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Gold Road Resources Ltd (GOR)

Latest drilling confirms consistency of Gruyere with positive metallurgy results

Recommendation
Buy (unchanged)
Price
\$0.10
Target (12 months)
\$0.21 (\$0.19)
Risk
Speculative

Expected Return

Capital growth	110%
Dividend yield	0%
Total expected return	110%

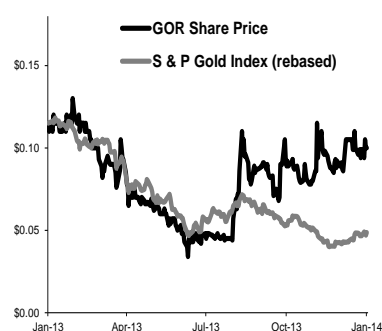
Company Data & Ratios

Enterprise value	\$39m
Market cap	\$46m
Issued capital	456.2m
Free float	95%
Avg. daily val. (52wk)	\$0.08m
12 month price range	\$0.034 - \$0.13
GICS sector	Materials

Price Performance

	1mth	3mths	12mths
Price (\$A)	0.09	0.089	0.115
Absolute (%)	12.4	12.4	-13.0
Rel. Market (%)	8.3	11.7	-24.3

Absolute Price



SOURCE: IRESS

High hit rate in latest RC drill results at Gruyere

Further reverse circulation (RC) drilling results by gold exploration and development company, Gold Road Resources Limited (GOR) have confirmed the extent and consistency of gold mineralisation at the Gruyere Prospect in the Yamarna Gold Project near Laverton in Western Australia. Results for the remaining 25 RC holes for which assays were awaited from late 2013, have now been received.

The company achieved a high hit rate in this drilling with most of the holes – 22 out of 25 – intersecting significant gold mineralisation from eight sections covering a strike length of 1.2km. The latest drilling has also confirmed that the gold mineralisation has good consistency, being hosted by a distinctive altered granitic rock (now called the Gruyere Tonalite) with evidence of strong quartz veining and possible stockworks that may contain zones of higher gold grades. The mineralisation is still open to the north and south (where it has narrowed significantly) and it is still completely open at depth.

Major follow-up drilling underway - includes diamond coring

The company is planning a very active evaluation and exploration programme in 2014 that will include a considerable amount of drilling at multiple locations across the Yamarna Gold Project. GOR is starting a significant RC and diamond drilling programme at Gruyere to investigate the extent and nature of the gold mineralisation generally and particularly the high grade intercepts at the northern end. Follow-up aircore/RAB and possibly RC drilling is likely after results of the regional drilling around Gruyere looking for repetitions have been received and analysed and at other camp scale locations including YAM14 and the Corkwood area within the 100% owned part of the Yamarna Project; and at Breelya-Minnie Hills in the southern part of the Yamarna Gold Project where joint venture partner, Sumitomo, is funding exploration.

Initial metallurgical test work gives very encouraging results

Initial metallurgical test work has been carried out on 100 selected representative pulp samples of the Gruyere gold mineralisation with very encouraging high gold recovery results. In 95% of the samples tested, the cyanide recoverable gold rate averaged 96%. More metallurgical test work is planned for 100kg composite samples in Q1 of 2014. Along with the potentially favourable geometry of the Gruyere mineralisation, the indicative high metallurgical recoveries point to potentially low operating cash costs.

Price target is raised to \$0.21 with upside from exploration

GOR's Gruyere discovery continues to display the hallmarks of being part of a major gold system, the potential size of which is expected to increase and be better defined by the drilling planned. The company has made other discoveries such as at Breelya-Minnie Hill and YAM14 and it has other incompletely tested and untested high ranking targets that will get necessary follow-up drilling in 2014. After incorporating the latest results and our lower gold price forecasts, we have raised our base case and upside valuations to \$0.28 per share and \$0.52 per share respectively. Our 12-month target price for GOR is raised to \$0.21 per share with upside beyond that from confirmed exploration success. We retain our recommendation of **Buy with Speculative risk**.

