

Paved with gold

Gold Road (formerly Eleckra Mining) has come a long way over the last 15 months. The company has turned the widely held view that the Yamarna region contains only low-grade gold firmly on its head. Management last week released the Central Bore discovery's maiden JORC resource estimate. The combined measured, indicated and inferred resource stands at 150,300 ounces of gold.

The interesting component of the resource isn't the amount of gold in absolute terms, but the comparatively low volume of ore in which it resides. Indeed, the resource estimate is based on an average grade of 7.9 grams per tonne.

The commercial viability of a particular grade varies from project to project, depending on a number of other factors. As a rough guide however, we generally consider 4 grams per tonne to be the minimum required for an underground development. Exploration at Central Bore extends along an 800 metre strike length, to a depth of 350 metres.

A depth of 350 metres could be suitable for an open pit operation. However, the gold bearing ore at Central Bore is at a fairly steep angle of around 85 degrees. This means there would be a large volume of overburden to be removed to access the gold through an open-pit mine. If Central Bore was to be developed today, it would be as an underground operation. At an average grade of 7.9 grams per tonne, there's little question that it would be commercial.

The real question is how much gold is yet to be discovered. The Central Bore deposit remains open at depth and down-plunge. Management expects to increase Central Bore's resource through further drilling at and along strike. Exploration to date has also identified other prospects, including Justinian, Byzantium and Hann. These three prospects are located within a 2km by 3km area, with the Central Bore deposit at the centre.

Justinian is most interesting at present, primarily due to its proximity to Central Bore. Justinian is just 200m to the east of Central Bore. If Justinian is shown to contain a number of parallel gold veins, Justinian and Central Bore could theoretically become one large open-pit operation. This is simply conjecture at this point and a lot more drilling must be completed before we can draw any firm conclusions.

In terms of which, management plans to dramatically ramp up drilling activity this year, on the back of a significant increase last year. The company drilled around 37,000 metres in 2010, compared to around 12,000 metres in 2009. This year's drilling program will total a comparatively gargantuan 85,000 metres. 23,000 metres are planned for Central Bore, 22,000 at Justinian and 20,000 at Hann.

A further 10,000 metres is pencilled in for new targets and an additional 10,000 metres will be drilled at Atilla.

Last year was a big one for Gold Road, but this year could also be hugely significant if the drill bit continues to hit attractive grades. We expect the company to deliver a resource upgrade by the end of the year. But we will have to await further drilling results before we can gauge the potential magnitude.

Drilling isn't cheap and without a source of income it's only ever a matter of time before an explorer such as Gold Road puts its hand up for more money.

The company is well positioned on this front, having raised \$9 million last year. Total cash reserves stood at \$10.9 million at the end of the year. There are also a number of listed options which are set to expire in June this year. The options have a strike price of 7 cents and will bring in \$4 million when exercised. Management has previously stated that the company's funds are sufficient to complete the 2011 exploration program.

It is always easier to raise capital when it isn't yet required. As such we would not expect CEO Ian Murray to wait until the end of the year to replenish the coffers. One option would be to piggy-back the renewed investor enthusiasm that has followed the resource update. Alternatively, it may be deemed preferable to wait until enthusiasm has built still further following what seems likely to be further impressive drilling results.

Given the confidence that Ian Murray and Chief Geologist Ziggy Lubieniecki have in the region, we think it is likely they will wait for further results before initiating further capital raisings.



Since printing a low of 27 cents on January 31, Gold Road is trending to the upside. The convincing break above resistance at 37 cents has resulted in surge of upward momentum. We would expect a retest of the all time high of 46.5 cents in the near term. A sustained break above this level on strong volume would lead to the commencement of a new leg higher over the broader term.

Gold Road will remain held in the Fat Prophets Portfolio.