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## Gold Road

### SLICING AND DICING AT GRUYERE

**Recommendation:** *Gold Road is a speculative buy. As the company works towards defining a Resource at the massive Gruyere gold deposit and early development scenarios evolve, value will accrue to shareholders in what could prove to be a mine with a multi-decade lifespan.*

### Background

Gold Road controls most of the Yamarna Greenstone Belt on the eastern side of Western Australia, east of Laverton and running north of the 7.9 million ounce Tropicana gold deposit. The province is geologically similar to the prolific Kalgoorlie Gold Belt, but is underexplored by comparison. The Belt has an existing Resource of 1.3 million ounces of gold in several low grade deposits, including the high grade Central Bore deposit, containing 201,000 ounces of gold grading 7.7 g/t, but StockAnalysis calculates that the recently discovered Gruyere deposit is shaping up to be a single, multi-million ounce deposit that could support production of over 150,000 oz pa for a decade or three.

### Gruyere Deposit

The Gruyere gold discovery has been drilled and mapped along 2.2 kilometres of strike, tracking roughly NNW/SSE, including drilling to a depth of over 600 metres. Mineralisation remains open in both directions along strike and at depth below 600 metres. In the south, the deposit has a shallow cover of around 20 metres of leached saprolite and transported cover which deepens to over 80 metres in the north as the gold grade also increases. Recent drilling has outlined supergene mineralisation at about 50 metres within a depleted, weathered saprolite cover to the north, opening up potential for lower cost mine development.

The deposit's main zone extends along about 700 metres of strike and is up to 190 metres in width at its thickest point. StockAnalysis calculates that the main zone alone holds potential for 3 million ounces of contained gold to a depth of 500 metres. While mineralisation appears to average around 1.1 to 1.2 g/t Au with higher grades in the north, recent drilling along strike indicates that Gruyere's mineralised envelope contains thick, south plunging higher grade zones averaging as much as 2 g/t Au at a 1 g/t cut-off.

One intersection of **24 metres grading 4.07 g/t Au from 57 metres depth** in hole-number 14GYRC0060 shows supergene enrichment within the Lower Saprolite weathered zone, just above the main mineralisation tonalite zone.

Encouragingly, metallurgical test work shows very high rates of gold recovery under standard conditions, with low cost gravity gold recovery of 50% to 70% and total recovery of over 96% with very rapid process kinetics.

(Continued on page 2)

#### GOR - Capital Structure

ASX Code	<b>GOR</b>
Shares	514 m.
Perf rts	2.2
Options	21 m.
Share Price	\$ 0.15
Market Cap	\$ 77 m.
Cash (est)	\$ 12 m.

#### Indices and Prices

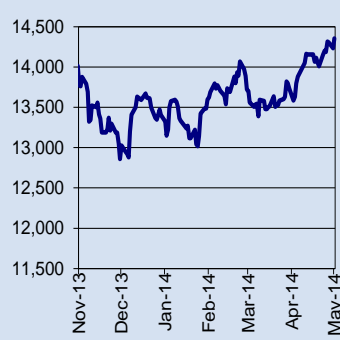
All Ordinaries	5475.40
Energy Index	14355.30
Brent AU\$/bbl	116.76
AUS\$/US\$	0.9356

