

Analyst

Trent Allen 612 8224 2868

Authorisation

Stuart Roberts 612 8224 2871

Gold Road Resources (GOR)

Quarterly update: well funded for discovery

Recommendation

Buy (Buy)

Price

\$0.42

Target (12 months)

\$0.61 (previously \$0.72)

Risk

Speculative

Expected Return

Capital growth **45%**

Dividend yield **n/a**

Total expected return **45%**

Company Data & Ratios

Enterprise value **\$141m**

Market cap **\$164m**

Issued capital **390m**

Free float **65%**

Avg. daily vol. (52wk) **1.745m**

12 month price range **\$0.27-\$0.84**

GICS sector

Materials

Disclosure: Bell Potter Securities acted as joint lead manager to raise \$15m for GOR at \$0.32/share in October 2011 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.32	0.34	0.32
Absolute (%)	21.88	14.71	21.88
Rel market (%)	18.62	13.63	33.31

Absolute Price



SOURCE: IRESS

Good grades from infill and exploration drilling

In 4Q11, GOR drilled +13,000m of RC and DC across its more advanced gold projects on the Yamarna Belt (WA), focused on Central Bore. Intercepts included 3m @ 7.32g/t gold from 321m at the Central Bore itself, and 11m @ 4.19g/t Au at the nearby Justinian Project. These results are expected to feed into an expanded Central Bore resource in 1Q12, and an initial resource at Justinian. Regional fieldwork and drilling (+27,000m RAB and RC) helped to firm up some new gold targets, including Dead Dog Prospect and Koopman's Find at Tobin Hill, where coarse gold was discovered (chip grades to 40.7g/t Au). GOR raised \$23m working capital in October 2011.

Key points

- Holds +5,000km² of prospective and underexplored granite-greenstone geology in the Yamarna Belt of WA.
- Gold resource base of 1.1Moz Au, including 153koz Au @ 7.86g/t at Central Bore; expansion expected in 1Q12.
- Ongoing newsflow from exploration drilling at Central Bore and regional prospects, including new discoveries.
- Funded by a \$23m placement and SPP at \$0.32/share in 4Q11 – no further significant dilution expected for at least 12 months.
- Mining Scoping Study in progress at Central Bore, expected in 2012.

Investment View: Buy (Speculative), target \$0.61/share

We reiterate that our high expectations for GOR are pinned on near-term gold resource expansion and a Scoping Study at Central Bore, multi-million ounce regional potential, and a strong gold price. We hope to see GOR's systematic drilling return some additional, mineable widths at Central Bore in 2012. The company has a lot of prospective ground to cover – but it also has ample funding for a full calendar year of resource drilling and exploration. Valuation and 12-month target is \$0.61/share, lowered from the previous \$0.72 due to dilution from the capital raising.

Earnings Forecast

Quarter, or financial year (ends June 30)	Dec 11a	Mar 12f	FY2011a	FY2012f	FY2013f
Exploration, evaluation (A\$m)	3.46	3.20	5.65	13.27	12.00
Drilling - RC + Diamond (m)	13,655	10,000	30,000	43,155	40,000
Drilling - RAB and auger (m)	27,818	30,000	82,000	112,818	120,000
Land holding (km ²)	5,300	5,300	5,300	5,300	5,300
Cash (A\$m)	23.1	19.2	9.7	15.7	3.9
Capital Raisings (A\$m)	23.3	0.0	17.0	23.4	2.4
Corporate (A\$m)	0.73	0.7	2.0	2.9	2.8
Exploration/(Expl.+ Corporate) (%)	83	82	74	82	81
Shares (m)	390	311	311	390	399
Cash backing (Ac/share)	5.9	6.2	3.1	4.0	1.0

SOURCE: BELL POTTER SECURITIES ESTIMATES

Gold Road Resources Ltd (GOR)

Company Summary

Gold Road has acquired a dominant ground position in the Yamarna Belt, 150km east of Laverton in WA. Yamarna is thought to be the most easterly - and is certainly the least-explored - of the gold-rich shears in WA's Yilgran Craton.

The Yamarna Belt tenements (100% GOR) extend 250km north-south, and at the southern extreme are <20km from the +5Moz Au Tropicana Deposit. Of this strike extent, current targets lie within a 150km length and there is a 33km high-priority area. Very little of the ground has been explored in any detail by GOR, which has delineated numerous gold discoveries and targets in the past two years.

Total resources are 1.07Moz Au @ 1.63g/t, with potential to build a multi-million ounce inventory. In 2011, GOR drilled 150,000m (RAB, RC and diamond) and it plans to continue this scale of activity, funded by a ~\$23m capital raising in 4Q11. A resource expansion, Scoping Study and production decision are possible in 1H12.

Valuation: new 12-month target \$0.61/share

We assume the potential gold endowment of the Yamarna Belt is 5Moz Au, which we continue to value at a risked \$240m, i.e. 1.1Moz Au resource at A\$110/oz, and further 3.9Moz potential at A\$30/oz (using average ASX EV/resource ratios).

Raising \$23m at \$0.32/share in 4Q11 diluted the capital structure to 409m shares and options. Cash in 4Q12-1Q13 could be ~A\$10m and there is no debt. This suggests a 12-month target of \$0.61/share, with mid-term upside to \$0.71/share as the potential next 0.5Moz Au at Central Bore is de-risked.

The downward adjustment from our previous 12-month target of \$0.72 is due to a larger-than-forecast capital raising, at a lower-than-expected share price.

