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Gold Road Resources Ltd (GOR)

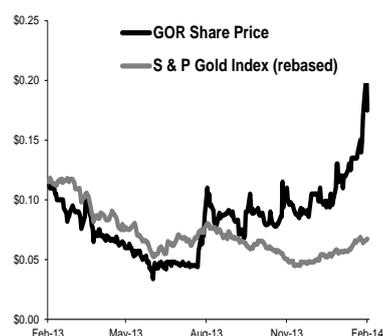
Diamond drilling at Gruyere intersects high grade zones and expands the depth extent

Recommendation
Buy (unchanged)
Price
\$0.175
Target (12 months)
\$0.26 (\$0.21)
Risk
Speculative

Expected Return	
Capital growth	49%
Dividend yield	0%
Total expected return	49%
Company Data & Ratios	
Enterprise value	\$74m
Market cap	\$81m
Issued capital	456.2m
Free float	95%
Avg. daily val. (52wk)	\$0.09m
12 month price range	\$0.034 - \$0.215
GICS sector	Materials

Price Performance			
	1mth	3mths	12mths
Price (\$A)	0.12	0.10	0.115
Absolute (%)	45.8	75.0	52.2
Rel. Market (%)	42.2	73.2	44.9

Absolute Price



SOURCE: IRESS

Gruyere gold mineralisation in major alteration zones

Initial diamond drilling results by gold exploration and development company, Gold Road Resources Limited (GOR) have been very positive. The first four holes have intersected zones of higher grade gold mineralisation in discernible alteration zones, confirming the extent and consistency of mineralisation at the Gruyere Prospect in the Yamarna Gold Project east of Laverton in Western Australia. Results for the remaining four holes in the current program are still awaited; the eighth hole is still being drilled.

After the release of assays from the first diamond drill hole at Gruyere last week, assay results have now been released from three more diamond drill holes that confirm the company's interpretation that the gold mineralisation occurs in quite readily discernible alteration zones. The more significant gold intercepts (all are down hole depths from holes angled at 60°) included **228m of mineralised intercepts averaging 1.26g/t** between 12m and 296m in hole 14GYDD0001; **23m at 1.77g/t from 96m**; 7m at 2.2g/t from 150m; and 24m at 1.5g/t from 160m in hole 14GYDD0002; **23.9m at 1.9g/t from 3.1m**; 13m at 1.36g/t from 118m; and 10m at 1.48g/t from 139m in hole 14GYDD0003; and 20m at 1.3g/t from 33m including 8m at 2.3g/t from 45m; 30m at 1.2g/t from 83m; 7m at 1.65g/t from 118m; 8m at 1.3g/t from 149m; and **24m at 5.0g/t from 174m including 6m at 17.2g/t from 186m** in hole 14GYDD0004. The mineralisation is still open in all directions and it has been intersected down to a vertical depth of 250m.

Gruyere strike extent potentially increased significantly

GOR's reverse circulation (RC) drilling has defined the strike extent of the Gruyere gold mineralisation over at least 1.6km. A recent aircore drilling program has defined two parallel coherent gold anomalies for over 1,000m to the north of the most northerly RC drilling and directly on strike from Gruyere. Re-logging of previous RAB samples has also identified anomalous tonalite intrusive rocks similar to the rock type hosting the Gruyere gold mineralisation extending for over 1,000m to the south of Gruyere.

More metallurgical test work confirms earlier positive results

More detailed metallurgical test work has been carried out on five larger representative composite samples from Gruyere. This test work included gravity and cyanidation tests. The main results were: total gold recoveries of 96% to 98%; gravity gold recoveries of over 50%; and no deleterious elements were detected. This indicates the ore is not refractory and is potentially amenable to low processing costs.

Price target raised to \$0.26 with further exploration upside

Diamond drilling at Gruyere has confirmed early indications that the gold mineralisation is extensive and consistent throughout the Gruyere Tonalite, **indicating potential for a resource of over 2Mozs**. GOR's other recent discoveries at Breelya-Minnie Hill and YAM14 and other incompletely tested and untested high ranking targets are expected to be drill tested during 2014. After incorporating the latest diamond drill results and revised gold price forecasts, we have raised our base case and upside valuations to \$0.35 per share and \$0.64 per share respectively. We have raised our 12-month target price for GOR to \$0.26 per share with upside beyond that from continued exploration success. We retain our recommendation of **Buy with Speculative risk**.