As at Close May 13<sup>th</sup>, 2014

All Ordinaries



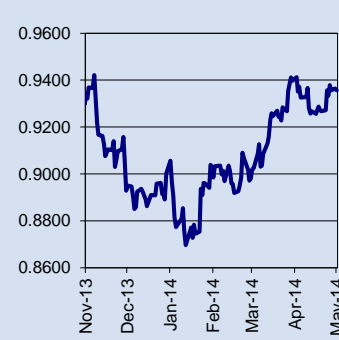
S&P ASX 200 Energy Index



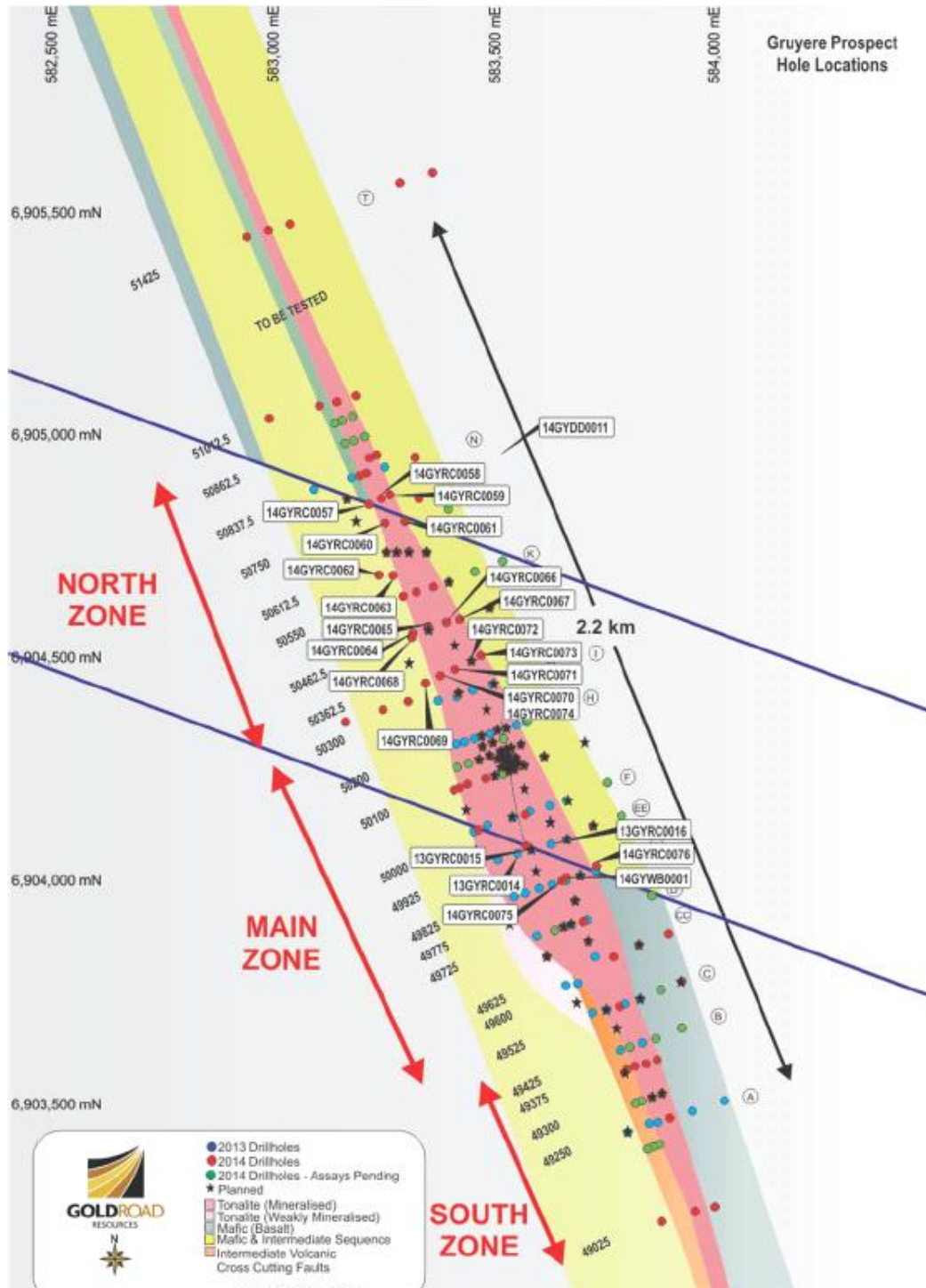
Brent Crude Oil \$A/barrel



A\$/US\$



**Plan - Gruyere Deposit Drilling**



Source: Gold Road

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**Drilling Data on the Gruyere Northern Zone – Long Section**

