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Gold Road Resources Ltd (GOR)

Toto shaping up as another Gruyere

Strong Gruyere similarities in three nearby Toto anomalies

Gold Road Resources Ltd (Gold Road) has confirmed that the large gold anomaly at the Toto Prospect contains three separate and individually significant anomalous zones. Toto is about 2km to the south of its Gruyere Prospect in the Yamarna Greenstone Belt at the eastern edge of the Yilgarn in Western Australia. The Toto anomalies are now better defined by recent follow-up aircore drilling that shows they have strong similarities to the nearby Gruyere deposit.

The Toto anomalies will be further evaluated by a staged program of RC drilling from October 2014.

Gold Road recently announced a large Maiden Resource of 3.8Mozs of gold at an average grade of 1.23g/t at Gruyere. The Gruyere deposit is the subject of a Scoping Study that is planned for completion in the first quarter of 2015. It is not dependent upon the outcome of the current exploration programs at the nearby Toto discovery. Significant progress has already been made on metallurgical, hydrological, geotechnical and environmental studies as part of the Gruyere Scoping Study.

Follow-up drilling at Minnie Hill South hits high gold grades

Gold Road has also completed follow-up RC drilling at the recent gold discovery in differentiated dolerites at Minnie Hill South. This prospect is in the Sumitomo - South Yamarna Joint Venture at the southern end of Gold Road's large Yamarna Gold Project. A gold mineralised zone with a strike length of 800m and dip extent of 250m (open in all directions) has been identified by the 23 hole RC program. The RC drilling intersected a number of high grade zones that confirms the gold mineralisation occurs in the same differentiated dolerite package and associated mineralised shear system originally identified and that it is potentially part of a large mineralised gold system.

Further drill testing is likely to be done at Minnie Hill South and at other prospects in the Sumitomo - South Yamarna JV.

Investment thesis – Buy, valuation \$0.51/sh (prev. \$0.47/sh)

We believe the market is only starting to appreciate the significance of the Gruyere deposit. In our opinion the company is still trading at a discounted valuation to its peers. The additional value represented by the Toto and Minnie Hill South discoveries is also likely to take some time to be fully recognised.

We have increased our equity adjusted base case valuation and our upside valuation by a net 9% to \$0.51 per share and \$0.99 per share respectively from the net effect of: increased valuation estimates for the Toto and Minnie Hill South Prospects; and lower dilution from using a higher share price for potential additional shares issued in FY15 and FY16. We see further upside from the planned follow-up exploration at the Toto and Minnie Hill South Prospects, plus further de-risking at Gruyere and from the active regional exploration programs on other priority targets.

We retain our **Speculative Buy** recommendation for Gold Road.

Recommendation
Buy (unchanged)
Price
\$0.375
Valuation
\$0.51 (previously \$0.47)
Risk
Speculative

Expected Return

Capital growth	36%
Dividend yield	0%
Total expected return	36%

Company Data & Ratios

Enterprise value	\$184m
Market cap	\$193m
Issued capital	515.4m
Free float	84%
Avg. daily val. (52wk)	\$0.3m
12 month price range	\$0.068 - \$0.395
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

	(1m)	(3m)	(12m)
Price (A\$)	0.29	0.15	0.10
Absolute (%)	29.8	146.7	281.4
Rel market (%)	29.1	144.4	272.2