High gold grades in diamond drill holes

GOR has been successfully defining and building up its knowledge of its exciting Gruyere gold discovery in the South Dorothy Hills camp target area (Figure 1) from its ongoing aircore, rotary air blast (RAB) and RC drilling programs. The drilling of an initial program of diamond core holes – originally planned to be seven holes but now up to eight and possibly to be extended by an additional hole – has provided confirmation of the extensive and consistent nature of the gold mineralisation that has been defined over a strike length of 1.6km (Figure 2). The Gruyere mineralisation constitutes a major gold system, which is still open in all directions. While some higher grade intercepts had been seen in the RC drilling, many more (such as 1 to 2m at 5 to 9g/t) were intersected in the diamond drilling.

The more significant gold intercepts (all are down hole depths from holes angled at 60°) from the recent diamond drilling included:

- **228m of mineralised intercepts averaging 1.26g/t** between 12m and the end of hole at 296m in hole 14GYDD0001;
- **23m at 1.77g/t from 96m**; 7m at 2.2g/t from 150m; and 24m at 1.5g/t from 160m in hole 14GYDD0002;
- **23.9m at 1.9g/t from 3.1m including 14m at 2.6g/t from 5m**; 13m at 1.36g/t from 118m; and 10m at 1.48g/t from 139m in hole 14GYDD0003; and
- 20m at 1.3g/t from 33m including **8m at 2.3g/t from 45m**; 30m at 1.2g/t from 83m; 7m at 1.65g/t from 118m; 8m at 1.3g/t from 149m; and **24m at 5.0g/t from 174m including 5m at 20.3g/t from 187m** in hole 14GYDD0004.