Gruyere is clearly a major gold system

The receipt of the remaining assay results for the other 25 drill holes at GOR's Gruyere Prospect (Figure 1) that were completed in late 2013 has confirmed that the gold mineralisation at Gruyere has good consistency. The company achieved a high hit rate in this drilling with most of the holes – 22 out of the 25 – intersecting significant gold mineralisation from eight sections covering a strike length of 1.2km within the Gruyere mineralised zone, which occurs over a total strike length of 1.6km (Figure 2).

It is now clear that the Gruyere mineralisation constitutes a major gold system.

Key features of these latest drill results were:

- The latest drilling was on variably spaced sections at 100m to a maximum of 500m apart
- The best result was an intersection of 50m at 1.31g/t from 58m down hole (all holes drilled at 60°) and 13m at 2.45g/t from 112m in hole 13GYRC0057
- There were nine other significant intersections with down hole thicknesses of 16 to 45m at down hole depths from 12 to 113m with average gold grades ranging from 1.1 to 1.9g/t
- The five highest individual one-metre assays were between 5.6 to 8.7g/t and they were at down hole depths from 30 to 130m

Figure 1 - Map of target areas in GOR's Yamarna Gold Project

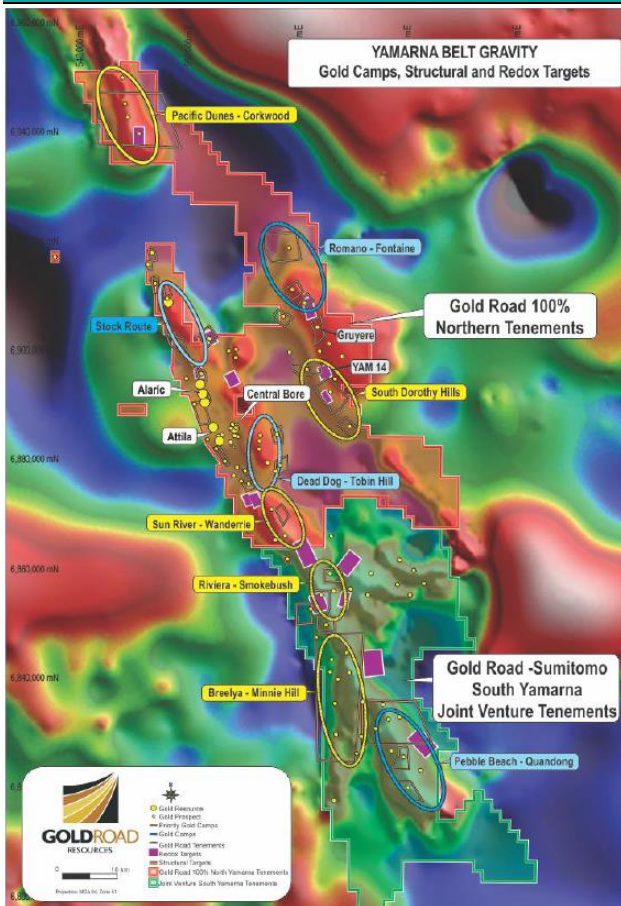
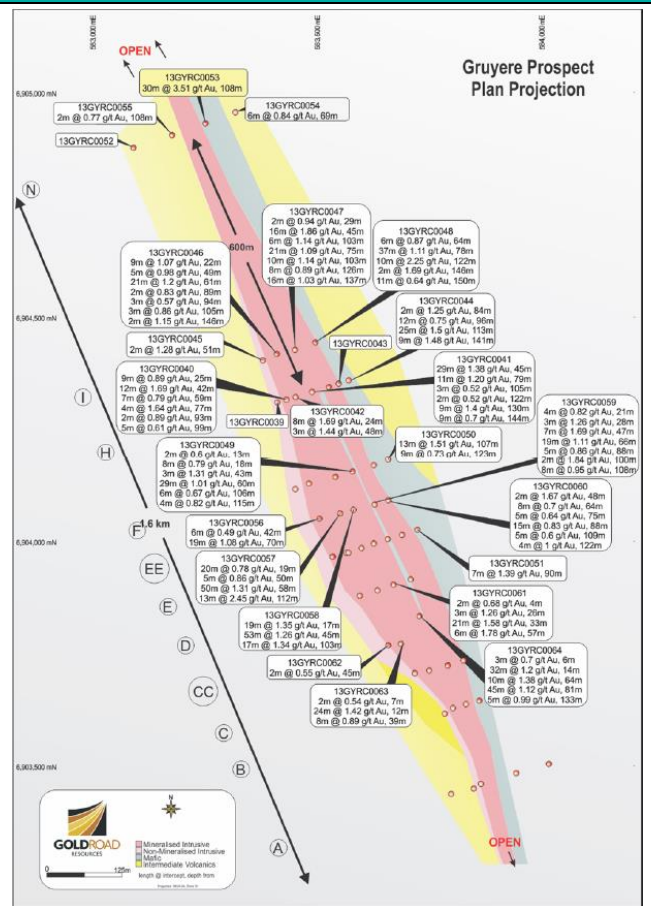
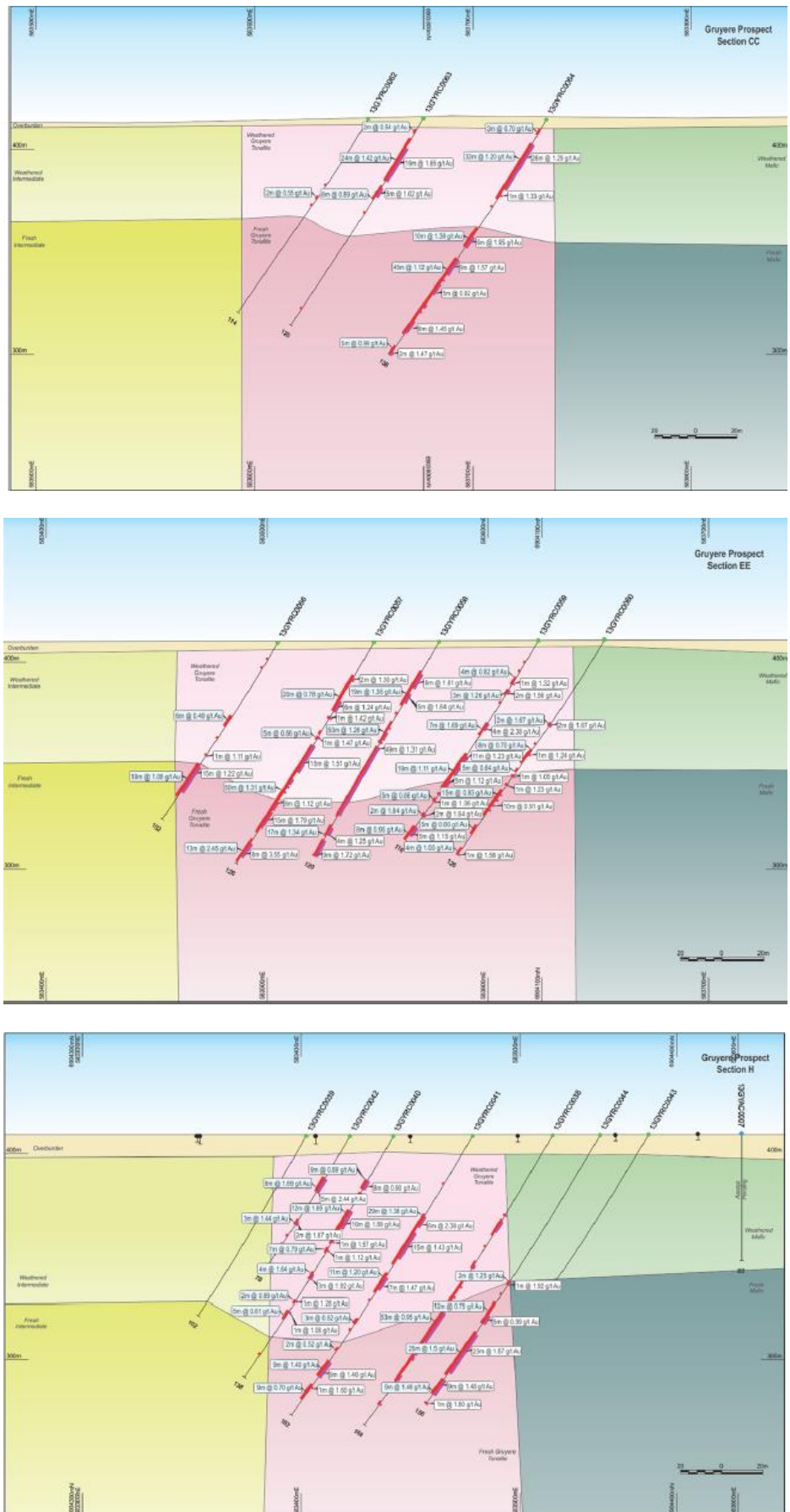


