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GOLDSTONE RESOURCES*

20 October 2011

BUY

12mth PRICE TARGET 21.6p (prev 19.7p)

Stock Data

Current Price:	7.13p
Market Cap:	£15.8m
Shares Outstanding:	222m

Company Profile

Sector:	Gold, Resources
Ticker:	GRL.L
Exchange:	AIM - London
Website:	goldstoneresources.com

Activities

Advancement of gold exploration and development projects in Ghana, Gabon and Senegal.

Performance Data

52 Week Range:	4.35p-11.00p
All Time Range:	0.34p-29.50p

Key Metrics

Net Cash estimate (August 2011):	£1.8m

Directors

Gennen McDowall	Chairman Non Exec
Jurie Wessels	CEO
Hendrik Schloemann	Exploration
Rod Hanson	Non-Exec

Major Shareholders

Unity Mining	33.5%
Fiske Nominees	7.6%
TD Waterhouse Nominees	5.5%
Barclayshare Nominees	4.8%
LR Nominees	4.1%

**Optiva Securities acts as joint broker to GoldStone Resources.*

GOLDSTONE, THE NEXT PERSEUS IN THE MAKING?

GoldStone today released further positive results from the first phase of drilling on its flagship brownfield Homase/Akrokerri gold project, located within the prolific Ashanti Gold Belt. Three of the six holes intersected significant gold mineralisation beneath the Homase open pit, one of which (hole 11) detected a new zone of widely disseminated gold mineralisation 190 metres below the bottom of the southern end of the pit. Encouraged by the latest news, the management have given the green light to extend the drilling contract to conduct a second phase 4,500 metre drilling programme. The objective will be to increase the resource along the Homase trend and test for new exploration targets in the Akrokerri granite area. Looking further ahead and assuming the results continue to be favourable, GoldStone could be in a position to upgrade its JORC resource within the next 9-months. The management's vision is to repeat the success other explorers have experienced in the vicinity such as Perseus, which expanded a small open pit resource of 276,000 to over 6m ozs of gold and is now planning to start production at an initial 220,000 ozs p.a.

GoldStone continues to receive the technical backing of its strategic partner and major shareholder Unity Mining, despite the recent departure of Tim Churcher and Rod Hanson from the Board of the ASX listed company. Although for the time being Mr. Hanson remains as a non-executive director at GoldStone, he is likely to be replaced by another Unity Mining representative as part of a management hand-over within the near future.

INVESTMENT RECOMMENDATION

To account for higher gold prices and the stronger US$/£ exchange rate since our last recommendation in June, we have nudged our price target upwards from 19.7p to 21.6p. This only takes into account the Group's most advanced project at Homase/Akrokerri and prudently applies a nil value to early stage projects such as Manso Amenfi in Ghana, the two permits in Gabon and the interest at Sangola, Senegal. It must nevertheless be remembered that any one of these latter projects could have the potential to be company makers in their own right.

Like many other Junior AIM exploration companies, the stock is trading below its 52-week high, that was reached in early June at 11p, despite progress being made in the field and strong fundamentals continuing to underpin gold. With an active ongoing exploration programme in progress at several of GoldStone's projects and newsflow likely from the outcome of these activities investors will be alert to the opportunities present and consequently the stock may be one of the first to rebound from the AIM's summer lull. To this end we recommend GoldStone Resources as a Buy with a 21.6p price target.

HOMASE & AKROKERRI (GHANA)

... tantalising close 15km north-east of the 50m oz Obuasi mine.

... production took place in a much different gold pricing enviroment than today, as the gold price was only $320 to $380 per ounce...

GoldStone's flagship project in Ghana is made up of two licences, Homase & Akrokerri that cover 143 sq km, in total. The licences lie within the prolific Ashanti Gold Belt, where over 70m oz of gold have been discovered to date and a tantalising close 15km north-east of the 50m oz Obuasi mine, operated by Anglo-Gold Ashanti. On the Homase permit, the Group owns 51% and can earn an interest of up to 85%. At Akrokerri a 95.1% interest is held.

Homase was previously mined by Ashanti Goldfields during 2002 and 2003 from two open pits. Around 40,000 ozs of gold were extracted, with mining limited to a strike length of 800 metres of the 4 km mineralised zone and ore was trucked to the Obuasi processing plant. The production took place in a much different gold pricing environment than today, as the gold price was only $320 to $380 per ounce when mining came to an end. Ashanti Goldfields reported an operating cost per ounce of $220 to $280 at the time.