Figure 1 - Map of target areas in GOR's Yamarna Gold Project

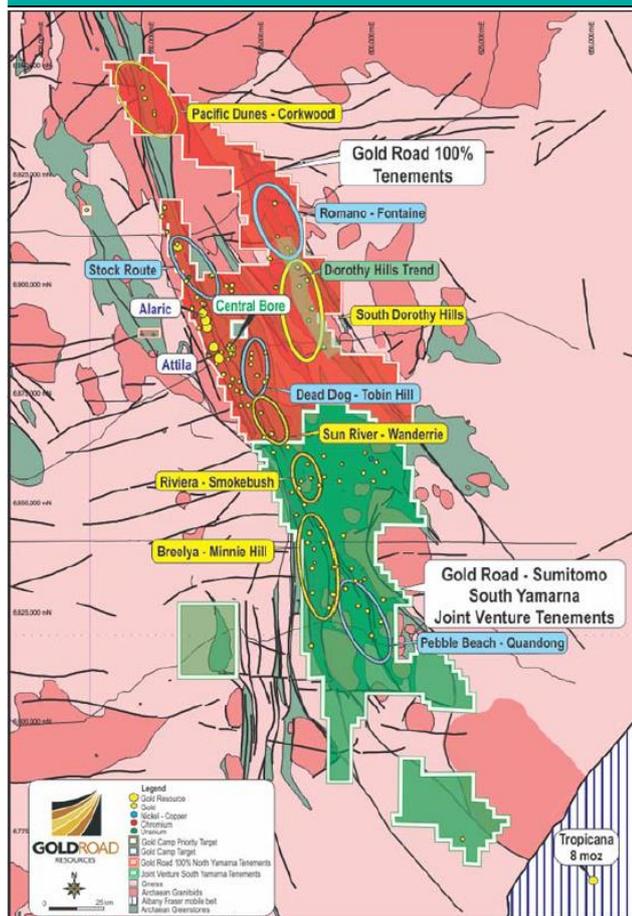
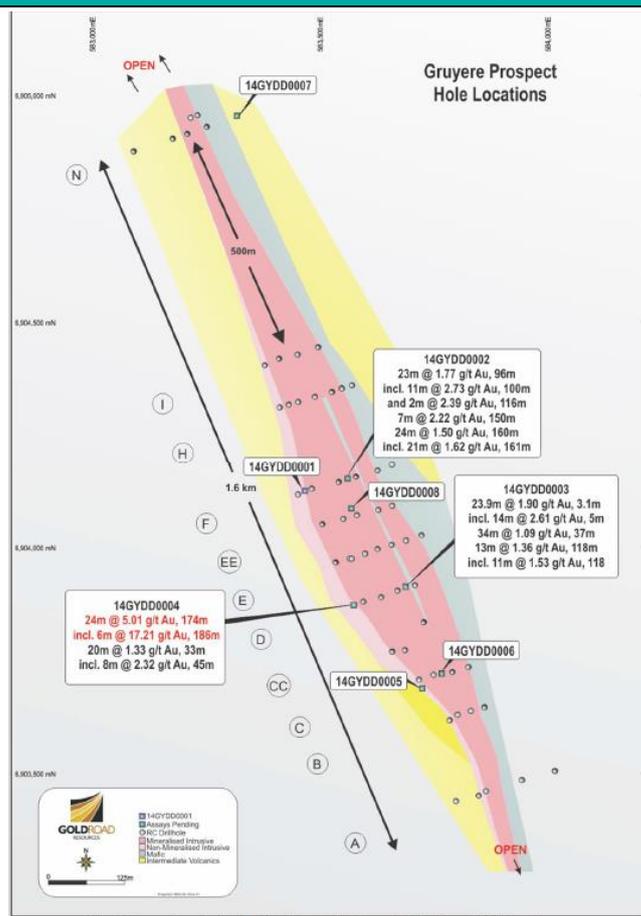
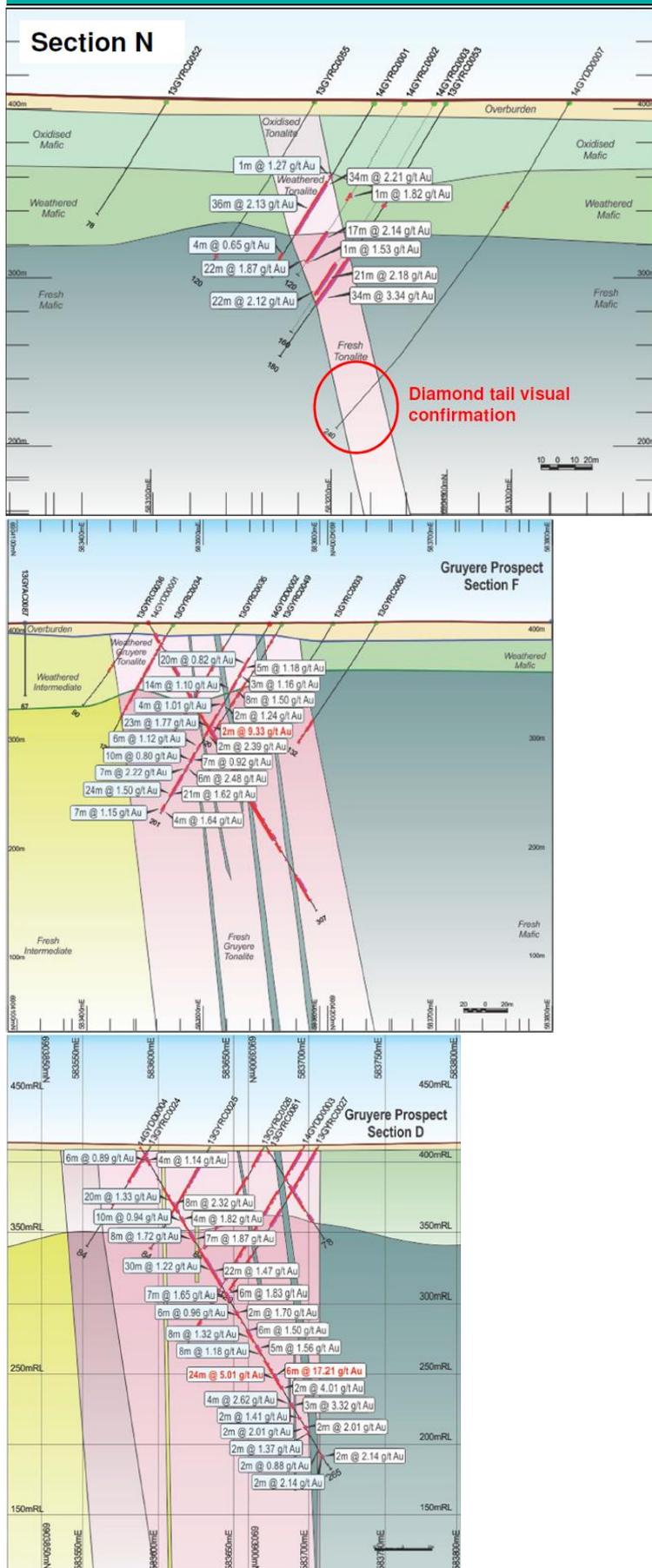