Figure 2 - Map of drill hole locations a Gruyere Prospect



SOURCE: GOLD ROAD RESOURCES LTD

Figure 3 - Selected cross sections through Gruyere showing significant drill intersections



SOURCE: GOLD ROAD RESOURCES LTD

The nature of the Gruyere mineralisation is becoming better understood. GOR believes the best gold mineralisation seems to be associated with pervasive albite-sericite-chlorite-biotite-pyrite alteration assemblages with quartz veining occurring throughout the mineralised zones but the width and frequency of the quartz veining remains to be determined.

The mineralisation is still open to the north and south (where it has narrowed significantly) and it is still completely open at depth.

The mineralisation occurs below a non-mineralised cover of mostly dune sand that varies in depth from 1m to a maximum of 10m with a weathering profile that increases to the north to depths of almost 90m below surface (shown in cross sections in Figure 3 on page 3).

In the south of the deposit, gold mineralisation occurs within 1 to 2m of the surface but there appears to be a depletion zone to the north of Section F above the Gruyere Tonalite where gold mineralisation generally starts at about 40m below the surface (shown in cross sections in Figure 3 on page 3).

The Gruyere deposit is shaping up as containing a significant gold resource that we estimate is likely to be well over 1M ozs and importantly is continuing to look very economically attractive from being in a large, near surface altered granitic body that seems to be consistently mineralised and includes important higher grades, which are always very helpful in the early years of a mining operation. The apparently consistent nature of the mineralisation indicates the deposit could be readily mined by open pit methods and much of it could have a very favourable low stripping ratio, which enhances its potential economics.

GOR is planning an active forward exploration and evaluation drilling programme at Gruyere that is just getting underway now and includes:

- A programme of 5 to 7 diamond holes for 1,200 to 1,800m including drilling to a depth of up to 300m to test the general nature of the gold mineralisation
- Further RC drilling amounting to at least 1,500 to 2,500m to provide a consistent 100m section spacing within the main 1,100m of the discovery area (Sections A to I) and also to follow-up around the high grade mineralisation in hole 13GYRC0053 (on Section N) to determine its geometry
- Upon receipt and full interpretation of assays still awaited from the programme of regional aircore drilling completed in late 2013 that was targeting potential repeat positions of the Gruyere Tonalite, GOR may carry out an RC drilling programme to evaluate significant results
- Further programme of detailed metallurgical test work on 100kg composite samples
- Progressing the Maiden Resource estimate that is being targeted for completion around the end of March 2014

Other discoveries and targets in Yamarna Project to get further exploration attention

GOR is also planning additional work on other high priority camp-style targets elsewhere in its large Yamarna Gold Project, especially where they have had good results. This will include at YAM14, where follow-up drilling is planned and up in the north of the Yamarna Project area at Corkwood, where the initial RAB/aircore drilling programme on this camp-style target is incomplete and samples are still awaiting assays. Field exploration in the Yamarna South Joint Venture (YSJV) area, which is being funded by Sumitomo, is expected to resume in about April 2014 after thorough analysis of the recent successful geochemical drilling in the Breelya-Minnie Hill camp target and formulation of the exploration programme.