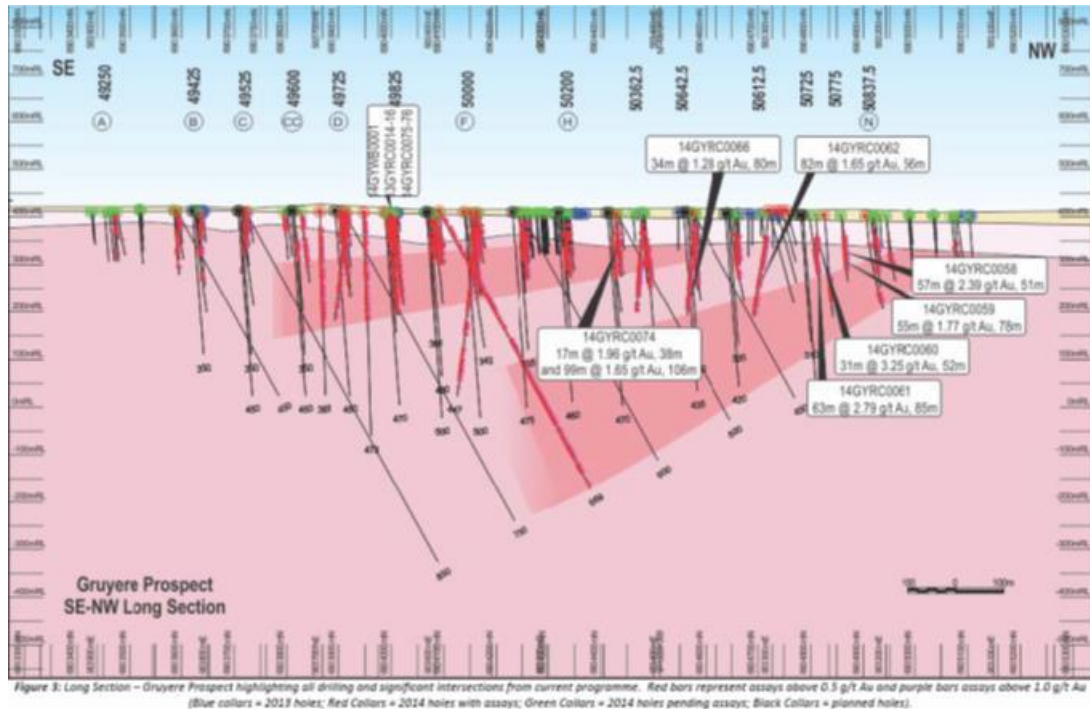


Figure 3: Long Section – Gruyere Prospect highlighting all drilling and significant intersections from current programme. Red bars represent assays above 0.5 g/t Au and purple bars assays above 1.0 g/t Au (Blue collars = 2013 holes; Red Collars = 2014 holes with assays; Green Collars = 2014 holes pending assays; Black Collars = planned holes).