Figure 2 – Map of drill holes and sections at Gruyere Prospect



SOURCE: GOLD ROAD RESOURCES LTD

Figure 3 - Selected cross sections through Gruyere showing significant drill intersections

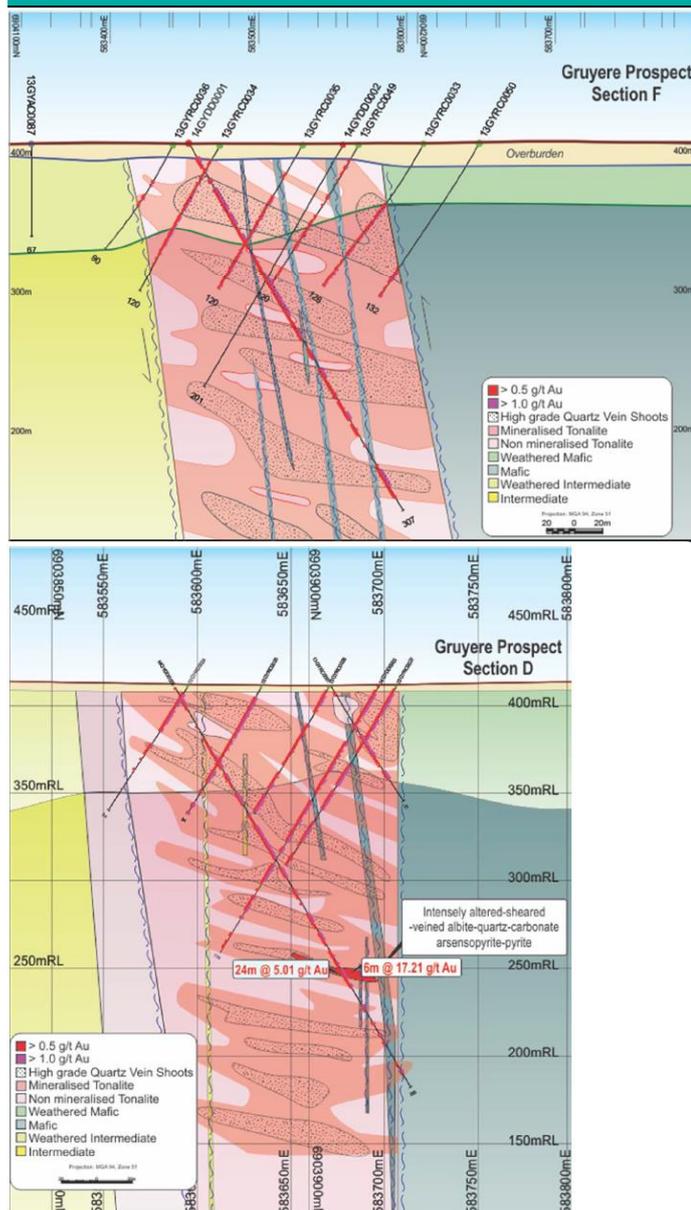


SOURCE: GOLD ROAD RESOURCES LTD

Nature of the gold mineralisation

The nature of the Gruyere mineralisation is now becoming better understood, particularly with the benefit of the drill core and assays from the current diamond drilling program. GOR now believes there are two types of gold mineralisation. The first mineralisation type is zones of flat lying to shallow easterly dipping albite-sericite alteration with quartz-carbonate veining and higher sulphide (pyrite-arsenopyrite-pyrrhotite) content. The second type of mineralisation is becoming increasingly important in the northern part of the deposit, being a shear-hosted type of mineralisation associated with high grade zones or quartz-albite-sulphide lodes seen as the Gruyere Tonalite narrows and it is particularly well developed on the eastern margin (Figure 4).

Figure 4 - Geological cross sections at Gruyere with interpreted higher grade alteration zones



SOURCE: GOLD ROAD RESOURCES

Gruyere strike extent potentially increased significantly

GOR's RC drilling has defined a strike extent of the Gruyere gold mineralisation of at least 1.6km. Recent aircore drilling has defined two parallel coherent gold anomalies for over 1,000m to the north of the most northerly RC drilling and directly on strike from Gruyere.

Re-logging of previous RAB samples has also identified anomalous tonalite intrusive rocks similar to the rock type hosting the Gruyere gold mineralisation extending for over 1,000m to the south of Gruyere. The geochemical signature of the main mineralisation is present in these two potential north and south strike extensions, adding weight to their validity.

