size of Gruyere and now see a **potential resource of around 3Mozs**.

Recently the company announced a virtually continuous intercept (except for non-mineralised thin dolerite dykes) of **560.2m of gold mineralisation averaging 1.16g/t** from 16m in hole 14GYDD0008 including 131m at 1.14g/t from 124m; 124m at 1.68g/t from 392m; 12m at 3.52g/t from 524m; and 35.2m at 1.55g/t from 541m. Wide zones of consistent higher grade gold mineralisation were also intersected in two RC holes from a recent 26 hole program, with hole 14GYRC0033 intersecting 33m at 1.38g/t from 37m and 47m at 1.53g/t from 73m; and hole 14GY0034 intersecting 91m at 1.86g/t from 69m. The mineralisation is still open to the north and at depth.

Well-funded now to continue work on Gruyere in-fill drilling

The company recently raised \$10M in a private placement and is now well-funded to continue the very active exploration program begun in the second half of 2013, which achieved such a high level of success. We estimate GOR currently has cash of about \$14M with no debt and it also has an arrangement with Sumitomo, which is funding all exploration in the large Yamarna South Joint Venture (YSJV) to earn 50%. GOR has started a second phase of in-fill drilling at Gruyere to assist with resource modelling.

Exploration to resume on two discoveries and other targets

The company plans to resume regional exploration with further follow-up drilling on the two discoveries of YAM14 and Breelya-Minnie Hill where broad-spaced drilling at the end of 2013 discovered significant gold mineralisation and it also plans to do initial exploration on the other priority camp-sized targets. At YAM14, located only 9km to the south of Gruyere, shallow supergene and primary gold mineralisation was intersected in a zone over a 200m strike length that is 75m wide and extends to 80m. Exploration by GOR that is funded by Sumitomo under the YSVJ has discovered supergene gold mineralisation at Breelya-Minnie Hill over a strike length of 4km.

Price target raised to \$0.28 with further exploration upside

GOR is now well-funded to continue evaluation at Gruyere and to resume exploration on two other recent discoveries and at other incompletely tested and untested high ranking Yamarna targets. After incorporating the recent drilling results and allowing for the recent share placement, we have raised our base case and upside valuations to \$0.37 per share and \$0.69 per share respectively. We have raised our 12-month target price for GOR to \$0.28 per share with upside beyond that from continued exploration success and de-risking. We retain our recommendation of **Buy with Speculative risk**.