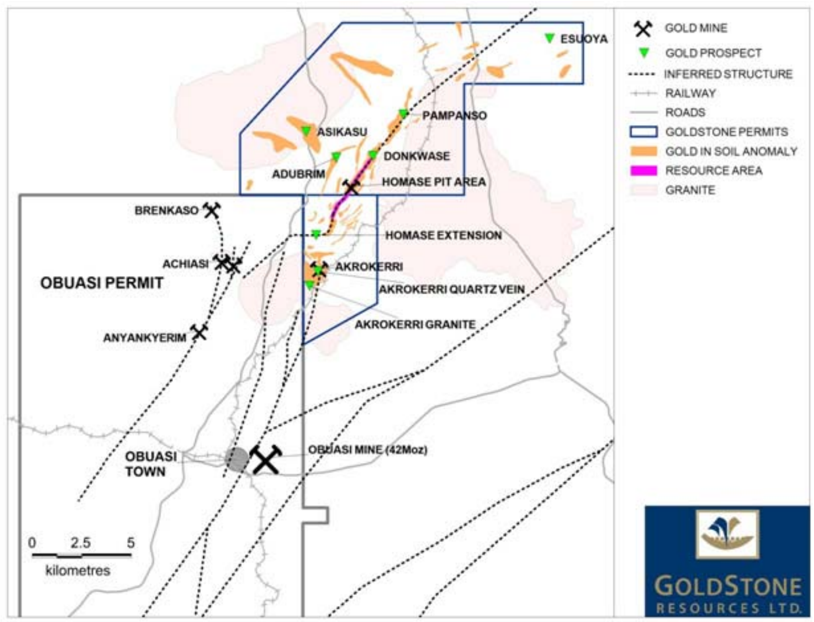

Figure 1: The Homase/Akrokerri Permit area.

Based upon historical drill data, GoldStone has defined so far a JORC resource of 405,566 ozs at 1.42 g/t on the combined Homase/Akrokerri gold resource. Geologically speaking the resources are located along the same structure and form part of the same gold deposit.

COMBINED HOMASE/AKROKERRI RESOURCE

	Tonnage	Grade (g/t)	Contained Gold (ozs)
Measured	3,032,617	1.61	157,298
Indicated	2,694,102	1.42	122,755
Measured & Indicated	5,726,719	1.52	280,053
Inferred	3,145,282	1.24	125,503
TOTAL (0.5 g/t cut off)	8,872,001	1.42	405,556

Figure 2: JORC Resource.

HOMASE & AKROKERRI (GHANA) Continued

Exploration by GoldStone began in earnest in late 2010 with the exploration objectives of extending the existing resource and discovering new gold deposits within the permit areas. The eventual goal is to repeat the success of other explorers in the area that have expanded their open pit gold resources to 1m ounces or more. One such example is the nearby gold deposit of Edikan (formerly Ayanfuri) which has been expanded by Perseus from a small open pit of 276,000 ounces to over 6m ounces.

Results from a VTEM airborne survey in September 2010 showed that the gold mineralisation may extend beyond the currently known strike and depth extent. Underlining the potential, it is interesting to note that the Obuasi gold deposit is in the same geological environment and extends to a depth of 2,000 metres, whilst GoldStone's current resource, from what is known so far, extends from surface to a depth of around 130 to 200 metres. If GoldStone can prove the existence of a sufficient number of high grade plunging gold shoots then they stand a good chance of expanding the current resource to above 1m ounces.

Underlining the potential, it is interesting to note that the Obuasi gold deposit ...

Highly encouraging results were reported in August 2011 from five holes at Homase during a first phase drilling programme, with high grades of up to 9.5 g/t over significant widths. Highlights included 13.6 metres @ 5.9 g/t from hole one and 10.7 metres @ 6.4 g/t from hole two. From a second batch of results revealed in October 2011, three holes intersected significant gold mineralisation beneath the Homase open pit. A new zone of widely disseminated gold mineralisation 190 metres below the bottom of the southern end of the pit was detected from hole eleven, with 28.9 metres @ 1.5 g/t, which included a smaller but higher grade section of 9.2 metres @ 3.0 g/t. In total 3,612 metres have been drilled in the first phase 4,500 metre programme over 15 holes, which will now follow through to a second phase drilling campaign of the same size of 4,500 metres. The plan in the second phase will be to increase the resource base along the Homase trend and to test for new exploration targets in the Akrokerri granite area.

***... high grades of up to 9.5 g/t over significant widths*.**

Other recent work included a soil sampling programme and review of historical exploration data at Akrokerri which showed widespread gold mineralisation within the granite and returned gold values of up to 16 g/t.

Figure 3: Longitudinal diagram indicating the positions of the high-grade intersections of the five holes reported in August 2011 under the Homase open pit (does not include October 2011 results).

OTHER GOLD PROSPECTIVE PROJECTS

Manso Amenfi, Ghana - In addition to Homase/Akrokerri, the Group is also advancing the Manso Amenfi project in Ghana. Covering 83 sq km, the project is being pursued in partnership with Asasemu Mining, in which GoldStone is earning an interest of up to 85%. Encouraging soil sampling results reported in August 2011 outlined several highly prospective targets that have been identified for follow up work.

... a major gold bearing system ... which contains Randgold's recent Massawa 3.4m oz gold deposit.

Sangola, Senegal - The 100% owned project covers 471 sq km and is largely unexplored, yet is highly prospective for a numbers of reasons including its location within a major gold bearing system called the Main Transcurrent Shear Zone (MTZ) which contains Randgold's recently discovered 3.4m oz gold deposit at Massawa. Exploration results from a termite mound sampling programme earlier this year confirmed the presence of the MTZ and the presence of gold mineralisation at several locations. Follow up work is planned within the next few months.