Source: Gold Road

**Gruyere Northern Zone – Cross Section Showing High Grade Enrichment**

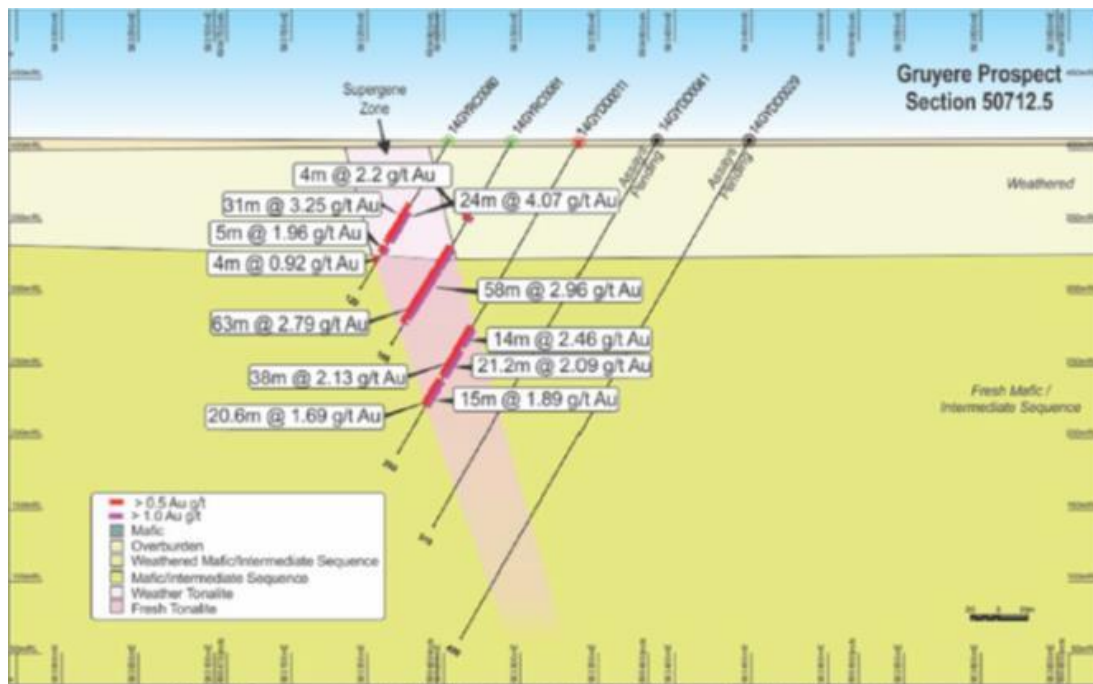


Figure 5: Gruyere cross section 50725 illustrating interpreted geology and significant RC intersections

Source: Gold Road

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## Mining and Processing - Modelling

Gruyere Mining Model		2014	2015	2016	2017	2018	2019	2020-26
<b>Mining</b>								
Low-grade Mined	mt			0.5	1.0	1.0	1.0	7.0
Highgrade Mined	mt			0.0	1.0	3.0	3.0	21.0
Total Mined				0.5	2.0	4.0	4.0	28.0
Lowgrade	g/t			0.60	0.60	0.55	0.55	0.55
Highgrade	g/t			1.20	1.25	1.50	1.50	1.46
<b>Contained metal</b>								
Lowgrade	Koz			9.4	18.8	17.2	17.2	120
Highgrade	Koz			-	39.1	140.6	140.6	961
Total Koz				9.4	57.8	157.8	157.8	1081
Lowgrade recovery	%			60%	60%	60%	60%	60%
highgrade recovery	%			96%	96%	96%	96%	96%
<b>Heapleach Product</b>	Koz			5.6	11.3	10.3	10.3	72
<b>CIP Product</b>	Koz			-	37.5	135.0	135.0	923
<b>Total gold</b>	Koz			5.6	48.8	145.3	145.3	995

Source: Strachan Corporate

Gruyere Financial Model		2014	2015	2016	2017	2018	2019	2020-26
<b>Metal Prices</b>								
Au	US\$/oz			1300	1300	1300	1300	1300
AUDUSD	0.92							
<b>Revenue A\$m.</b>								
Au				7.9	68.9	205.3	205.3	1406
<b>Operating cost A\$m.</b>								
Mining Heap	\$ 5 per tonne			(2.5)	(5.0)	(5.0)	(5.0)	(35)
CIP	\$ 9 per tonne			-	(9.0)	(27.0)	(27.0)	(189)
Heap	\$ 3			(1.5)	(3.0)	(3.0)	(3.0)	(21)
CIP	\$ 19			-	(19.0)	(57.0)	(57.0)	(399)
Royalties	3.5% \$m.			(0.3)	(2.4)	(7.2)	(7.2)	(49)
Admin	\$ 0.5 per tonne			(0.3)	(1.0)	(2.0)	(2.0)	(14)
Total Mining & R'ty				(4.5)	(39.4)	(101.2)	(101.2)	(707)
\$/t Ore				9.1	19.7	25.3	25.3	25.3
\$/oz				805	808	696	696	713

