

Resumed Coverage, New Analyst

Analyst, Retail Research Services
Peter Arden 613 9235 1833

Authorisation

Damien Williamson 613 9235 1958

Gold Road Resources Ltd (GOR)

Gruyere shaping up as a form of potential Intrusion Related Gold System with upside

Recommendation
Buy
Price
\$0.098
Target (12 months)
\$0.17
Risk
Speculative

Expected Return

Capital growth	73%
Dividend yield	0
Total expected return	73%

Company Data & Ratios

Enterprise value	\$39m
Market cap	\$45m
Issued capital	455.9m
Free float	95%
Avg. daily val. (52wk)	\$0.08m
12 month price range	\$0.034 - \$0.15
GICS sector	Materials

Price Performance

	1mth	3mths	12mths
Price (\$A)	0.086	0.095	0.14
Absolute (%)	14.0	3.2	-30.0
Rel. Market (%)	15.7	-1.4	-48.4

Absolute Price



SOURCE: IRESS

RC drill results at Gruyere point to a major gold deposit

Well-funded gold exploration and development company, Gold Road Resources Limited (GOR) has discovered a potentially major deposit of gold mineralisation in reverse circulation (RC) drilling at its Gruyere Prospect in the Yamarna Gold Project in Western Australia. Although the gold grades are relatively low, the gold mineralisation is very consistent and extends over very significant widths almost from the surface. While the discovery is only at an early stage, the nature of the gold mineralisation, which occurs in an altered granitic rock type, and its associated geochemistry suggests that the mineralisation may be some form of Intrusive Related Gold System (IRGS). GOR's drilling to date at Gruyere is of a "first pass" nature and has been limited to only several lines of shallow holes but it has shown the mineralisation occurs over a strike length of at least 800m and to a depth of at least 100m.

High success rate from new targeting methodology

The company has been methodically carrying out a new phase of careful and thorough exploration of its huge Yamarna Gold Project over recent months using several filters to help generate and rank the many targets in its extensive tenement position. So far GOR has had stunning success when it has come to drill its highest ranked "camp sized" targets with discoveries of significant gold mineralisation, sometimes at even shallower depths than originally expected. In order to accelerate exploration of its large Yamarna area, the company reached agreement with the large diversified global metals group, Sumitomo Metal Mining Co., Ltd (Sumitomo) in May 2013 to fund exploration of the southern part of GOR's Yamarna tenements. Already GOR has had considerable exploration success in its current exploration programme, having discovered significant gold mineralisation at two camp scale locations - in the Dorothy Hills area (YAM14 and now Gruyere) within the 100% owned part of the Yamarna Project; and at Breelya-Minnie Hills in the southern part of the Yamarna Project where the exploration is being funded by Sumitomo.

Gruyere elevates Yamarna potential to multi-million ounces

Gold mineralisation at Gruyere has been outlined over a strike length of 800m. As it is still open to the north and at depth, we believe there is high potential for Gruyere to contain a resource of at least 1M ozs. Despite its likely low grade, this mineralisation is potentially economically very attractive because it is up to 180m wide and starts at a very shallow depth so the deposit is likely to have a very low strip ratio and potential satellite deposits. Adding the gold resource potential at Gruyere to GOR's existing gold resource base of 1.3Mozs at 1.5g/t at Yamarna gives the company a multi-million ounce resource potential, greatly enhancing the likely economic development of that.

Price target of \$0.17 with upside from exploration success

We believe GOR has discovered a potentially very significant deposit of gold mineralisation at Gruyere and still has other untested high ranking targets. Our base case and upside valuations are \$0.23 per share and \$0.42 per share respectively. We have established a 12-month target price for GOR of \$0.17 per share but we see more upside beyond that. We resume coverage of **GOR as a Buy with Speculative risk**.

Exploration success by methodical work

GOR has been exploring in the Yamarna Greenstone Belt, which is the easternmost greenstone belt in the Archaean Yilgarn Block in the Eastern Goldfields region of Western Australia (Figure 1) for over six years. The company has expanded the total gold resource base to 1.3M ozs averaging 1.5g/t (Table 1). This is comprised of the small high grade Central Bore deposit discovered by GOR in 2009 and containing 0.2M ozs at an average grade of 7.7g/t and numerous mostly low grade deposits along the Attila Trend to the west that were discovered by Asarco and now contain 1.1M ozs at an average grade of 1.3g/t (Figure 2). GOR completed a Scoping Study in September 2012 and upgraded it in early 2013. GOR began a preliminary feasibility study (FPS) on the development of the Yamarna gold resources but it recently suspended work on the PFS to enable development costs to return to more reasonable levels and to enable it to expand the resource base by focusing on the thorough exploration of up to five gold “camp-sized” areas (with strike lengths of 15 to 20 km) in its underexplored Yamarna Gold Project area of about 5,000km² (Figure 2).