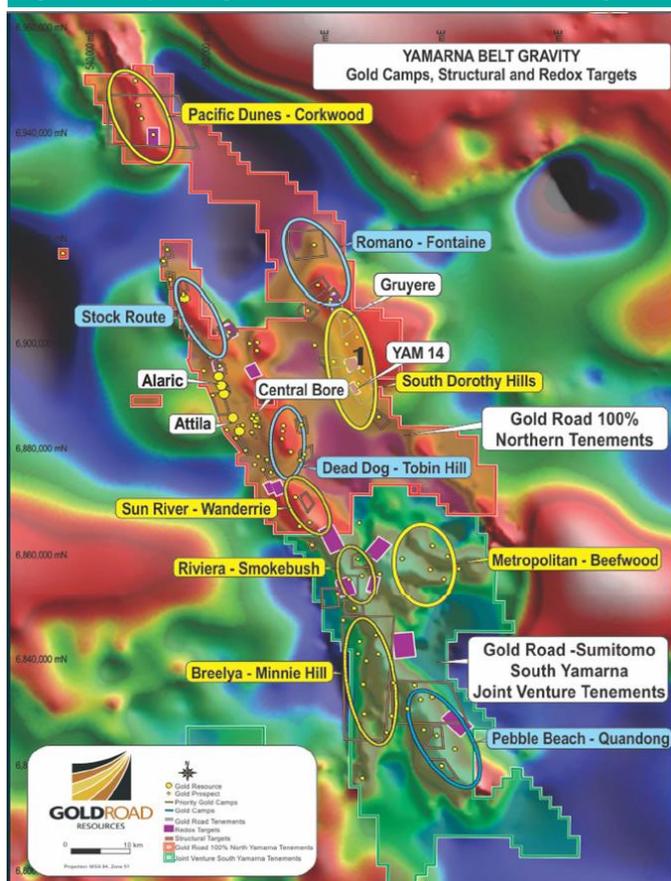
Gruyere mineralisation extends to 500m

Ongoing exploration drilling at GOR’s Gruyere Prospect within the South Dorothy Hills camp-sized target area (Figure 1) has confirmed the existence of a major gold system that has a surprisingly consistent nature. Gold mineralisation has been defined over a strike length of at least 2.2km (Figure 2). The Gruyere mineralisation constitutes a major gold system, which is still open to the north and south and at depth. The last hole in the initial series of diamond drill holes (14GYDD0008) was continued beyond its originally intended depth, being terminated recently in gold mineralisation at a down hole depth of 576.2m. That hole exhibited exceptional along-strike grade continuity and apart from some thin non-mineralised mafic dykes, it contained virtually continuous **gold mineralisation for a total intersection of 560.2m averaging 1.16g/t from 16m** (including the mafic dykes). The more significant gold intercepts (all at down hole depths in the 60° angled hole) included:

- **131m at 1.14g/t** from 124m including 35m at 1.31g/t from 156m and 44m at 1.4g/t from 200m;
- **124m at 1.68g/t** from 392m including 44m at 2.64g/t from 472m and **12m at 3.52g/t** from 524; and
- **35.2m at 1.55g/t** from 541m including 10.2m at 2.21g/t from 566m to end of the hole.

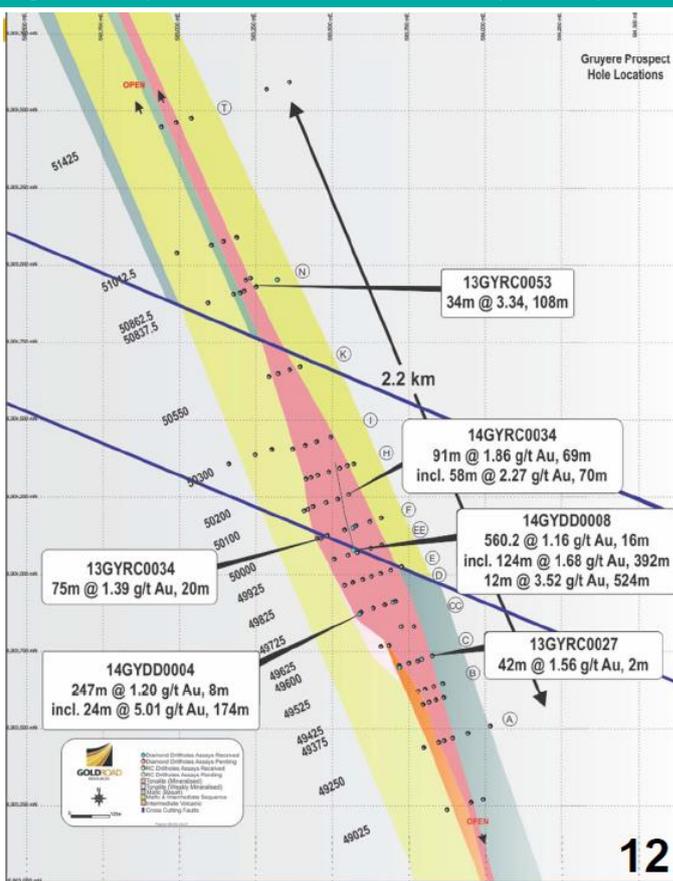
Hole 14GYDD0008 is located in the middle of the Gruyere deposit (Figures 2 and 3). Even though drilling along the strike of the deposit has consistently shown that the gold mineralisation could have similar depth extent along the entire strike length, such depth extent for all the mineralisation cannot be extrapolated over the full strike extent at this stage until confirmed by subsequent drilling.

Figure 1 - Map of target areas in GOR’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