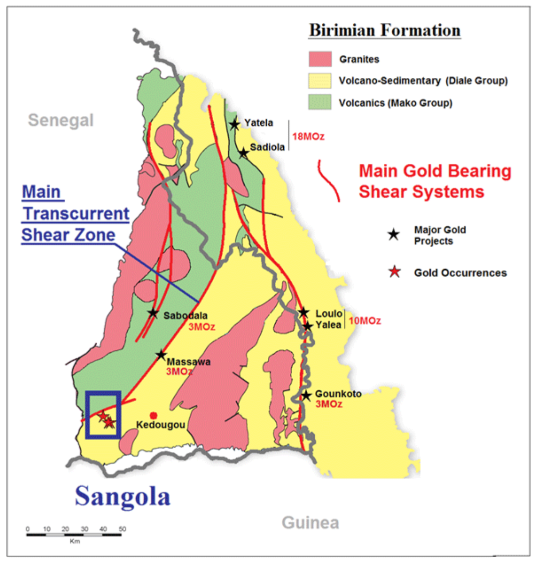

Figure 4: Sangola licence area and nearby gold discoveries.

... Ngoutou in particular is highly prospective due to the magnitude of the ...

Ngoutou & Oyem, Gabon - The licences are the newest addition to the portfolio and cover a total area of 1,031 sq km and are 100% owned. Both areas contain artisanal gold workings in the streams that cut through gold anomalies. The management believe Ngoutou in particular is highly prospective due to the magnitude of the soil anomaly and plausible geological model. In-fill soil sampling and shallow drilling work are planned on the permits.

VALUATION

... to provide a Group valuation of $75m (£48.1m), giving a price per share of 21.6p.

To value the stock we have adopted the same method used in our Buy note from April 2010, based upon a Gold Sector report written by Edison Investment Research in January 2010. This valued 132 gold companies quoted in London, Canada, Australia and South Africa and determined a weighted average for each Inferred, Indicated and Measured ounce of gold at $33.7, $158.6 and $333.9. As gold prices have risen by around 50% to over $1,600 per ounce since January 2010, we have increased these numbers by the same amount, but for prudence purposes applied a 25% discount. Each level of Group resource at the Inferred, Indicated and Measured at Homase and Akrokerri has been multiplied by the resulting ounce value, along with the relevant project interest (Homase 85% and Akrokerri 95.1%) to provide a Group valuation of $75m (£48.1m), giving a price per share of 21.6p. This figure attaches no value to Manso Amenfi and the projects in Senegal and Gabon, as these are at the pre-resource stage.

SUMMARY

LOCATION STRENGTHS

... highly prolific Ashanti Gold Belt, where over 70m ounces of gold ...

- Located in the highly prolific Ashanti Gold Belt, where over 70m ounces of gold have been discovered to date, the prospect of discovering a multi million ounce gold deposit in the Homase pit area or elsewhere on the Homase/Akokerri permits appears enticingly high.

... established gold mining industry with major international operators such as ...

- Ghana is an excellent country to operate with a mature democratic culture and an established gold mining industry with major international operators such as Newmont, Gold Fields, AngloGold Ashanti and Golden Star Resources.
- Grassroots exploration potential of the 471 sq km Sangola licence application in Senegal, which lies within a fertile gold belt that has yielded over 20m ounces of gold to date.

Early mover advantage in Gabon ...

- Early mover advantage in Gabon, where two gold explorations licences are held. GoldStone is looking to capitalise on the €13m being spent by the European Union to define the most prospective terrain in a country that has been largely overlooked by other juniors.

PROJECT STRENGTHS

- At Homase only a tiny part of the mineralised zone was mined in 2002 and 2003 by Ashanti Goldfields in a much different gold price environment than today, when the precious metal traded at $320 to $380.

The model for future success at Homase is ...

- The model for future success at Homase is Redback's Chirano and Perseus' Edikan (formerly Ayanfuri) projects in Ghana. These were developed from small open pits of 40,000 and 276,000 ounces of gold respectively to large 1.2m and 6m ounce deposits.

Highly encouraging drilling results reported from the first phase programme ...

- Highly encouraging drilling results reported from the first phase programme at Homase in August and October indicate the potential for Homase's resource to be expanded beyond what is already known to date.
- Manso Amenfi lies along strike of two major gold trends that have yielded several huge discoveries such as Ayanfuri.

KEY COMPANY& MANAGEMENT STRENGTHS

... financial and technical backing of 33.5% shareholder Unity Mining ...

- Has the financial and technical backing of 33.5% cornerstone shareholder Unity Mining (formerly Bendigo Mining) which should help speed up the development of existing and future gold deposits.
- GoldStone has an experienced, dedicated and capable management team, including Exploration Director Dr Hendrik Schloemann, who made a significant contribution to the discovery of a mammoth 14m ounce gold deposit at Fruta del Norte in Ecuador.

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