Positive initial metallurgy test results

Initial metallurgical test work has been carried out on selected samples of the Gruyere gold mineralisation with very encouraging results. This test work involved bottle roll tests using the Leachwell technique to obtain a preliminary assessment of recoverable gold using 100 different individual sample pulps from previously analysed mineralised intersections that were chosen as being representative of the Gruyere mineralisation.

A very high percentage (95%) of the samples processed in this test work, which simulates the cyanide leaching of the material in a processing plant, had over 90% of cyanide extractable gold, with the average being 96% gold recovery. This is a very positive outcome at this stage as it indicates the gold mineralisation is not refractory and that conventional gold ore processing can potentially achieve very high recovery rates for material with a likely gold head grade of around 1 to 1.5g/t. This sort of recovery should ensure that with head grades for Gruyere that are potentially in that range, high gold recoveries of the level indicated by these initial results (96%) should ensure that a gold mine based on potentially low cost bulk mining can also achieve genuinely low processing costs to give overall low cash costs.

In the case of the five samples that had less than 90% cyanide extractable gold recoveries, four had gold head grades of less than 0.2g/t, meaning they would have had an inherently lower percentage recovery anyway due to having a likely fixed residual or tail component of gold. The head grade of the other sample that gave less than 90% cyanide extractable gold was 26g/t and it gave an estimated recovery of 84%, which is interpreted as being due to probably having had a coarse gold component that did not fully leach in the 24 hour leaching process and which would have been more appropriately treated using gravity recovery techniques.

A further programme of detailed metallurgical test work will be carried out on five 100kg composite samples of mineralised RC drill sample material in 1Q 2014. We would expect that future metallurgical test work should also include gravity recovery test work.

Valuation increases despite lower gold price forecasts

We have increased our base case and upside valuations for the company's Yamarna Gold Project reflecting recent positive exploration and metallurgical test results at Gruyere and further consideration of the positive exploration results at the Breelya-Minnie Hill area being explored under the agreement with potential joint venture partners, Sumitomo (South Yamarna Joint Venture). Our Gruyere/Central Bore/Atilla valuations are largely based on Net Present Value (NPV) methodology. After incorporating slightly lower gold price forecasts (Table 1), the net effect of these changes is a 10% increase to \$0.28 per share for the base case valuation and a 13% increase to \$0.52 per share for the upside valuations (Table 2 on page 5).

Table 1 - Changes to gold price and \$US/\$A forecasts

Year to June	2014E	2015E	2016E	2017E
New				
Gold (\$US/oz)	1,242	1,200	1,225	1,227
Old				
Gold (\$US/oz)	1,270	1,250	1,275	1,275
Change				
Gold (\$US/oz)	-2%	-4%	-4%	-4%

SOURCE: BELL POTTER SECURITIES

Our base case valuation now assumes that the Gruyere deposit contains a resource of about 1.3Mozs of gold at an average grade of around 1.1g/t with favourable metallurgical recovery characteristics in a deposit that has a significant width (a major part of it being at least 150m wide), giving much of it an average strip ratio of about 1. This would give it attractive financial viability from a simple and relatively quickly constructed large scale development that could also incorporate the treatment of appropriate higher grade parts of the existing resource base of Central Bore and Attila (totalling 1.3Mozs at 1.5g/t). Our upside case valuation assumes that the Gruyere deposit is considerably larger (and may possibly include other similar deposits nearby) and/or that other similar substantial deposits of gold mineralisation are discovered elsewhere in the company's Yamarna Gold Project.

