Gold Road 08 Mar 11

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Sitting on a monster?

With gold prices hitting new highs on the back of the unrest in the Middle East, it may not seem like an opportune time to add another gold stock to the portfolio. Indeed, we would generally prefer to increase exposure when the metal is out of favour. We are however making an exception to this rule for two reasons.

Firstly, gold stocks have generally not benefited from gold's latest run, due to the short-term headwind that the Middle East unrest could cause for equities more broadly. Secondly, we have been following Gold Road for some time now and the drilling results to date continue to suggest that the company may be sitting on an absolutely fantastic asset base. We obviously want our members to be a part of this.

With the miner set to announce an updated JORC resource later this month, we believe now is an opportune time for those Members with a higher risk tolerance to take an initial position in the company.

There aren't many quantitative factors to consider when assessing the viability of a company that isn't yet making any money. This makes the qualitative factors such as management quality even more important and Gold Road does not have any weakness here. Executive Chairman Ian Murray has a solid gold production background, having previously worked as Finance Director and then CEO at South Africa's DRD Gold. Mr Murray's experience will really come into play as and when Gold Road begins project development.

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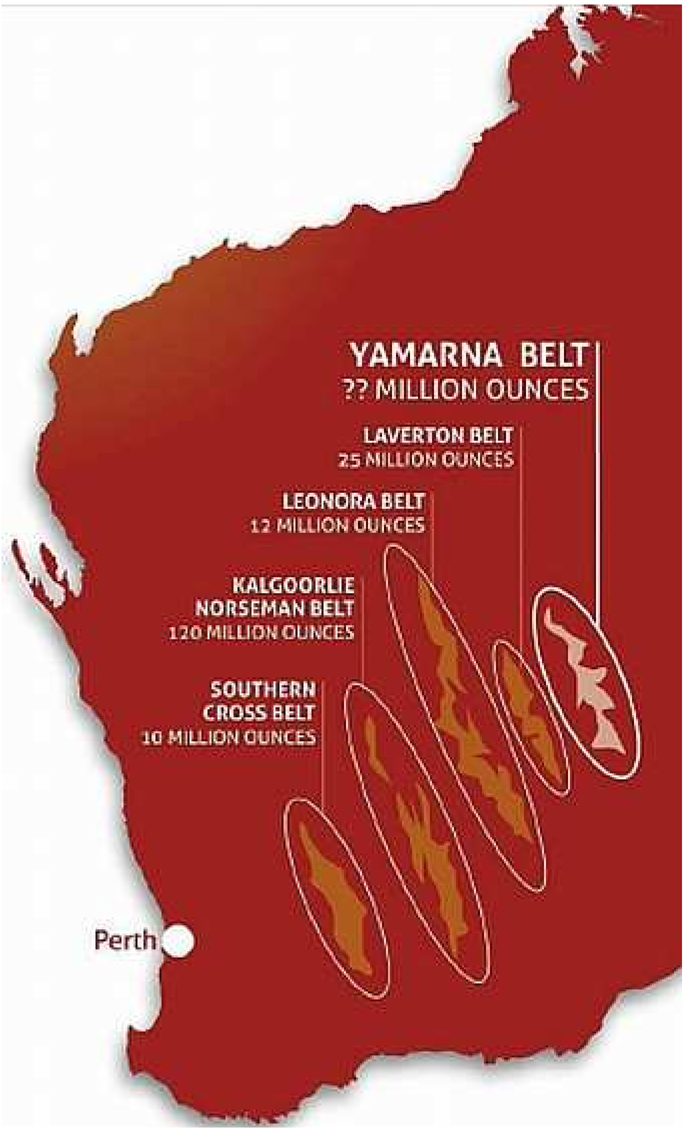
In the meantime the arguably more critical role is held by the geologist, Ziggy Lubieniecki. Mr Lubieniecki was responsible for the Central Bore discovery (detailed below) and has had 20 years of experience prior to this. As is typically the case for geologists, his career has spanned senior positions with responsibility across various commodities, including gold, uranium and platinum. Just as importantly, his experience is matched only by his enthusiasm to uncover exactly what Gold Road may have.

What sets Gold Road apart from its exploration peers is the fact that it appears to be conducting its exploration in Aladdin's Cave – and it owns the entire cave. The company's drilling results so far have been very exciting to say the least. The question for Gold Road is not so much whether it has an economic gold deposit, but how many and how large they may be.

Gold Road is exploring on the eastern edge of the Yilgarn Craton region of Western Australia. The Yilgarn Craton is host to most of Australia's known gold resources and more than half of the country's current production. Gold Road's tenements cover approximately 4,100km² of the Yamarna Belt. The Yamarna Belt is a region of greenstone rock 140km to the east of the highly prospective Laverton Belt.