Market drivers and risks

UPSIDE

- Large and underexplored landholding.
- Prospectivity demonstrated by multiple and ongoing discoveries.
- Resource +1Moz Au in two adjacent systems. Multi-million ounce potential.
- Good newsflow from ongoing drilling +100km per annum.
- Extremely well funded after recent capital raising.

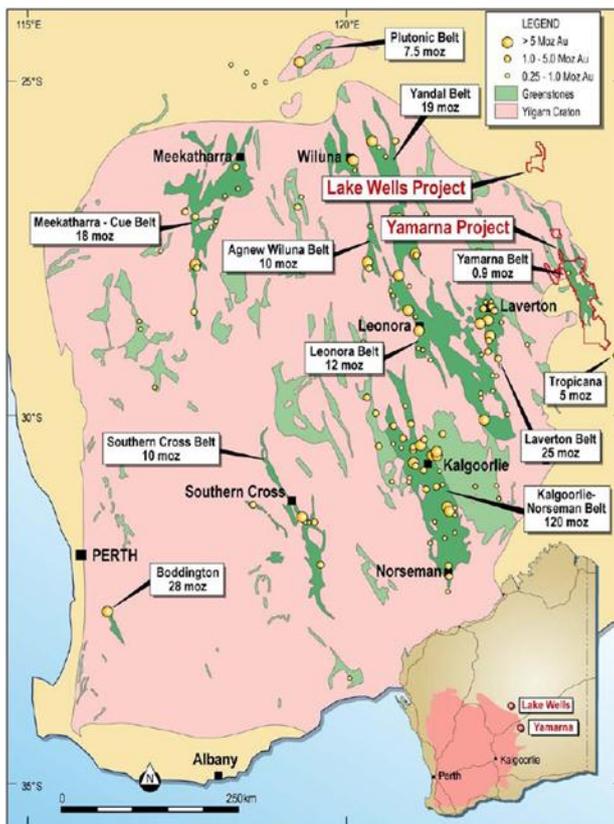
DOWNSIDE

- No individual prospect is yet big enough to lead the way to production.
- Process routes are unclear at this early stage.
- Future exploration may be unsuccessful.
- Operating in remote areas can be costly (e.g. infrastructure).
- Ongoing threat to share price from market volatility.

POTENTIAL SHARE PRICE CATALYSTS

- Drilling: possible discoveries, higher grades and widths at known prospects.
- Resource definition/upgrade in 1H12 at Central Bore and Justinian.
- Scoping Study with favourable options for near-term production.
- Macro-scale influences, e.g. European debt problems versus a US-led recovery.

Figure 1 - Gold Road Resources, project locations



Unlike most greenstone belts in WA, the Yamarna (at right) hosts no known +1Moz Au gold deposit – this is surprising in view of its large scale and is likely due to lack of exploration, not lack of prospectivity. As a rough guide, we estimate WA granite-greenstones host +1Moz Au resource per 500km². GOR’s holding is +5000km².

Examples of recent discoveries include Koopman’s Find within the Tobin Hill area, 5km SE of Central Bore, where fine and coarse gold has been recovered by metal detecting and panning (below).

SOURCE: GOLD ROAD RESOURCES

Figure 2 – Fine and coarse gold from Koopman’s Find. Everyone likes visible gold.



SOURCE: GOLD ROAD RESOURCES

Recommendation structure

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

Accumulate: Expect total return between 5% and 15% on a 12 month view. For stocks regarded as 'Speculative' a return of between 5% and 30% is expected.

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

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

Sell: Expect <-15% 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 8224 2811

Facsimile +61 2 9231 0588

www.bellpotter.com.au

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Steve Goldberg	Head of Research	612 8224 2809	steve.goldberg
Emma Sellen	Executive Assistant	612 8224 2853	esellen
Industrials			
Sam Haddad	Emerging Growth	612 8224 2819	shaddad
John O'Shea	Emerging Growth	613 9235 1633	joshea
Jonathan Snape	Emerging Growth	613 9235 1601	jsnape
Bryson Calwell	Emerging Growth Associate	613 9235 1896	bcalwell
Stuart Roberts	Healthcare/Biotech	612 8224 2871	sroberts
Tanushree Jain	Healthcare/Biotech Associate	612 8224 2849	tnjain
Paresh Patel	Retail/Beverages	612 8224 2894	ppatel
Toby Molineaux	Retail Associate	612 8224 2813	tmolineaux
Daniel Blair	Telco/Media	612 8224 2886	dblair
Sam Thornton	Telco/Media Associate	612 8224 2804	sthornon
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
James Tsinidis	Financials Associate	613 9235 1973	jtsinidis
Resources			
Stuart Howe	Coal & Base Metals	613 9235 1782	showe
David George	Diversified	613 9235 1972	dgeorge
Fred Truong	Diversified	613 9235 1629	ftruong
Trent Allen	Emerging Growth	612 8224 2868	tcallen
Michael Lovesey	Emerging Growth	612 8224 2847	mlovesey
Stephen Thomas	Emerging Growth	618 9326 7647	sthomas
Chris Whitehead	Emerging Growth	612 8224 2838	cwhitehead
Johan Hedstrom	Energy	612 8224 2859	jhedstrom
Judith Kan	Energy	612 8224 2844	jkan
Fleur Grose	Iron Ore	613 9235 1678	fgrose
Quantitative			
Mathan Somasundaram	Head of Quantitative Services	612 8224 2825	mathan
Janice Tai	Quantitative & System	612 8224 2833	jtai
Joshua Clark	Quantitative & System Associate	612 8224 2869	jclark
Fixed Income			
Damien Williamson	Fixed Income	613 9235 1958	dwilliamson
Barry Ziegler	Fixed Income	613 9235 1848	bziegler

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