Nature of Gruyere gold mineralisation becoming better known

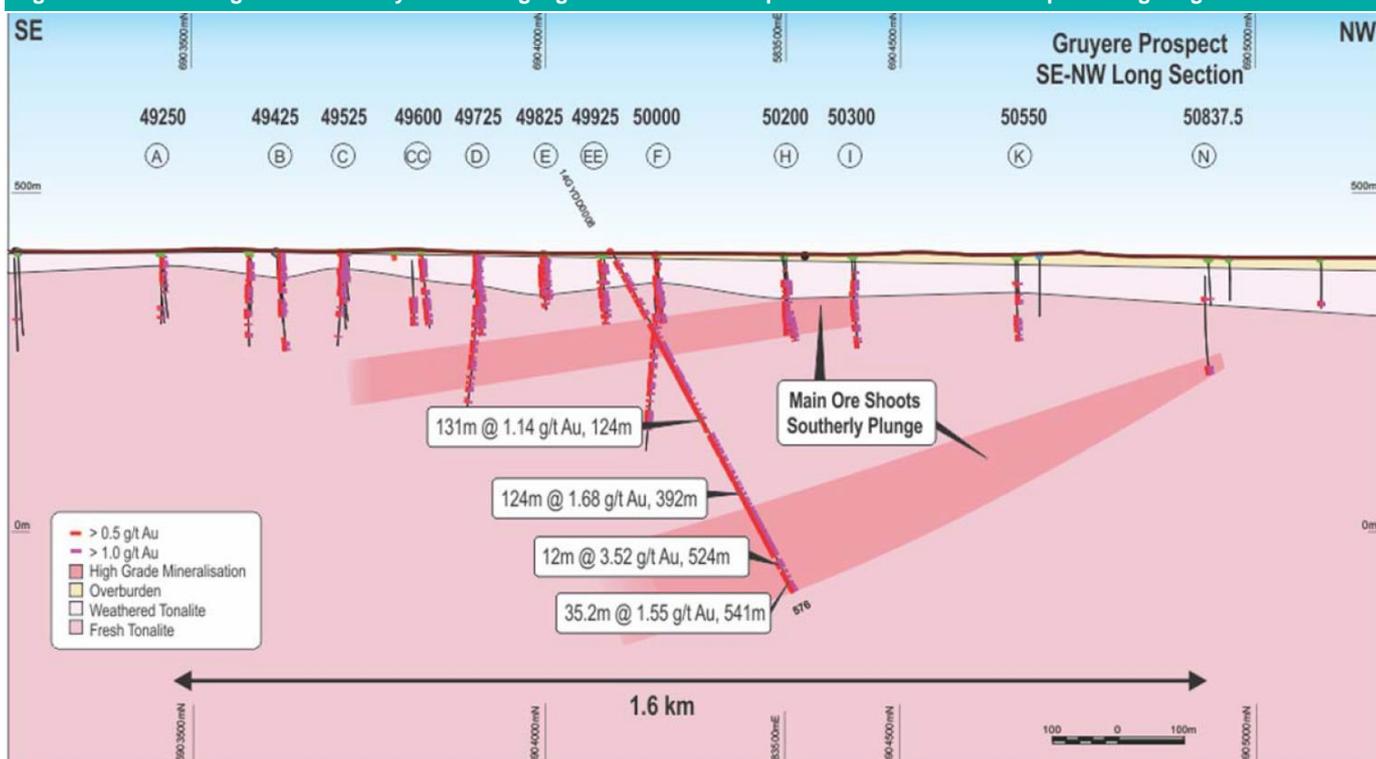
The ongoing drilling at Gruyere continues to provide additional information that is enabling GOR to improve and refine the company’s understanding of the nature of the gold mineralisation. GOR is particularly interested in the nature and extent of the zones of higher grade mineralisation. Wide zones of consistent higher grade gold mineralisation were intersected in two RC holes from a recent 26 hole program, with hole 14GYRC0033 intersecting 33m at 1.38g/t from 37m and 47m at 1.53g/t from 73m; and hole 14GY0034 intersecting 91m at 1.86g/t from 69m including 58m at 2.27g/t from 70m.

GOR believes the gold mineralisation at Gruyere has strong similarities with the gold mineralisation at the Damang gold deposit in south-western Ghana owned by Gold Fields Limited (NYSE – GFI, not rated). Damang is a major gold deposit that has a similar structural setting to Gruyere, occurring in steeply dipping shear zones with flat to shallow-dipping stacked lodes. The Damang deposit has a very large gold endowment of over 10Mozs of which over 5Mozs has already been produced. The deposit is currently being mined and has a substantial annual production of over 200koz of gold from the processing of about 5.2Mtpa of ore grading around 1.3g/t.

Earlier interpretations of the nature of the Gruyere gold mineralisation were that there were distinct flat to shallow-dipping zones of higher grade mineralisation and this has been borne out by the more detailed recent diamond drilling. In particular, it is now apparent that there are some more major shallow-dipping shoots with a southerly plunge (Figure 3).

The results of the most recent RC drilling in January and February 2014 showed that while tonalite occurs up to 1,000m south of the Gruyere area, it has minimal gold mineralisation which essentially means the southern limit of the Gruyere deposit is at Section A (Figures 2 and 3). The mineralisation is still open to the north and at depth.

Figure 3 – SE-NW long section of Gruyere showing significant drill intercepts in 14GYDD008 and interpreted higher grade shoots.