Thus the Gruyere mineralisation potentially occurs over a strike length of up to 4km as indicated by those geochemical indications and it is still completely open at depth. The RC drilling was generally only targeting the shallow gold mineralisation down to a depth of about 100m or so but the recent diamond drilling was extended to greater depths (200 to 250m below the surface) where it has shown there is good continuity of the mineralisation, particularly on the eastern side of the deposit.

Potential development considerations

The recent geological and assay information from the current diamond drilling program at Gruyere has been very important in terms of confirming and enhancing the knowledge of the Gruyere gold mineralisation and has given greater clarity to its potential development.

Our revised resource estimate is now over 2Mozs at Gruyere

The Gruyere deposit is continuing to shape up as containing a significant gold resource that we now estimate is likely to be of the order of at least 55Mt averaging about 1.2g/t for 2.1M ozs of contained gold after the depth extent was increased by the recent diamond drilling. Importantly, **the gold mineralisation is continuing to look economically attractive from being in a large, near surface altered granitic body that seems to be consistently mineralised and includes important higher grades**, which are always very helpful in the early years of a mining operation. The apparently consistent nature of the mineralisation indicates the deposit could be readily mined by open pit methods and much of it could have a very favourable low stripping ratio, which enhances its potential economics. Because the higher grade gold mineralisation occurs in readily identified alteration zones, the higher grade mineralisation may be able to be preferentially processed initially with lower grade material either stockpiled for later processing or alternatively processed separately by a lower cost method such as heap leaching.

More metallurgical test work confirms early favourable results

Following the very encouraging results of its initial metallurgical test work, GOR has recently completed more detailed metallurgical test work on larger-sized (totalling 136kg) composite samples that were selected as being representative of the three main types of Gruyere gold mineralisation with encouragingly confirmatory results. This more detailed test work follows the recent bottle roll tests using the Leachwell technique on 100 different individual sample pulps from previously analysed mineralised intersections that were chosen as being representative of the Gruyere mineralisation.

Key results of the more comprehensive and detailed metallurgical test work were:

- Total gold recoveries of 96% to 98%
- High percentages (over 50%) of gold recovered by gravity recovery methods
- Rapid leach times
- No deleterious elements
- Cyanide and lime consumption was quite high (could be related to site water)

From these excellent results, the company has concluded that the gold mineralisation does not seem to be refractory and should be readily amenable to gravity treatment and conventional carbon-in-leach (CIL) processing. Further detailed metallurgical test work is needed to optimise cyanide and lime consumption and for comminution determinations.

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

The favourable 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 55Mt averaging 1.2g/t at Gruyere, we estimate the company has a potential resource base of the order of 80Mt averaging 1.3g/t containing over 3Mozs. We consider a CIL plant capable of treating at least 4Mtpa could be developed at Gruyere. While this potential plant would be built principally for the Gruyere ore, it would also be used to treat selected material from the Central Bore and Attila Trend deposits. The high gravity gold component in the Gruyere mineralisation indicates the processing plant is most likely to incorporate a major gravity circuit in front of the CIL stream. With the indication of very favourable leach kinetics, a CIL plant with even larger capacity could ultimately be considered. We have summarised our preliminary estimates for a potential development of a major open pit with a large gravity - CIL processing plant at Gruyere (Table 1) below.

Table 1 - Indicative metrics for potential Gruyere development

Mining Inventory - Ore to Be Treated (Mt)	42.3
- Average Gold Grade (g/t)	1.3
Capital Cost (\$ M)	230
Average Annual Processing Rate (Mt)	4.3
Average Gold Recovery Rate	92%
Average Annual Gold Production (koz)	170
Average C1 Cash Operating Cost (\$/oz)	692

SOURCE: BELL POTTER SECURITIES

Initial gold production potentially in early 2017

GOR has previously carried out development studies including a Scoping Study and a Preliminary Feasibility Study (PFS) on its gold resources in the Yamarna Gold Project but the most recent PFS into the development of the Central Bore deposit was put on hold when the exciting exploration results at Gruyere pointed to a major deposit occurring there. We understand the company has assembled a considerable data base and technical expertise from its previous development studies that means it is very well placed to fast track the development studies on Gruyere. We estimate this could see a Scoping Study completed in about mid 2014; a PFS completed on Gruyere in about early 2015; and a Bankable Feasibility Study (BFS) completed by about 3Q of 2015. This may allow finalisation of all permitting and finance in time for construction to begin by the end of 2015 or in early 2016. Allowing a year for construction and commissioning, we estimate gold production may be possible by early 2017. If the company decided to incorporate a lower cost heap leach processing route in the Gruyere development, it may be possible to fast track it so that it starts producing gold before the main CIL processing plant is completed.