Gruyere Financial Model		2014	2015	2016	2017	2018	2019	2020-26
<b>Capital</b>								
Feas		20.0	10.0					-
Mine			30.0	10.0	10.0	3.0	3.0	18.0
Plant			70.0	100.0				-
Engineering			5.0	5.5	0.5			-
Total		20.0	115.0	115.5	10.5	3.0	3.0	18.0

<b>Debt Schedule</b>								
Opening debt			180	180	155	129	100	
Interest accrued/paid	7.6%			12	10	8	6	
Total Repayment				(37)	(37)	(37)	(37)	
Closing debt			180	155	129	100	69	
<b>Depreciation Schedule</b>								
Opening capital		10	30	145	237	224	203	
New Spend		20	115	116	11	3	3	
Depn				(24)	(24)	(24)	(25)	
Closing capital		30	145	237	224	203	181	713.7
<b>EBITDA</b>								
D&A				3.4	29.5	104.1	104.1	698.3
EBIT				(24)	6	80	79	523.3
Finance				(12)	(10)	(8)	(6)	(5.1)
PBT				(32)	(5)	72	73	518
Tax	30%			-	-	-	(22)	(155)
Net Profit				(32)	(5)	72	51	363

Source: Strachan Corporate

StockAnalysis assumes that initial mining will involve pre-strip of barren saprolite and open pit mining operations with a very low waste to ore ratio. In the south, the deposit's broad widths and continuous mineralisation below 620 metres offer an opportunity to develop a high efficiency, block-caving underground mining operation like Newcrest's Cadia-Ridgeway operations in NSW.

StockAnalysis models an initial open pit operation to depths of 150 to 180 metres, targeting 38.5 million tonnes of mineralisation with an average grade of 1.18 g/t gold, recovering 1.34 million ounces over an initial 11 year operation.

Estimated initial capital costs of A\$261 million have been assumed, though detailed engineering and costing will be needed to confirm a final estimate.

StockAnalysis assumes that one million tonnes of low grade mineralisation averaging 0.56 g/t gold will be processed per annum by low cost dump leaching operations to recover 110,000 ounces of gold at a recovery of 60% while a 3 million tonne per annum CIP plant is constructed to produce about 1.23 moz over the 11 year life of this study.

At full production, StockAnalysis' modelled operation would produce 145,000 ounces of gold annually with a cash cost, including administration and royalties, of around A\$700/oz and an all in sustaining cost of about A\$900 per ounce to deliver an annual profit of A\$55 million or 10.8 cps on current capital.

Assuming 65% debt finance, an NPV<sub>8</sub> of \$160 million or A\$119 per ounce, is calculated for this initial phase of operation, which compares favourably with the company's current enterprise value, of around \$65 million.

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Project	NPV		
	\$m	\$/oz	
DCF	8%	\$160	\$119
	10%	\$121	\$90
IRR	23%		

Source: Strachan Corporate

A target of ~1.5 million ounces in Reserve could well represent just the beginning for Gruyere. StockAnalysis thinks that the project has potential to support bulk underground mining. This might involve investing in an initial sacrificial decline development within ore to reduce costs and subsequent raise-boring to install a high efficiency shaft. Such a development might support an expanded CIP plant capacity to 5-6 mt pa to target a Reserve of over 3 million ounces within an exploration target for over 5 million ounces at Gruyere.

Valuation	\$m	\$/shr
Gruyere OP	\$ 160	\$ 0.16
Gruyere Extended	\$ 158	\$ 0.16
Yamarna	\$ 26	\$ 0.03
Cash	\$ 12	\$ 0.01
Corporate	-\$ 8	-\$ 0.01
		<u>\$ 0.35</u>

Source: Strachan Corporate

## Valuation

StockAnalysis assumes considerable dilution of capital to fund development, but still assesses a risked value of 35 cents per share for Gold Road.

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