SOURCE: GOLD ROAD RESOURCES LTD

Potential development considerations

The recent geological and assay information from further diamond drilling at Gruyere has been very important in terms of extending and enhancing the size and nature of the Gruyere gold mineralisation and has given rise to enhanced potential development.

Our revised resource estimate is now about 3Mozs at Gruyere

The depth extent of the Gruyere deposit shown by the recent results of hole 14GYDD0008 indicates the resource potential is significantly increased. We now estimate Gruyere is likely to have an initial resource of the order of at least 90Mt averaging about 1.1g/t for 3M ozs of contained gold after the depth extent was increased by that recent diamond drill hole. Importantly, **the gold mineralisation is continuing to look economically attractive from being in a large, near surface altered granitic body that seems to be almost completely mineralised and includes important higher grade zones**, which are very important in the early years of a mining operation as they enable enhanced economics and stronger operating cash flows to meet likely initial debt commitments. The apparently consistent nature of the mineralisation indicates it could be readily suited to large scale, low cost open pit mining methods because a significant proportion of it could have a very favourable low stripping ratio. With the potential of higher grade gold mineralisation occurring in readily identified southerly plunging alteration zones, the higher grade mineralisation may be able to be preferentially mined and processed initially and lower grade material may either be stockpiled for later processing or alternatively processed contemporaneously by a separate, lower cost method such as heap leaching.

This increased size for the Gruyere gold mineralisation indicates scope to potentially nearly double gold production by expanding (by more than doubling) the size of the processing plant within a few years of its initial operation.

Large scale open pit and gravity-CIL plant is likely at Gruyere

The recent favourable preliminary metallurgical test work results indicate that the principal ore processing would involve a large scale conventional CIL treatment plant. Given the company's existing resource base at Central Bore and the Attila Trend of 26.3Mt averaging 1.5g/t containing 1.3Mozs, and our revised preliminary estimate of a potential resource of around 90Mt averaging 1.1g/t at Gruyere, we estimate the company has a total potential resource base of the order of 116Mt averaging 1.2g/t containing around 4.3Mozs. We consider a CIL plant capable of treating at least 4Mtpa could be developed initially at Gruyere but that it is likely to be expanded considerably to a plant capable of processing around 10Mtpa. While such a potential plant would be built principally for the Gruyere material, it would also be used to treat material from Central Bore and Attila Trend. Our revised estimated parameters for a potential 10-year operation of a major open pit with a large gravity - CIL processing plant at Gruyere are summarised below (Table 1):

Table 1 – Revised indicative base case production metrics for potential Gruyere development¹

Mining Inventory - Material to be Treated (Mt)	82
- Average Gold Grade (g/t)	1.2
- Contained Gold (Mozs)	3.1
Capital Cost (\$ M)	335 ²
Average Annual Processing Rate (Mt)	4.3
Average Gold Recovery Rate	91%
Average Annual Gold Production (koz)	290
Average C1 Cash Operating Cost (\$/oz)	756
Payback Period (Years)	2.0

SOURCE: BELL POTTER SECURITIES NOTE 1. WHILE BASED ON GRUYERE, IT WOULD ALSO PROCESS ORE FROM CENTRAL BORE AND ATTLA
2. INCLUDES EXPANSION TO 10MTPA RATE AFTER SEVERAL YEARS AT 4MTPA

Gruyere work focusing on in-fill drilling and resource modelling

GOR is now focused on a second phase of in-fill drilling on 100m section spacings from Sections I to N to get a greater understanding of the gold mineralisation and to provide a basis for resource modelling over a 2,200m strike length from Section A to Section T. Work is progressing on detailed geological interpretation and modelling to improve the overall understanding of the Gruyere gold mineralisation and to enable better ongoing local and regional exploration targeting and provide the basis for the resource modelling. This modelling work will assist with the planning of additional diamond and RC drilling that is scheduled for Q2 of 2014.

This in-fill drilling and associated resource modelling will benefit from the technical knowledge of recently appointed Exploration Manager, Mr Justin Osborne, who has extensive resource experience including direct involvement with the resource/reserve definition, start-up, operation and resource/reserve expansion of global scale gold mining projects and operations. Prior to joining GOR in October 2013, Justin held senior positions with Gold Fields Ltd including General Manager – Near Mine Exploration (Global); Exploration Manager – Australia; and Minerals Resource Manager at the St Ives gold mine.

Other discoveries and targets in Yamarna Project to get further exploration attention

GOR is also planning additional work on other high priority camp-style targets (Figure 1) elsewhere in its large Yamarna Gold Project, especially where they have had good results. This will include at YAM14, where follow-up drilling is about to start and up in the north of the Yamarna Project area at Corkwood, where the initial RAB/aircore drilling programme on this camp-style target is incomplete and existing samples were waiting to be assayed.