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 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 are still waiting to be assayed.

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

Valuation increases with revised gold price forecasts and depth expansion of base case resource estimate

We have increased our base case and upside valuations for the company's Yamarna Gold Project reflecting recent positive exploration and metallurgical test results at Gruyere. Our Gruyere/Central Bore/Attila valuations are largely based on Net Present Value (NPV) methodology. After incorporating slightly higher gold price forecasts (Table 2), the net effect of these changes is a 25% increase to \$0.35 per share for the base case valuation and a 23% increase to \$0.64 per share for the upside valuations (Table 3 below).

Table 2 - Changes to gold price and \$US/\$A forecasts

Year to June	2014E	2015E	2016E	2017E
New				
Gold (\$US/oz)	1,270	1,250	1,275	1,275
\$US/\$A Rate	0.91	0.88	0.85	0.85
Gold (\$A/oz)	1,396	1,420	1,500	1,500
Old				
Gold (\$US/oz)	1,242	1,200	1,225	1,227
\$US/\$A Rate	0.91	0.85	0.85	0.85
Gold (\$A/oz)	1,365	1,412	1,441	1,444
Changes				
Gold (\$US/oz)	2%	4%	4%	4%
\$US/\$A Rate	0%	4%	0%	0%
Gold (\$A/oz)	2%	1%	4%	4%

SOURCE: BELL POTTER SECURITIES

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 Yamarna Gold Project.

We estimate GOR currently has cash of just under \$6M with no debt (Table 3) after having had total cash of \$7.1M and no debt at December 2013. 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 for a 50% interest.

Table 3 - 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	155	33	252	53
- Other wholly-owned and SYJV areas ²	17	4	56	12
Other Exploration Assets	1	0	2	0
Total Exploration Assets	172	37	310	65
Corporate	(13)	(2)	(13)	(2)
Net Cash ³	6	1	6	1
TOTAL ASSETS	165	35	303	64

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 BALANCE AT 31 DECEMBER 2013 LESS ESTIMATED EXPENDITURE

Recommendation

GOR is an attractive and well-funded gold exploration and development company with proven technical capability. We estimate that the company's resource base has increased significantly from exploration success at several locations in the company's large Yamarna Gold Project. In particular, GOR's ongoing drilling at Gruyere, which includes the current expanded diamond drilling program, has clearly demonstrated the consistent nature and extent of the large gold system there which has led us to increase our preliminary estimate of the gold resource at Gruyere to just over 2Mozs.

We believe there is even greater potential now for the Gruyere deposit to become the catalyst for a relatively rapid large scale development of a central processing facility 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 so that it could be highly efficient and deliver attractive returns from the successful development ultimately of multiple mines in the company's Yamarna Gold Project area.

We believe GOR still has good potential to discover additional gold deposits within its extensive Yamarna Gold Project by successfully applying its proven targeting methodology to the other six untested high priority camp-style targets at Yamarna. We have revised our NPV-based valuations for Gruyere. Our revised base case and upside valuations are \$0.35 per share and \$0.64 per share respectively. We have applied 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 increased 12-month target price for GOR of \$0.26 per share.

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
- Lack of funding to carry out adequate exploration and development
- 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 diamond drilling of some deeper holes and follow-up RC drilling around the high grade zone at the north of the main mineralised zone (Section N)

- Extension RC drilling to the north and south of the current drill sections at Gruyere to test for the recent strong indications of an additional 1,000m of strike extent in each direction (north and south) from the main gold mineralised zone
- Fast-tracking of the planned initial resource calculations 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 the Breelya-Minnie-Hill Prospect in the SYJV area leading to the establishment of resources at both places that complement the existing resource base and the Gruyere mineralisation, supporting fast-tracked feasibility studies into the development of a major gold production operation at the company's Yamarna Gold Project
- 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
- Positive outcomes from the resumption of the PFS and then the completion of a BFS for the Yamarna Gold Project indicating it is capable of being developed in ways that will achieve very attractive and significant economic returns, which may include establishment of a substantial gold processing plant (with annual ore processing capability of the order of about 4Mtpa) at Gruyere and incorporating the appropriate processing of higher grade material from Central Bore and the Attila Trend
- Further exploration success from other camp-sized 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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