Absolute Price



SOURCE: IRESS

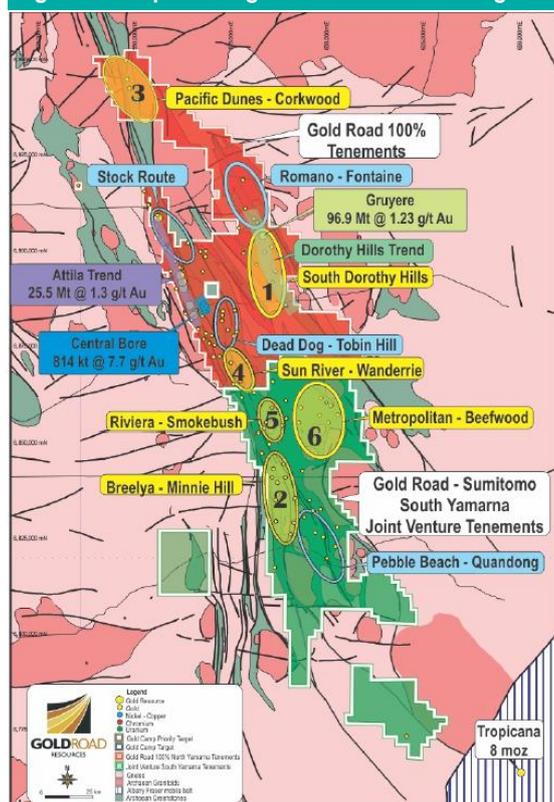
Toto anomalies larger, stronger than Gruyere

Key features of the refined Toto anomalies are:

- The Toto anomalies or Targets have coherent low level gold anomalism similar to the gold signatures seen in aircore drilling over the more deeply weathered northern parts of the Gruyere deposit. Each Target has various different geological and geochemical features indicative of hydrothermal alteration associated with gold mineralisation;
- Toto Target 1 is an elongate shape measuring 2.2km by 200m defined by greater than 50ppb gold with gold mineralisation interpreted as being in a shear zone adjacent to a Gruyere tonalite intrusive unit with distinct arsenic-molybdenum signature;
- Toto Target 2 measures 500m by 300m defined by greater than 50ppb gold with gold mineralisation hosted in a deformed “Ziggy” monzonite with distinct geochem signature;
- Toto Target 3 measures 3km by 300m defined by greater than 50ppb gold that includes a best intersection of 12m at 0.61g/t. Gold mineralisation is associated with a distinct magnetic low that parallels the trace of the Dorothy Hills Shear Zone.

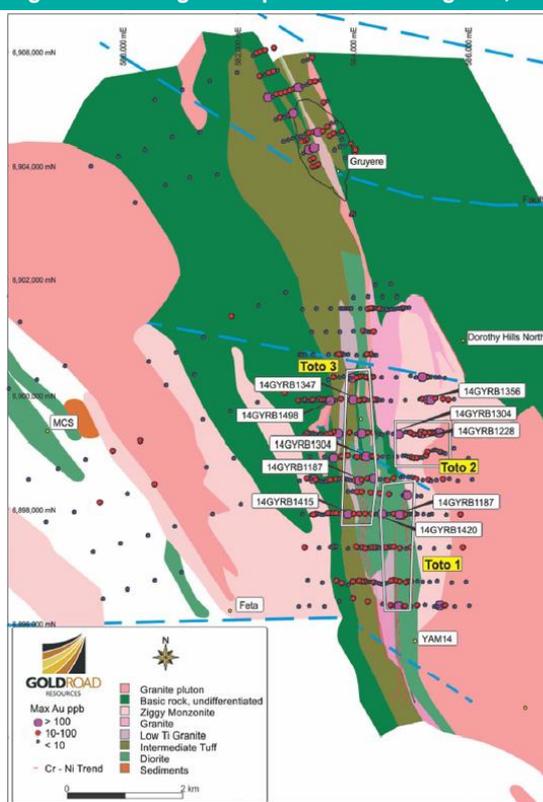
The large gold geochemical anomaly recently identified at the Toto Prospect occurs in the Dorothy Hills Trend (Figure 1). It is about 2km to the south of the Gruyere deposit and has been shown by follow-up aircore drilling to contain three coherent anomalies (Figure 2) that are larger and stronger than the Gruyere anomaly. The follow-up aircore drilling comprised 356 vertical holes drilled to refusal (generally representing the top of unweathered rock) at an average depth of 45m (range of hole depths was about 2m to 116m) for a total of about 16,328m over an area of about 5km north to south by about 2.5km east to west. The aircore holes were drilled 50 to 100m apart on east-west lines spaced 200, 400 or 800m apart over the gold geochemical anomaly defined by RAB interface drilling in June 2014. The entire length of each hole was assayed for gold in 4m composite samples of individual 1m intervals. The final 1m interval of each hole was also sampled for gold and a suite of 60 other elements to identify potential hydrothermal mineralisation characteristics.