The company executed a joint venture agreement with a wholly owned subsidiary of Sumitomo in May 2013 covering exploration of the southern part of GOR’s Yamarna Gold Project tenements. This agreement is known as the South Yamarna Joint Venture (SYJV), under the terms of which Sumitomo may earn up to a 50% interest by funding \$8M of exploration activities over the period to 31 December 2016.

GOR has already had significant success from its methodical exploration approach, which has involved surface geochemistry by auger drilling, airborne Sub Audio Magnetics (SAM) geophysics, targeted RAB/aircore drilling and follow-up RC drilling. The company has discovered significant gold mineralisation at the Gruyere and YAM14 Prospects and has discovered extensive gold anomalism at the Breelya-Minnie Hill area in the SYJV.

Figure 1 - Map showing location of Yamarna Greenstone Belt

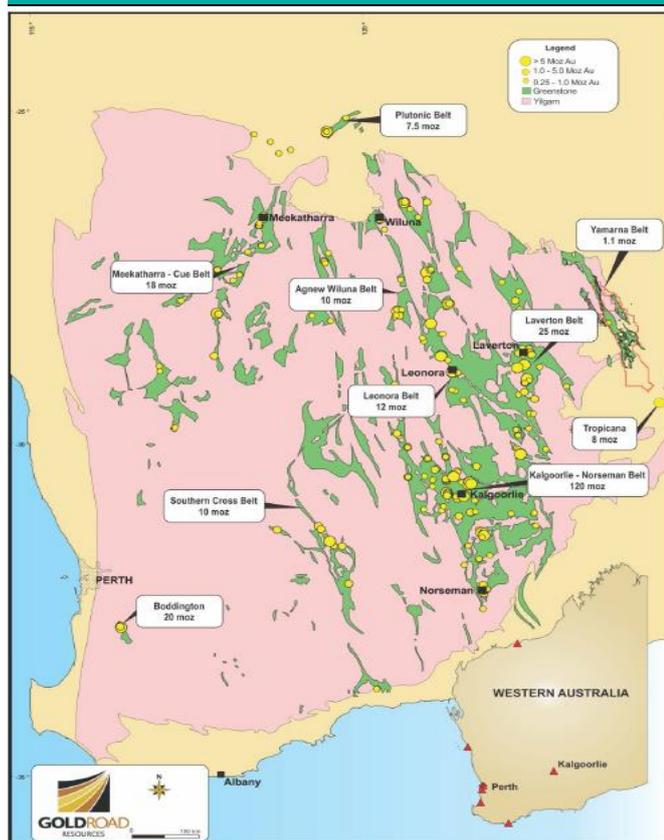
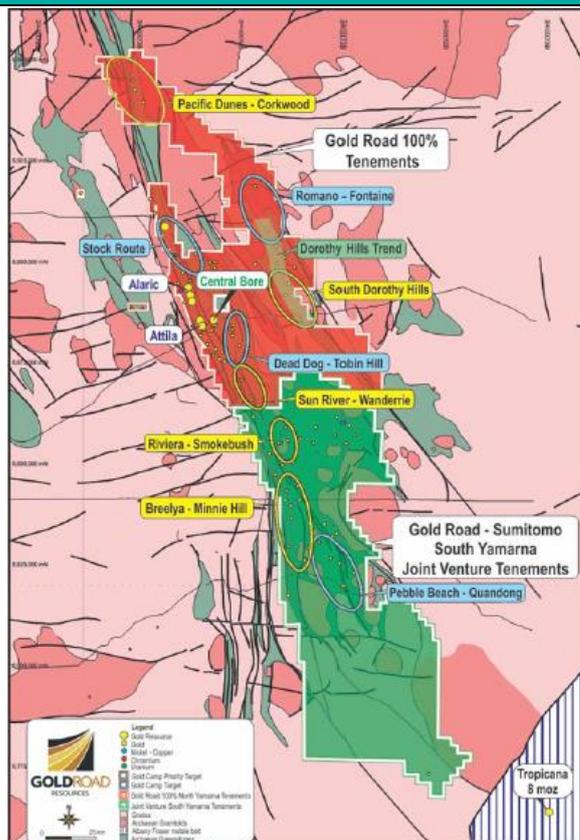