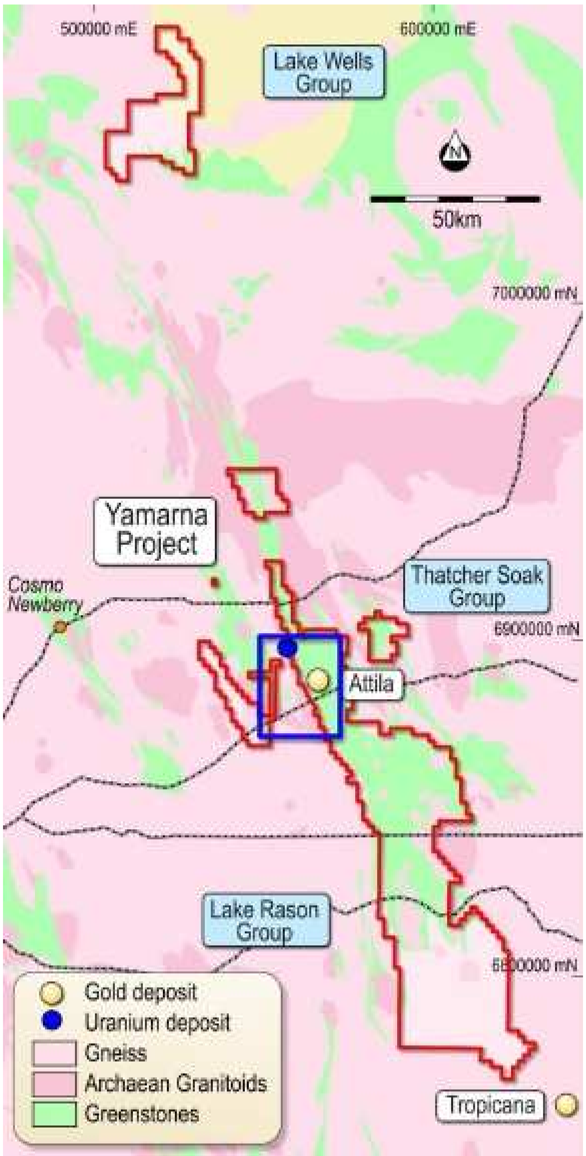


The Laverton belt has produced some 25 million ounces of gold to date. CEO Ian Murray recently described Gold Road's current position as being equivalent to going back in time to the 1880s and buying the entire Laverton belt. A bold call this may be. But given the drilling results to date and the fact that Gold Road owns essentially the whole of Yamarna, we think he might just be correct on this one.

The Yamarna Belt has been largely under-explored as the belt was considered to be too young to contain possible significant mineralisation anomalies. This now appears to be very far from the truth. The geology of Yamarna appears to be consistent with other greenstone belts contained in the Yilgarn Craton.

The Geological Survey of Western Australia (GSWA), which is a division of the Department of Mines and Petroleum, completed an assessment of the Yamarna

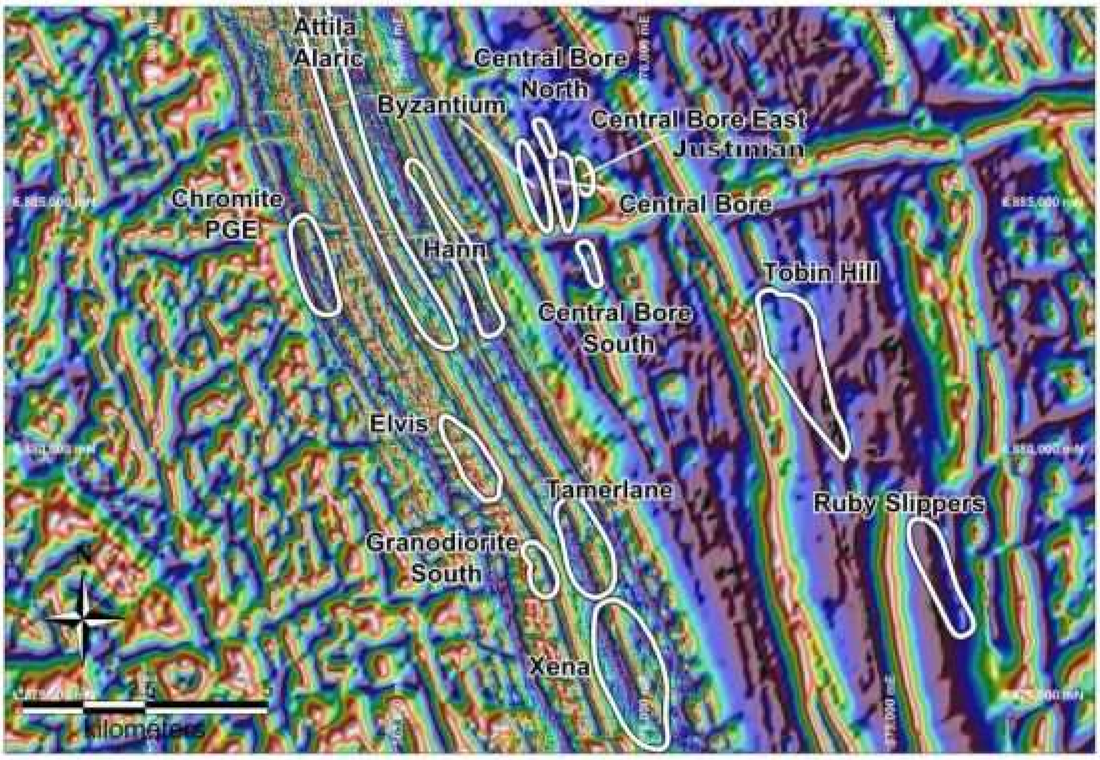
Belt last year. This has changed industry views on the region. The study concluded that the belt (especially the north eastern section) is in fact similar in age and characteristics to its western peers, most specifically the Kalgoorlie Belt. If this is the case, then Yamarna is very likely to hold gold and lots of it.