Figure 1 – Map showing Gold Road’s Yamarna gold targets



SOURCE: GOLD ROAD RESOURCES LTD

Figure 2 – Geological map of Toto with Targets 1, 2 and 3



SOURCE: GOLD ROAD RESOURCES LTD

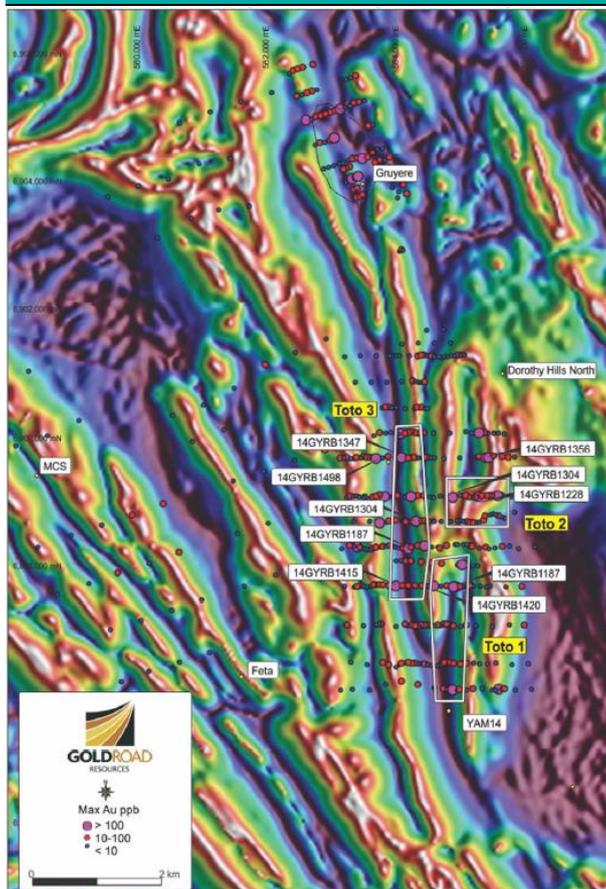
Larger, stronger anomalies don't imply better gold deposits

The larger and stronger nature of the gold anomalies at Toto compared to Gruyere do not necessarily imply that the underlying gold mineralisation causing the anomalies at Toto means there will automatically be bigger and/or better deposits of gold mineralisation at Toto compared to the Gruyere deposit. Many factors make up a gold anomaly including the nature of the regolith, the geochemistry of the mineralisation and the weathering history of the various rock types and gold mineralisation. The nature and extent of the underlying gold mineralisation at Toto will only be determined after detailed exploration and evaluation drilling but we anticipate that there will be significant gold mineralisation at Toto given the nature and extent of the Targets and their strong geochemical signatures.

Toto Targets based on more than just gold anomalism

The Toto Targets have a close special relationship to magnetic lows and the trace of the Dorothy Hills Shear Zone (Figure 3). Although there is significant gold anomalism on several lines to the north of the Toto 2 Target, that gold anomalism is not regarded as being part of the Toto 2 Target based on other geochemical features such as anomalous bismuth and the presence of copper anomalism in the range of 100 to 500ppm and zinc anomalism in the range of 100 to 1,000ppm.

Figure 3 - Map of the Toto Targets 1, 2 and 3 showing geochem results over regional magnetics



SOURCE: GOLD ROAD RESOURCES LTD

Follow-up RC drilling planned to test Toto Targets

Gold Road initially plans to test the portions of the three targets at Toto with the highest gold anomalism with favourable geology in a staged follow-up program of 5,000 to 10,000m of RC drilling scheduled to start in October 2014. The drilling will be on existing drill lines and will also test the full strike length of all three targets on a broad grid.