Figure 2 – Map of target areas in GOR’s Yamarna Gold Project



SOURCE: GOLD ROAD RESOURCES LTD

Gruyere is looking like the key ingredient

Consistent gold grades over significant widths at shallow depths

The latest RC drilling at Gruyere has intersected gold mineralisation with impressive consistency. The grades are generally low, being mostly in the range from 0.8 to 1.5g/t, with only isolated high grades (over 3g/t to a peak value of 21.65 g/t over one metre). Importantly there seems to be a low grade “background” level of gold mineralisation at about 0.3g/t, pointing to the potential for a large scale bulk mining operation that could mine the entire mineralised zone without the need for more expensive selective mining and at a very low (initially negligible) strip ratio. The Gruyere gold mineralisation has been drilled over a strike length of 800m but so far holes have generally only gone to a vertical depth of about 100m, with the mineralisation still open to the north and at depth (Figure 5). Follow-up drilling to infill and extend the mineralisation to the north is now being planned.

The shape of the Gruyere gold mineralisation indicated by the sparse drilling to date indicates that it could be much more extensive. While it seems to taper noticeably to the south, we believe it is most unlikely that it has been truncated immediately to the north of the northern most line of holes. We would expect the Gruyere mineralisation to be more symmetrical and to be an elongate shape so it could extend a considerable distance to the north and at depth. The mineralisation appears to be a major altered granitic body that has been intruded by younger basic dykes. From the limited information of the RC drilling chips, there is a suggestion of the presence of multiple thin quartz veining or sheeting so along with its alteration and geochemistry, the mineralisation has affinities to an IRGS. From the geophysical data, GOR believes there may be additional similarly altered and mineralised granitic bodies nearby to Gruyere, which will be tested by future drilling.

