Gruyere Gold Project Construction Update

Gold Road Resources Limited (Gold Road) and Gruyere Mining Company Pty Ltd, a member of the Gold Fields Limited group (Gold Fields), provides an update on the Definitive Estimate and construction activities at the Gruyere Gold Project (the Project), which is being developed as a 50:50 Joint Venture approximately 200 kilometres east of Laverton in Western Australia.

Highlights

- At the end of the March quarter, overall Project engineering and construction were 84% and 44% complete respectively, with EPC (process plant and associated infrastructure) construction 17% complete
- Previously flagged abnormal weather events in the March quarter have impacted schedule and costs
- Provisional estimate from the recently completed Definitive Estimate indicates some schedule delays and capital cost increases
- Downer commenced site mobilisation in preparation for mining activities
- Gas pipeline and power plant progressing well
- Project construction delivering employment opportunities for remote communities

Provisional Definitive Estimate – Cost and Schedule

Following completion of 80% of engineering work (which at end of March was 84% complete) and the award of all major contracts and packages, the Project team have recently completed the Definitive Estimate of the capital cost and schedule for the Project. The next stage is for an independent external party with relevant experience in this field to conduct a review of this Definitive Estimate, which is anticipated to be finalised in May 2018.

As previously reported1, the Yamarna region in which Gruyere is located experienced abnormally high rainfall during the March quarter, leading to localised flooding and access constraints to certain parts of the Project area. The impact of the weather has been incorporated into the schedule, and an additional allowance has been factored in for possible further weather interruptions in the 2018/2019 summer.

The provisional forecast from the schedule review shows that first gold is likely early in the June 2019 quarter, rather than at the end of the March 2019 quarter as previously forecasted. In addition, the capital cost estimate has increased, with the provisional forecast cost now moving to the upper end of the forecast range of $506 – $585 million ($532 million -5% / +10%)2, which includes a contingency of approximately $30 million.

The Project team and our major contractors are working collaboratively on a number of initiatives to improve the schedule and capital cost from the Definitive Estimate.

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1 Refer to Gold Road ASX announcement dated 5 April 2018
2 Refer to ASX announcement dated 21 June 2017
Causes of potential cost increases are being reviewed for classification as either a scope change, force majeure due to weather issues, or cost overruns. Under the terms of the JV Agreement, Gold Fields is responsible for the first $50.7 million of Project cost overrun which excludes scope change or force majeure costs.3

In addition to weather events and schedule extension related costs, a provisional review of the Definitive Estimate identified capital cost changes to the tailings storage facility design; increases for some equipment in the EPC contract (originally included as provisional costs); scope changes in final design of process plant and facilities; increased quantities in bulk earthworks; changes in Owners Team costs and logistics costs due to rosters and manning numbers; and increased spares and first fills.

The capital cost estimate for the Project is an estimate of costs to the end of Project commissioning. It excludes budgeted joint venture support costs for the Project. These costs include joint venture management fees, amortisation of gas and power station capital costs before project commissioning, native title and community relations costs. The project support costs are tracking to the budget of $35 - $40 million from commencement of Project to the end of project commissioning.

At the end of the March quarter, overall Project engineering was 84% complete and overall construction was 44% complete, with the EPC (process plant and associated infrastructure) construction 17% complete.

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3 Refer to Gold Road ASX announcement dated 7 November 2016
Mining and Infrastructure

Mining services contractor Downer EDI Mining Pty Ltd (Downer) has mobilised a small number of staff to site to begin work on establishing infrastructure facilities such as workshops to service the mobile mining fleet. Downer will begin mobilising a larger contingent to site in the December 2018 quarter in preparation for the commencement of mining activities shortly thereafter.

Construction of the 198-kilometre Yamarna Gas Pipeline (YGP), which is being carried out by Nacap Australia Pty Ltd (Nacap) on behalf of APA Group, which will own and operate the asset, is progressing well and on schedule to be completed by the end of June 2018. All generators and gas engines have been installed at the 45 MW Gruyere Power Station, which will ultimately be connected to the YGP and is due for completion in the December 2018 quarter.

Flooding during the February 2018 rainfall events forced MACA, the bulk earthworks contractor, to temporarily halt work on the Tailings Storage Facility and the upgrade of the Mt Shenton-Yamarna Road, and defer works on the Yeo borefield. In March 2018 MACA was able to continue work on the Mt Shenton-Yamarna Road and commence work on the previously inaccessible sections of the Yeo borefield. Despite this temporary set-back, at the end of the March 2018 quarter, bulk earthworks were 80% complete. MACA is scheduled to complete all remaining earthworks and demobilise their workforce late in the June 2018 quarter.

Amec Foster Wheeler Civmec Joint Venture (ACJV), the engineering, procurement and construction contractor, paused work on the process plant and associated infrastructure during the abnormal weather. In March 2018 ACJV undertook remediation works to re-establish its work areas due to flooding of sections of the process plant. To reduce the impact of the weather events on the construction schedule, ACJV changed work rosters to include night shift crews with work focussed on the crushing, coarse ore stockpile, grinding areas and weld testing of the CIL tanks.

In February 2018 the Gruyere airstrip received Civil Aviation and Safety Authority certification and to facilitate low-cloud cover and night-time landings is expecting to receive its Area Navigation (RNAV) certification at the end of April 2018, meaning the site has a genuine all-weather airstrip that accommodates jet aircraft carrying up to 100 passengers.

Community

The Gruyere JV and its major contractors continue to work closely with the Cosmo Newberry and broader Yilka communities in regards to employment and contracting opportunities emerging with the development of the Project. It is pleasing to note that several community members have already found employment on site and it is expected that the number will grow as the first gold production milestone nears, and as operations commence.

Gold Fields Executive Vice President Australasia, Stuart Mathews, said: “Despite challenging weather conditions, the Project is progressing as well as possible in the circumstances. We have focussed on completing the important Definitive Estimate, now that we have reached the advanced stage of Project engineering. Despite the impact of the abnormal weather in the March quarter, action from all parties on site to seek solutions and deal with resulting delay in a positive manner, keeping the Project as close to schedule as possible, has been extremely encouraging.”

Gold Road Managing Director and CEO, Ian Murray, said: “This abnormally wet weather was mentioned in our recent Exploration Activities Report4. We are working with Gold Fields, as Manager, and the Project team to ensure that the cost increases in the provisional Definitive Estimate are minimised.

4 Refer to Gold Road ASX announcement dated 5 April 2018, Commencement of $23M Yamarna 2018 Greenfields Exploration Campaign
The Project has a long 13 year life and our main focus is to safely build a fit-for-purpose and high quality gold mining operation that delivers sustainable value for shareholders. Having said this, it is unfortunate that the forecast for first gold will be delayed. Gold Road is well positioned to manage these unexpected delays and cost increases with the Gold Fields cost overrun guarantee and the Company having recently signed documents for the new finance facilities."

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5 Refer to Gold Road ASX announcement dated 26 February 2018. The Finance Facilities are still subject to Financial Close and Gold Road expects this to be completed in May 2018.