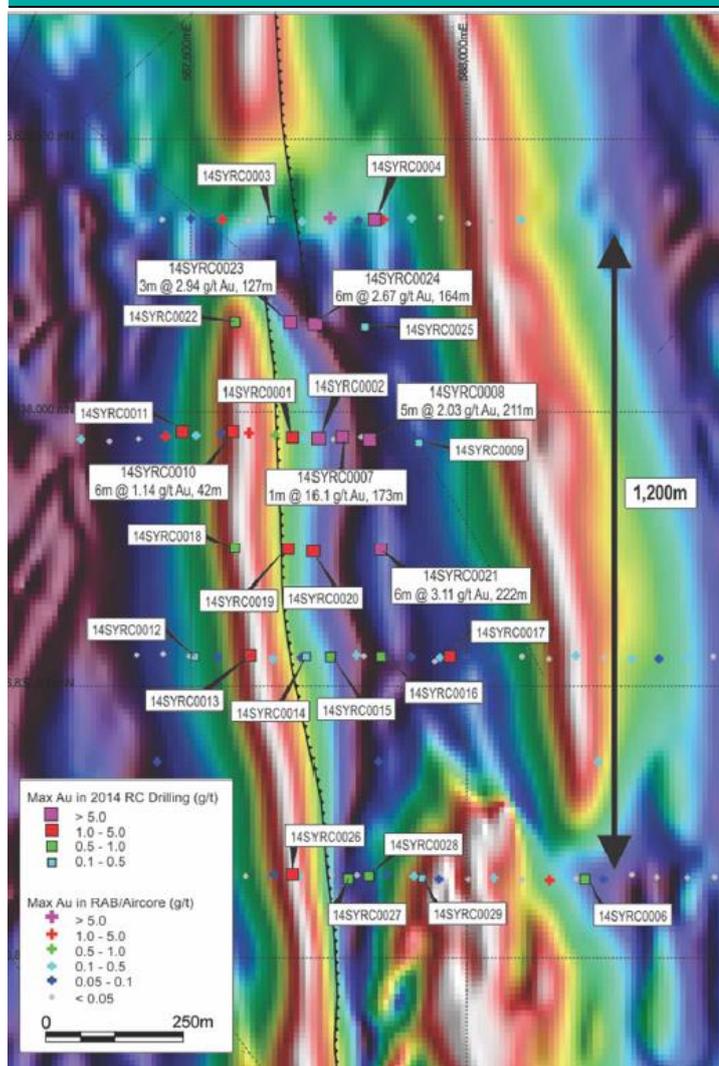
Gold mineralisation at Minnie Hill South in dolerite

Gold Road has completed a second follow-up RC drilling program comprising 23 holes for a total of 5,676m at the Minnie Hill South Prospect in the Sumitomo South Yamarna Joint Venture (SSYJV) area of the southern part of the Yamarna Gold Project. Under the terms of the SSYJV, the exploration program at Minnie Hill South is fully funded by Sumitomo. The latest drilling has confirmed the discovery of high grade gold mineralisation occurs in the same package of differentiated dolerites and associated mineralised shear system as was intersected in the initial follow-up program of RC drilling and it extends over almost 1km of strike length (Figure 4).

Anomalous gold mineralisation was intersected in 12 of the 23 holes in the latest drilling program, which was designed to intersect the mineralised structures along strike and down dip of the earlier high grade results. The best gold intersections in this program include:

- 1m averaging 16.1g/t from 173m in hole 14SYRC0007;
- 5m averaging 2.03g/t from 211m in hole 14SYRC0008;
- 6m averaging 3.11g/t from 222m in hole 14SYRC0021; and
- 6m averaging 2.67g/t from 164m in hole 14SYRC0024.