Figure 3 - Plan of drill holes at Gruyere Prospect

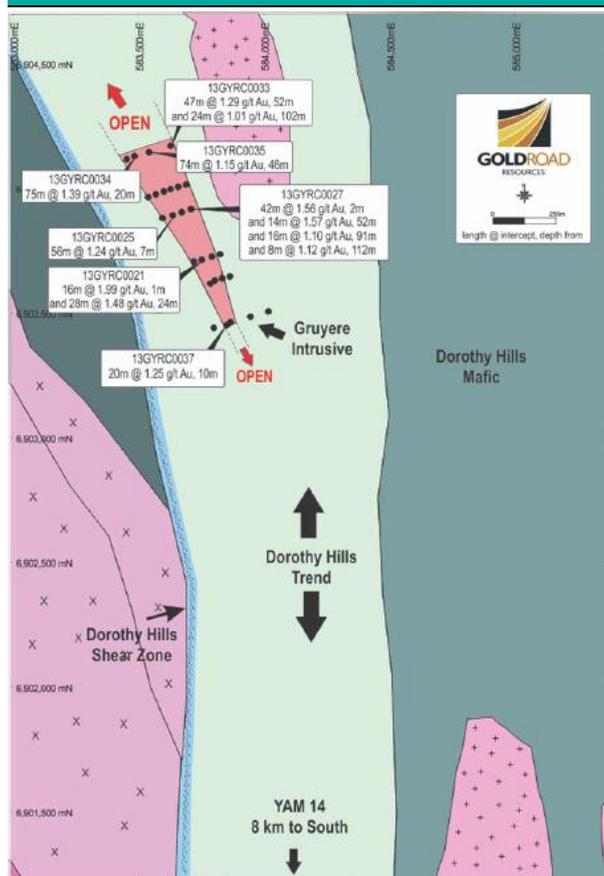
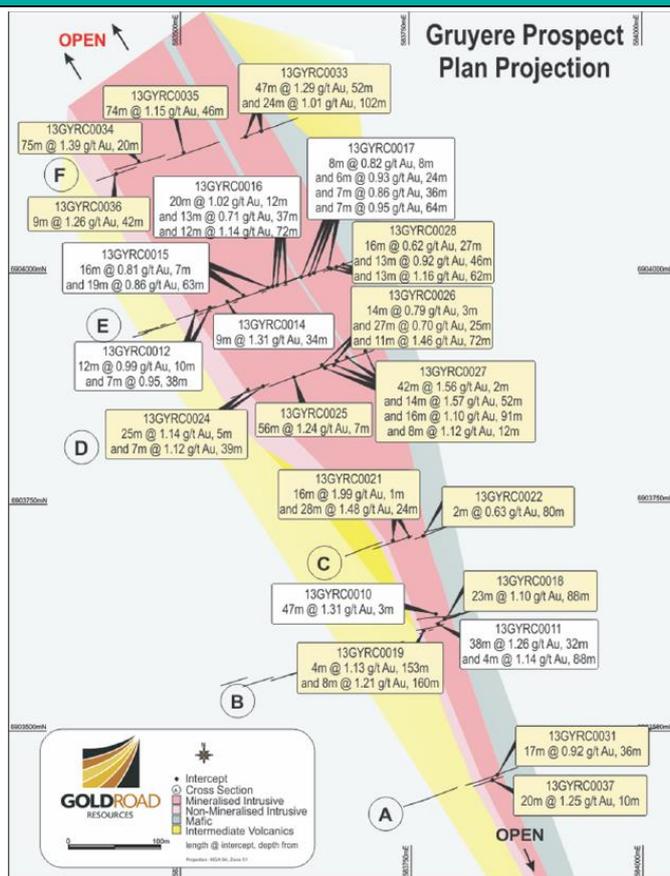
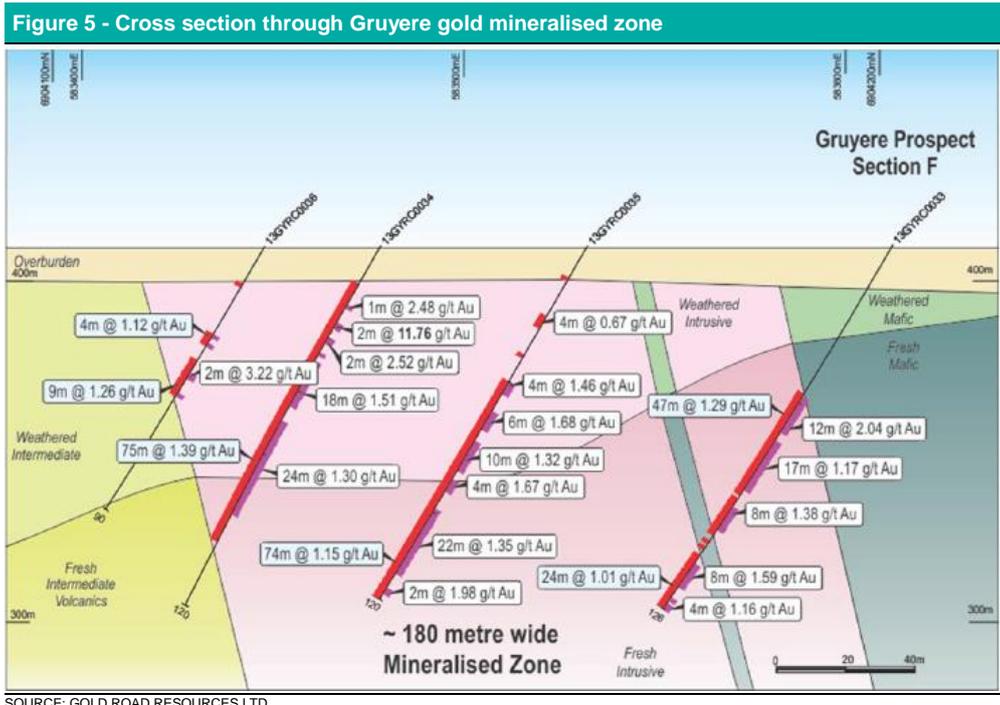


Figure 4 - Cross section through Gruyere



SOURCE: GOLD ROAD RESOURCES LTD



Strong similarities to an Intrusion Related Gold System

Although the drilling at Gruyere is still only at an early stage, there are some important indicators from the initial analysis of the results that point to the potential for the gold mineralisation to be related to an Intrusion Related Gold System (IRGS). These indicators include the following:

- The host seems to be an altered granitic rock containing significant biotite, pyrite and haematite
- The gold grades of the main mineralisation are generally consistently around 1 to 1.3g/t
- There is evidence of a form of multiple thin quartz-veining or sheeting
- The mineralisation contains elevated arsenic and molybdenum ± bismuth

Substantial resource base already at Central Bore and Attila

GOR has already established a substantial gold resource base (Table 1). This comprises a total of 1.3Mozs at an average grade of 1.5g/t that consists of the small, high grade Central Bore mineralisation (0.8Mt averaging 7.7g/t containing 0.2Mozs) that would be mined by underground methods; and the larger Attila Trend mineralisation (25.5Mt averaging 1.3g/t containing just under 1.1Mozs) that consists of multiple and generally low grade near surface deposits (with indicated good metallurgical recovery characteristics) that occur over a distance of about 30km and which would be mined by open pit methods.