Field exploration in the Yamarna South Joint Venture (YSJV) area, which is being funded by Sumitomo, is about to resume after thorough analysis of the successful geochemical drilling in the Breelya-Minnie Hill camp target at the end of 2013 and the recent formulation of the exploration programme for 2014.

Valuation increases with significant depth extension

We have increased our base case and upside valuations for the company's Yamarna Gold Project reflecting recent exploration drilling that showed gold mineralisation at Gruyere extends to a vertical depth of at least 500m below surface in the centre of the deposit. Our Gruyere/Central Bore/Attila valuations are largely based on Net Present Value (NPV) methodology. After incorporating the impact of the recent placement, the net effect of these changes is a 6% increase to \$0.37 per share for the base case valuation and an 8% increase to \$0.69 per share for the upside valuations (Table 2 on page 6).

Our base case valuation now assumes that the Gruyere deposit contains a resource of about 2.1Mozs of gold at an average grade of around 1.2g/t with favourable metallurgical recovery characteristics in a deposit that has a significant width (a major part of it being at least 150m wide), giving much of it an average strip ratio of about 1. This would give it 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 mineralisation are discovered elsewhere in the company's large Yamarna Gold Project.

We estimate GOR currently has cash of about \$14M 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, 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 GOR

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ¹	\$ M ¹	¢/share ¹
Yamarna Gold Project – Central Bore, Attila, Gruyere	179	34	308	58
- Other wholly-owned and SYJV areas ²	17	3	54	11
Other Exploration Assets	1	0	2	0
Total Exploration Assets	196	37	363	69
Corporate	(13)	(2)	(13)	(2)
Net Cash ³	14	3	14	3
TOTAL ASSETS	197	37	363	69

SOURCE: BELL POTTER SECURITIES ESTIMATES

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

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

3. BASED ON CASH BALANCE AT 31 DECEMBER 2013 PLUS ESTIMATED NET PLACEMENT PROCEEDS LESS ESTIMATED EXPENDITURE

Recommendation

GOR is an attractive and very well-funded gold exploration and development company with proven technical capability. Post the recent placement, we estimate the company currently has about \$14M in cash with no debt. We estimate that the company's resource base has potentially increased significantly from the recent exploration successes at several locations in the company's large Yamarna Gold Project.

In particular, GOR's ongoing drilling at Gruyere, which includes the planned second phase in-fill drilling program recently commenced, has clearly demonstrated the consistent nature and extent of the large gold system there which has led us to further increase our preliminary estimate of the gold resource at Gruyere to around 3Mozs. If similar gold mineralisation at Gruyere is shown to occur to a vertical extent of at least 500m over the entire deposit, we estimate the Gruyere resource could potentially be significantly larger, making it one of the most outstanding discoveries of recent times.

We continue to see high potential for the Gruyere deposit to become the catalyst for a relatively rapid large scale gold development incorporating a central processing plant there. Along with development of a large scale and low cost mining operation at Gruyere initially, such a processing facility could operate on a sufficient 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 GOR has good potential to discover additional substantial gold deposits by successfully applying its proven targeting methodology at Yamarna. We have revised our risk-adjusted NPV-based valuations for Gruyere, reflecting the recently increased depth extent of the gold mineralisation. Our revised base case and upside valuations are increased by 6% to \$0.37 per share and by 8% to \$0.69 per share respectively. 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) to give an 8% increased 12-month target price for GOR of \$0.28 per share. Notwithstanding that the GOR share price has risen by 73% since we reinstated coverage of the company in November 2013, we still regard GOR as an attractive opportunity.

Accordingly we retain our recommendation for GOR of 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:

- Further confirmation of the significance of the exploration success at the Gruyere Prospect from the infill and extension drilling that is continuing and which includes the in-fill RC drilling in the northern part of the main mineralised zone on 100m line spacings (between Section I to Section N)
- Fast-tracking of the resource interpretations and modelling for Gruyere to enable a substantial Maiden Resource to be estimated by about the middle of 2014
- Further exploration success at the company's YAM14 Prospect to the south of Gruyere 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 outcomes from the completion of the resumed PFS for the Yamarna Gold Project showing it is capable of being developed so that it can achieve very attractive and significant economic returns, which may include establishment of a substantial 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 and the Attila Trend
- 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

www.bellpotter.com.au

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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.