We estimate GOR currently has cash of about \$6.8M with no debt (Table 2) after having received a Research and Development refund of \$2.3M in October 2013. It also has a very constructive exploration agreement with Sumitomo, who are sole funding up to \$8M of exploration in the SYJV over the period to 31 December 2016.

Table 2 - Summary of valuations of GOR

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ¹	\$ M ¹	¢/share ¹
Yamarna Gold Project – Central Bore, Attila, Gruyere	119.9	25	194.2	41
- Other wholly-owned and SYJV areas ²	17.0	4	56.3	12
Other Exploration Assets	0.5	0	1.2	1
Total Exploration Assets	137.4	29	251.6	53
Corporate	(13.0)	(2)	(13.0)	(2)
Net Cash ³	6.8	2	6.8	2
TOTAL ASSETS	131.2	28	245.4	52

SOURCE: BELL POTTER SECURITIES ESTIMATES

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

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

3. BASED ON BALANCE AT 30 SEPTEMBER 2013 LESS ESTIMATED EXPENDITURE

Recommendation

GOR is an attractive and well funded gold exploration and development company with proven technical capability. We estimate that the company's resource base has increased significantly from exploration success at several locations in the company's large Yamarna Gold Project. GOR is targeting the announcement of a Maiden Resource for the exciting Gruyere discovery by about the end of Q1 2014 which we expect could see the company's total resource base increased significantly to over 2Mozs at that time.

We believe there continues to be good potential for the Gruyere deposit to become the catalyst for the relatively rapid large scale sequential development of GOR's substantial and increasing Yamarna gold deposits into successful mines.

We believe GOR still has good potential to discover additional gold deposits within its extensive Yamarna Gold Project by successfully applying its proven targeting methodology to the various high priority targets at Yamarna. We have used NPV-based methodology to derive upwardly revised base case and upside valuations of \$0.28 per share and \$0.52 per share respectively. We have applied a significant discount to the base case valuation for uncertainty until Gruyere is better defined (such as by a Maiden Resource estimate) to give an increased 12-month target price for GOR of \$0.21 per share.

Accordingly we retain our recommendation for GOR of a **Buy** with **Speculative Risk**.

Risks and Drivers

We identify the following as the main risks:

- Commodity prices and foreign exchange rates that are different to our forecasts
- Lack of exploration success and/or greater than expected geological complexities
- Lack of funding to carry out adequate exploration and development
- Adverse weather and operational issues
- Changes to government policy
- Adverse environmental and other regulatory issues
- Cost overruns or operational delays
- Adverse acquisitions of other assets that divert management effort and yield inadequate returns

We identify the following as the main share price drivers:

We have identified many upcoming events that could be significant share price drivers over the next few months and the next year or so:

- Further confirmation of the significance of the exploration success at the Gruyere Prospect from the next phase of exploration drilling that is currently getting underway and which includes the diamond drilling of some deeper holes and follow-up RC drilling around the high grade zone at the north of the gold mineralised zone
- Extension drilling to the north and south of the current drill sections at Gruyere to test for additional strike extent of the gold mineralised zone
- Fast-tracking of the planned initial resource calculations for Gruyere to enable a substantial Maiden Resource to be estimated by about the end of Q1 2014
- Further exploration success at the company's YAM14 Prospect to the south of Gruyere and the Breelya-Minnie-Hill Prospect in the SYJV area leading to the establishment of resources at both places that compliments the existing resource base and the Gruyere mineralisation, supporting fast-tracked feasibility studies into the development of a major gold production operation at the company's Yamarna Gold Project
- Positive outcomes from the resumption of the PFS and then the completion of a BFS for the Yamarna Gold Project indicating it is capable of being developed in ways that will achieve very attractive and significant economic returns, which may include establishment of a substantial gold processing plant (with annual ore processing capability of the order of about 4Mtpa) and incorporating the processing of Central Bore and Attila ore
- Further exploration success from other camp-sized target areas within the company's large Yamarna Gold Project

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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