Table 1 - JORC compliant gold Resource estimate for GOR's Yamarna Gold Project

Project Name (cut-off)	'000t	Grade g/t Au	Ounces Au
Central Bore (1.0 g/t) (2013)	814	7.7	201,100
Measured	43	26.6	36,700
Indicated	428	8.7	119,300
Inferred	343	4.1	45,100
Attila Trend (0.5 g/t) (2012) (encompasses Attila South; Attila North; Alaric; Khan and Khan North projects)	25,527	1.29	1,060,000
Measured	8,382	1.44	389,000
Indicated	9,360	1.24	373,000
Inferred	7,785	1.19	298,000
TOTAL	26,341	1.5	1,261,100

SOURCE: GOLD ROAD RESOURCES LTD

Sumitomo Joint Venture

We do not believe the share market fully appreciates the significance of GOR's joint venture with a company of the standing of Sumitomo.

Sumitomo (Nasdaq – SMMYY, not rated) is a major diversified metals mining, smelting and refining group that is also involved with manufacturing semiconductor and other advanced materials. It has a market capitalisation of about \$US8 billion and has been a significant long-standing gold producer, through its ownership of the Hishikari mine in Japan, one of the world's greatest high grade gold mines and more recently the high grade Pogo gold mine in Alaska, one of the world's major intrusion related gold mines (Table 2). Sumitomo's understanding of Intrusion Related Gold Systems (IRGSs) from its ownership of the Pogo mine could become an important factor in future if GOR's Gruyere Prospect is confirmed as an IRGS-style of deposit and GOR seeks assistance with its development. Sumitomo also owns interests in some of the world's major copper mines, so it is very familiar with very large scale open pit mining operations.

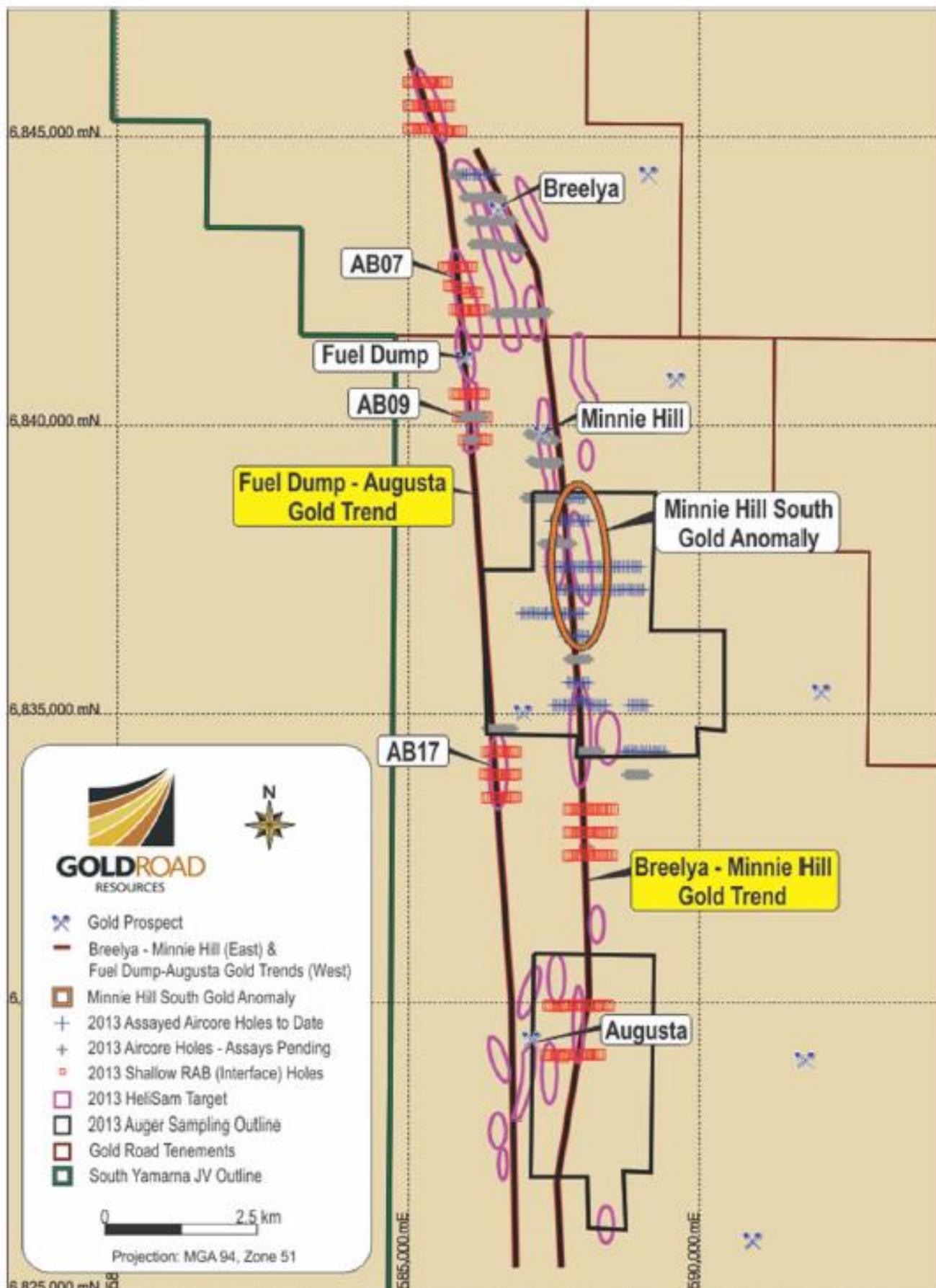
Under the terms of the SYJV, which is managed by GOR (with oversight from a Joint Management Committee) and covers an area of about 2,720 km² at the southern end of GOR's total Yamarna Gold Project area of about 5,000km², Sumitomo must spend a minimum of \$3.5M prior to the end of 2014. The 2013 budget is \$1.75M, which is to initially focus on regional targets identified in GOR's Conceptual Targeting exercise carried out in 2012. Once Sumitomo has expended \$8M on exploration, a 50:50 joint venture will be formed and each party may elect annually to contribute to exploration expenditure in accordance with their respective interests or may elect to dilute. GOR's motivation for doing the SYJV was to bring forward by several years the testing of exploration targets in the southern part of its extensive Yamarna tenement area.