Gold Road's previous focus was on the potential development of various low grade deposits within the Atilla trend, shown above. Things started to get a lot more interesting when exploratory drilling uncovered the Central Bore prospect in 2009.

The discovery of Central Bore has focussed management's attention on this area, with the Attila trend quite rightly on the back-burner. This has already proved a sensible strategy, with subsequent exploration uncovering the Justinian, Byzantium and Hann prospects last year.

As the map below shows, these prospects are all within close proximity to each other, fitting into a 2km by 3km area. Indeed, Justinian is just 200m to the east of Central Bore and Byzantium is 500m to the west.



What’s really exciting about these discoveries is that the drilling has in many cases uncovered extremely high grade results. There are frequent instances of drilling results measuring in the 10s and even 100s of grams per tonne.

Drill results will often return one or two outliers that look great in a presentation but aren’t necessarily representative of the deposit. Gold Road’s deposits will of course also average much lower grades. However, the results have kicked the previously held view that the Yamarna Belt could only contain low grade ore firmly into touch.

Gold Road’s current JORC (Australian Joint Ore Reserves Committee) resource stands at 5.03 million tonnes measured, showing 1.75g/t for 283,000 ounces of gold. The indicated category contains 3.74 million tonnes of ore, also at 1.75g/t for 211,000 ounces of gold. A further 4.36 million tonnes is inferred, at 1.82g/t for 255,000 ounces of gold.

This resource estimate does not include any of the recent high grade discoveries in and around Central Bore. Management expects to announce Central Bore's maiden JORC resource later this month. Provisional mine development plans, including capital and operating expenditure estimates are also expected to be released in conjunction with the JORC resource.

That's not to say that anything is set in stone with regards to the order of which the prospects may be developed. Preliminary drilling at Justinian has indicated that it may be a thicker vein than Central Bore. If this is the case, mine development could begin with Justinian, rather the Central Bore, although further drilling is required to determine this.

Meanwhile, drilling at Byzantium revealed a whole swag of base metals in addition to gold. Because management is focussed on developing the company's gold assets, Byzantium has been put to one side for the time being. This is a sensible strategy in our view. Adding other commodities into the mix at this early stage really just becomes confusing, both for the market and management. By maintaining their focus on gold, management stands a far better chance of extracting the full value of Gold Road's asset base for shareholders.

The key issue for exploration companies is cash flow and it is only ever a matter of time before shareholders are asked for additional funds. Gold Road is well positioned on this front, having raised $9 million last year. The company held total cash reserves of $10.9 million at the end of the year, which should be sufficient for the 2011 exploration program.

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.

Since printing a low of 27 cents on January 31, Gold Road is now trending back to the upside. A sustained break above resistance at 37 cents would likely result in a strong boost of upside momentum. The initial upside target is towards the upper band of the upward channel at 40 cents, followed by the December 2008 all time high of 43.5 cents.

In summary, Gold Road is a pure exploration play and it is therefore one of the higher risk stocks within our portfolio. However, the company has the potential to not only become a gold producer, but to become one of great significance. We therefore recommend Gold Road as a buy to all

Members. Members should however be cognisant of the high risk, speculative nature of this recommendation and allocate capital accordingly.