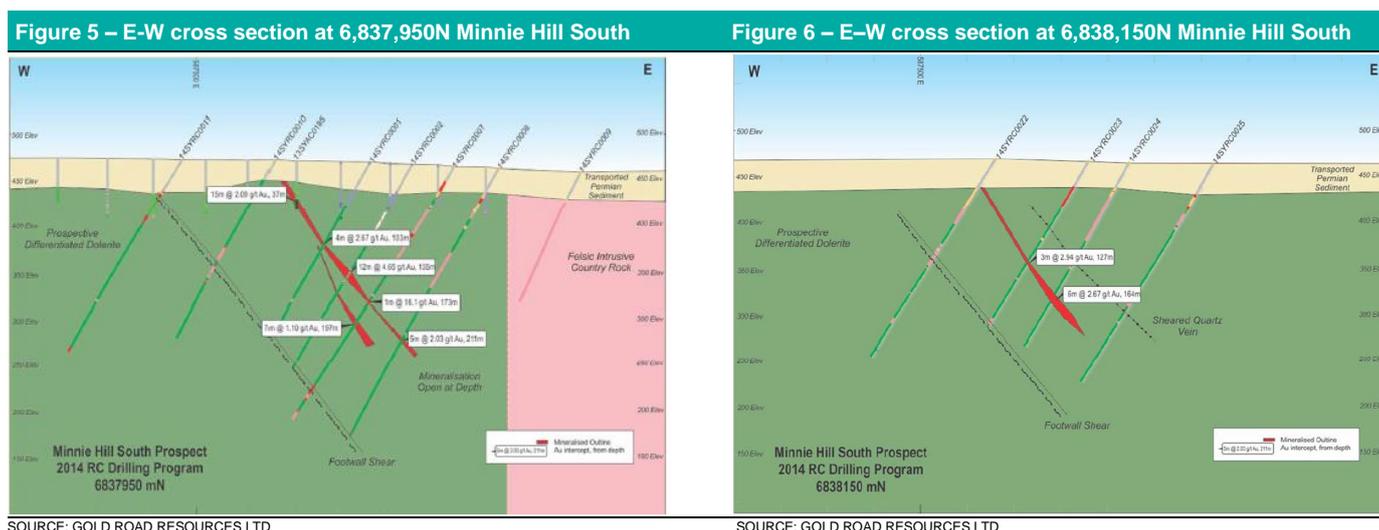
Figure 4 – Map of drill holes at Minnie Hill South Prospect over magnetic image



SOURCE: GOLD ROAD RESOURCES LTD

The program of 23 follow-up RC drill holes incorporated five 200m spaced drill traverses centred on two high grade discovery RC drill holes (14SYRC0001 and 14SYRC0002). The follow-up holes were spaced at 50 to 100m wide east-west spacings along the drill lines to provide intersections up and down dip of the existing mineralisation (Figures 5 and 6).

The RC drilling at Minnie Hill South has intersected a thick package of dolerite with textures observed in the RC drill chips that are indicative of a differentiated dolerite sill akin to the Golden Mile Dolerite in Kalgoorlie and Junction Dolerite at St Ives. Anomalous gold mineralisation is associated with discrete, moderately east-dipping shear zones and zones of strong biotite alteration. High gold grades of up to 16g/t were intersected around the discovery holes have defined a zone of consistent gold mineralisation that is up to 800m along strike and 250m down dip (Figures 5 and 6). The mineralisation is open in all directions.



Future work program at Minnie Hill South Prospect

The next phase of exploration at Minnie Hill South involves work on defining the stratigraphy of the dolerite package. This will involve detailed geochemical and petrological sampling and analysis. The purpose of this work is to identify the layering and zonation of the dolerites and any controls they may be influencing on gold mineralisation. It is also designed to enable any particularly prospective units, as occurs in the Golden Mile Dolerite in Kalgoorlie and Junction Dolerite at St Ives, to be identified and specifically targeted in subsequent drilling campaigns.

Gold Road is also considering the drilling of a diamond drill hole that intersects the entire stratigraphic sequence and zonation within the dolerite in late 2014 as a means of assisting with the studies of the dolerites.

Future work programs elsewhere in Yamarna Gold Project

Gold Road is also planning to carry out additional RAB/aircore drilling programs at the Pacific Dunes – Corkwood (to complete program started at end of 2013) and Sun River-Wanderrie Gold Camp targets in the 100% owned part of the Yamarna Gold Project. Gold Road recently completed a RAB/aircore drilling program at the Riviera-Smokebush Camp target and plans to do initial RAB/aircore drilling at the Metropolitan-Beefwood target, both being in the SSSJV tenements in the southern part of the Yamarna Gold Project (Figure 1).