Early exploration success at Breelya-Minnie Hill target

GOR identified the Breelya-Minnie Hill area as one of the high priority Gold Camp targets in the Yamarna Gold Project after a reconnaissance orientation geochemical sampling program over it and the Augusta target. A total of 1,090 auger holes were drilled to refusal during three months from June to August 2013. The resulting geochemical samples were analysed for various elements and analysis of the results defined strong surface geochemical anomalism (comprised of two gold anomalous structural trends that are over 15km long) and the fact that almost all of the 27 airborne SAM geophysical targets coinciding with these structural trends, the Breelya-Minnie Hill camp target was selected as the first area in the SYJV area for targeted exploration funded by Sumitomo. Despite the presence of Aeolian sand and Permian sandstone that is collectively up to 40m thick in places locally, the early exploration results at Breelya-Minnie Hill have been very positive and they are currently being followed up with a 15,000m programme of RAB and aircore drilling that began in October 2013 with full results expected by the end of 2013.

Initial results of this follow-up drilling have been received for the Minnie Hill South Prospect, where 344 vertical aircore holes were drilled to refusal to test the SAM targets and gold anomalies identified from the shallow auger drilling. A significant supergene gold anomaly made up of two sub-parallel trends has been identified over a 3km strike length and 400m average width (Figure 6). Intercepts of 4m composite samples have included 8m averaging 0.93g/t from 20m and 24m averaging 0.52g/t from 36m including 4m averaging 1.11g/t. Shallow RAB drilling south of the Fuel Dump Prospect identified a gold anomaly over 1,000m strike length and 200m average width. The anomaly at Augusta, which is interpreted by GOR to be the extension of the Fuel Dump trend, is 5km long, making it the longest gold anomaly identified so far in the entire Yamarna Greenstone Belt.

Figure 6 - Map of gold anomalies in Breelya-Minnie Hill area of South Yamarna Joint Venture



SOURCE: GOLD ROAD RESOURCES LTD

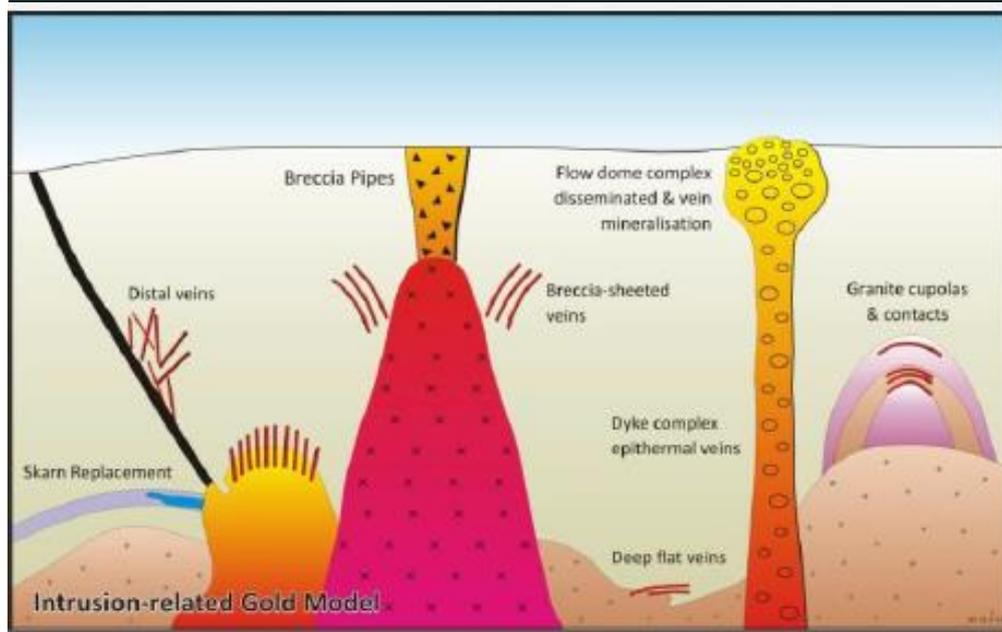
Intrusion Related Gold Systems

While the exploration at GOR's Gruyere Prospect is still only at a very early stage, several geological features of the gold mineralisation suggest it may have affinities to Intrusion Related Gold Systems (IRGSs). While many of the well-known Intrusion Related Gold deposits (Table 2) have mineralisation ages of around the Cretaceous, and others extend to about the Pleistocene, there are some much older variations such as iron oxide – copper – gold (IOCG) types which have ages from the Archaean and the Proterozoic. According to Blevin (2005)¹, the main features of IRGSs are:

- Generally fine grained disseminated gold that is often associated with elevated to high arsenic and bismuth concentrations along with one or more of tungsten, molybdenum, antimony and tellurium and generally low concentrations of copper and other base metals (but copper and zinc can be significant on occasions); mineralisation can also occur as sheeted to often quite large veins
- Generally the mineralisation is of a low grade (less than 1g/t to 1.5g/t) but it can occasionally (such as at Pogo) be very high grade (around 14g/t)
- Generally the mineralisation is not refractory and can be treated by cyanidation
- Generally the geological setting is one associated with orogenic belts and convergent plate margin settings or extensional back-arc environments; there a presence of weakly reduced to moderately oxidised intermediate to felsic fractionated I-type magmatism with predominance of being in or associated with granites and to lesser extent rhyolites
- Generally have potassic, sodic, sericitic, greisen or skarn alteration and zonation

The features of the various types of IRGS are summarised in a pictorial way in Figure 7.

Figure 7 - Pictorial representation of Intrusion Related Gold Systems



SOURCE: BLEVIN (2005)

IRGS deposits vary in size from modest (less than 1Mozs) to very large (10+Mozs) but generally they are substantial at over 3Mozs (Table 2). Two of the largest IRGS deposits currently being mined, Fort Knox and Pogo in Alaska, USA, are major gold producers (of around 480koz and around 350koz of gold equivalent per annum respectively) with low cash operating costs (Fort Knox has a current cash operating cost of about \$US555/oz).

Blevin, P.L. (2005): Intrusion Related Gold Deposits, in GA7241, Intergovernmental Committee for Surveying and Mapping