Higher valuations reflect Toto, Minnie Hill

We have increased our equity adjusted base case and upside case valuations for Gold Road by around 9% to \$0.51 and \$0.99 per share respectively (Table 2) to reflect the net impact of: increased valuation estimates for the Toto and Minnie Hill South Prospects; and lower dilution from the higher Gold Road share price (current price is 24% higher at \$0.365 compared to the previous valuations, which used a \$0.295 share price).

Our valuations are equity adjusted to take into consideration the likely impact of additional equity to be raised over the period of our forecasts (out to 2027). As shown in Table 1, we have assumed that Gold Road raises further equity capital over the next two years. We have conservatively assumed this raising will be done at the same share price as the current share price, even though we would actually expect the development studies will significantly progress the company over the next few years towards production. A successfully de-risked project provides the potential for a higher share price over time.

Table 1 - Forecast additional equity to be raised over the next few years

Year to June	2015e	2016e
Net amount to be raised ¹ (\$ M)	15.0	25.0
Share price assumed (\$)	0.375	0.375
Number of shares to be issued (M)	42.8	71.3
Total number of shares on issue at year end(M)	558.2	630.6

SOURCE: BELL POTTER SECURITIES

NOTE 1. AFTER CAPITAL RAISING COSTS

Our Gruyere/Central Bore/Attila valuations are largely based on Net Present Value (NPV) methodology. Our valuations for Gold Road's other exploration assets at Yamarna are based on our estimates, which are related to target size and geological characteristics.

Our base case valuation assumes that the Gruyere deposit contains a mining inventory of about 75Mt at an average grade of around 1.3g/t for about 3Mozs of contained gold with favourable geometry and metallurgical recovery characteristics. We estimate that a significant part of the deposit could have a strip ratio of about 1 and the overall strip ratio could be about 2.2. This could underpin very attractive financial viability from a simple and relatively quickly constructed large scale development that is also expected to incorporate processing of the higher grade parts of the existing resource base at Central Bore and Attila-Alaric. Our upside case valuation assumes that the Gruyere deposit is considerably larger (and/or includes other similar deposits nearby such as at Toto) and/or that other similar substantial deposits of gold are discovered elsewhere in the Yamarna Project.

Gold Road had cash of \$9.6M at June 2014 (which was after completion of the significant Gruyere resource drill-out) with no debt. It also has a very constructive exploration agreement with Sumitomo Metal Mining (Sumitomo), which is sole funding up to \$8M of exploration in the SSYJV up to 31 December 2016 to earn a 50% interest.

Table 2 - Summary valuations for Gold Road

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ^{1,2}	\$ M ¹	¢/share ^{1,2}
Yamarna Gold Project – Gruyere, Central Bore and Attila (NPV)	262	39	517	76
- Other wholly-owned and SSYJV areas ³	32	4	85	13
Other Exploration Assets	1	06	3	1
Total Exploration Assets	295	42	606	93
Corporate	(13)	(2)	(13)	(2)
Net Cash ⁴	50	8	50	8
TOTAL ASSETS	331	51	642	99

SOURCE: BELL POTTER SECURITIES ESTIMATES

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

2. BASED ON EQUITY ADJUSTED DILUTED CAPITAL OF 649.3M SHARES

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

4. BASED ON CASH BALANCE AT 30 JUNE 2014 LESS SUBSEQUENT ESTIMATED EXPENDITURE PLUS FORECAST EQUITY TO BE RAISED IN FY15 AND FY16

Capital Structure and shareholders

Capital Structure

Gold Road has 19.1m employee options on issue of which 13.9m are currently in the money. There are also 3.8m performance rights on issue.