Table 2 - Gold deposits of the Intrusion Related Gold System type

Deposit	Location	Ownership	Historic Production ¹			Current Resources			Total Deposit ²		
			Mt	g/t Au	Mozs	Mt	g/t Au	Mozs	Mt	g/t Au	Mozs
Fort Knox	Alaska, USA	Kinross	244	1.1	6.0	353	0.5	5.2	597	0.6	12
Pogo	Alaska, USA	Sumitomo (SMM 85%, Sumitomo Corp 15%)	11	16.3	4.8	12	12.5	5.0	23	13.7	10
Kidston	Kidston, QLD (Aus)	Kidston Gold Mines	75	1.9	3.4				75	1.9	4.5
Mt Leyshon	Mt Leyshon, QLD (Aus)	Leyshon Resources	70	1.4	2.5	14	0.5	0.2	84	1.3	3.4
Red Dome	Mungana, QLD (Aus)	Kagara	17	2.7	1.3	25	0.8	0.6	42	1.5	2.1
Brewery Creek	Yukon, Canada	Golden Predator Canada Corporation	8	1.4	0.3	39	1.2	1.5	47	1.2	1.9
Donlin Creek	Alaska, USA	NovaGold 50%; Barrick 50%				634	2.2	45	634	2.2	45
Livengood	Alaska, USA	International Tower Hill Mines				1,068	0.6	20	1,068	0.6	20
Dublin Gulch	Yukon, Canada	Victoria Gold Corporation				300	0.7	6.3	300	0.7	6.3
Hobbs Pipe 1	Mt Adrah, NSW (Aus)	Gossan Hill Gold				16	1.2	0.7	16	1.2	0.7

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NOTE 1. HISTORIC PRODUCTION IS ORE MINED AT HEAD GRADE GIVEN FOR ACTUAL GOLD PRODUCED

2. TOTAL DEPOSIT INCLUDES HISTORIC PRODUCTION PLUS METALLURGICAL LOSSES AND CURRENT RESOURCES

Valuation

We regard GOR as an attractive gold exploration and development opportunity now that the company has discovered significant gold mineralisation at the Gruyere Prospect with significant upside potential from other high priority target areas in its large Yamarna Gold Project. The company is well funded to carry out thorough exploration programs at Yamarna, having estimated net cash of about \$6.2M currently and the additional Sumitomo funding of up to \$8M for the SYJV area (of which we estimate about \$0.9M would have been spent to date). We believe this should enable GOR to significantly advance the status of the Yamarna Gold Project, including the completion of the PFS on an expanded resource base and potentially undertaking a significant part of a BFS on the Project, which we anticipate would take the company through to at least early 2015.

We have largely used Net Present Value (NPV) based methodology to derive our valuations of the company's Yamarna Gold Project (Table 3). Our base case valuation assumes that the Gruyere deposit contains a resource of about 1Mozs of gold at an average grade of around 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 it an average strip ratio of about 1. This would give it attractive financial viability from a simple and relatively quick large scale development that could also incorporate appropriate major components of the existing resource base of Central Bore and Atilla. Our upside case valuation assumes that the Gruyere deposit is considerably larger (and may possibly be ultimately made up of other similar deposits nearby) and/or that other similar substantial deposits of gold mineralisation are discovered at the company's Yamarna Gold Project.

Table 3 - Summary of valuations of GOR

Assets	Base Case		Upside Case	
	\$ M ¹	¢/share ¹	\$ M ¹	¢/share ¹
Yamarna Gold Project – Central Bore, Atilla, Gruyere	94.6	21	161.8	35
- Other wholly-owned and SYJV areas ²	7.0	2	25.5	6
Other Exploration Assets	0.5	0	1.2	0
Total Exploration Assets	102.1	22	188.5	41
Corporate	(5.2)	(1)	(5.2)	(1)
Net Cash ³	6.2	1	6.2	1
TOTAL ASSETS	103.1	23	189.5	42

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. While the average grade of the company's current and likely near term gold resource base is relatively low, the resource base is potentially set to increase and have more economic attraction with the potential addition of the exciting Gruyere discovery that could see the resource base at well over 2Mozs in the near term.

We believe there is considerably enhanced potential for the Gruyere deposit to become the catalyst for the relatively rapid large scale sequential development of GOR's Yamarna gold deposits into successful mines.

We believe GOR has potential to discover additional gold deposits within its extensive Yamarna Gold Project on the basis that it continues to successfully apply its proven exploration targeting methodology to the various high priority and other exploration targets at Yamarna. We have used Net Present Value-based methodology to derive a base case valuation of \$0.23 per share and an upside valuation of \$0.42 per share. From this we have applied a discount to the base case valuation for uncertainty until Gruyere is better defined (such as by a Maiden Resource estimate that is expected by mid-2014) to give a 12-month target price for GOR of \$0.17 per share.

Accordingly our recommendation for GOR is 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 year or so:

- Further exploration success at the Gruyere Prospect that can be fast-tracked over coming months to enable a substantial Maiden Resource to be estimated by mid-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 Central Bore and Attila ore
- Further exploration success from other 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.

Bell Potter Securities Limited

ACN 25 006 390 7721

Level 38, Aurora Place
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

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