Table 5 - Gold Road capital structure

Issued shares m	515.4
Share price \$/sh	0.375
Market cap \$m	193.3
Net cash \$m	9.6
EV (undiluted) \$m	183.7
Options (in the money) m	13.9
Issued shares (diluted) m	529.4
Market cap (diluted) \$m	198.5
Net cash + options \$m	11.6
EV (diluted) \$m	186.9

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Major shareholders

Table 6 - Gold Road major shareholders

Major shareholders	million shares	% of total
Minco Investment Holdings HK Ltd	31.7	6
Van Eck Fund	30.9	6
Management	21.1	4
Other	463.4	84
Total	515.4	100

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Gold Road Resources Ltd (GOR)

Company description

Gold Road owns 100% of the Yamarna Gold Project that covers about 4,900km² on the eastern edge of the Yilgarn Craton in Western Australia, which it has been exploring since 2006. Gold Road is exploring the northern half of the Project on its own and it has a joint venture (in which it is the manager) with Sumitomo Metal Mining, which may earn up to 50% in the southern half of the Project by expenditure of \$8M by December 2016. Gold Road has a total gold resource base at Yamarna (all in 100% owned northern part) of 5.1Mozs at an average grade of 1.3g/t, which is made up of 3.8Mt at 1.2g/t at Gruyere, 0.2Mozs at 7.7g/t at Central Bore and 1.1Mozs at 1.3g/t at the Attila Trend. Gold Road is actively exploring six high priority gold camp-sized targets at Yamarna.

Investment Thesis – Speculative Buy, Valuation \$0.51/sh (prev. \$0.47/sh)

We believe the market is only starting to appreciate the significance of the Gruyere deposit. In our opinion the company is still trading at a discounted valuation to its peers. The additional value represented by the Toto and Minnie Hill South discoveries is also likely to take some time to be fully recognised.

We have increased our equity adjusted base case valuation and our upside valuation by a net 9% to \$0.51 per share and \$0.99 per share respectively from the net effect of: increased valuation estimates for the Toto and Minnie Hill South Prospects; and lower dilution from using a higher share price for potential additional shares issued in FY15 and FY16. We see further upside from the planned follow-up exploration at the Toto and Minnie Hill South Prospects, plus further de-risking at Gruyere and from the active regional exploration programs on other priority targets.

Valuation

Our valuation of gold Road is based on a risked sum-of-the-parts DCF valuation for the Gruyere, Central Bore and Attila Trend resources (using a discount rate of 10%) plus a nominal valuation for exploration.

Risks

The key risks highlighted are:

- **Gold price volatility:** The relatively liquid nature of gold makes it subject to wide fluctuations in price, particularly during more difficult economic times or major world events. Associated with gold price volatility are different gold price and foreign exchange rate outcomes to our forecasts;
- **Lack of exploration success:** The difficulty of exploring in the Yamarna district is related to the fact that the region has variable sand cover that overlies a variable but generally thin Permian sandstone sequence, which sits on the Archaean bedrock that hosts the gold mineralisation. This means that there is little or no outcrop and further complexity comes from the nature of the Archaean bedrock, which may contain greater than expected geological complexities that may be difficult to resolve without extensive drilling programs and may inhibit the definition of adequate resources and reserves;
- **Lack of funding:** Exploration companies generally do not have a source of revenue and so they require access to funding to enable them to carry out adequate exploration and related development activities in order to continue to develop their operations;

- **Metallurgical issues:** Notwithstanding that preliminary metallurgical test work has consistently given very positive outcomes with encouragingly very high gold recovery results from gravity and conventional CIL processing testwork, subsequent identification of adverse metallurgical characteristics may result from more detailed metallurgical investigations that lead to the need for more complicated and expensive processing requirements;
- **Regulatory and government approvals:** While there are currently no indications that there may be any difficulties with progressing through the necessary regulatory and government approvals processes to enable a suitable mining operation to be established, prolonged delays can result from adverse environmental or other regulatory issues and from the need to progress Native Title negotiations in a very careful and sensitive manner that can sometimes result in delays relating to changes in personnel or interpretations;
- **Weather impacts:** Cost overruns or operational delays can be caused by severe weather events because site access may be restricted due to the unsealed nature of roads and airstrips in the remote regions in which the company operates
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns

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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Disclosure: Bell Potter Securities acted as lead manager in the \$10m placement in March 2014 and received fees for that service.

Exploration Risk Warning:

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **Gold Road Resources Ltd** (of which a list of specific risks is highlighted within).

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