



optiva securities

Jason Robertson	(Analyst/Corporate Broker)	+44 (0)20 3137 1906	jason.robertson@optivasecurities.com
Graeme Dickson	(Dealing Desk)	+44 (0)20 3411 1880	graeme.dickson@optivasecurities.com
Vishal Balasingham	(Institutional Sales)	+44 (0)20 3411 1881	vishal.balasingham@optivasecurities.com
Christian Dennis	(Corporate Broker)	+44 (0)20 3137 1903	christian.dennis@optivasecurities.com

## GOLDSTONE RESOURCES\*

1 June 2011

### BUY

12mth PRICE TARGET 19p (prev 14.7p)

#### Stock Data

Current Price:	9.55p
Market Cap:	£21m
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:	3.18p-10.25p
All Time Range:	0.34p-29.50p

#### Key Metrics

Net Cash estimate (March 2011):	£3.0m
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#### Directors

Gennen McDowall	Chairman Non Exec
Jurie Wessels	CEO, FD
Hendrik Schloemann	Exploration
Tim Churcher	Non Exec

#### Major Shareholders

Unity Mining	33.5%
Barclayshare Nominees	8.1%
TD Waterhouse Nominees	7.7%
Cenkos Channel Islands Nom#	7.3%
Fiske Nominees	4.1%
LR Nominees	3.3%

# Includes Director Holdings.

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

#### GHANA RESOURCE UPGRADE

GoldStone has today announced a maiden JORC resource estimate for its Akrokerri project in Ghana of 123,000 ounces of contained gold at 1.5 g/t at a cut off of 0.5 g/t, split between the Indicated (50,000 oz) and Inferred (73,000 oz) categories. This increases the Group's total resource by 43.5% from 282,608 (Homase) to 405,556 (Homase + Akrokerri) ounces at 1.42 g/t, of which a large percentage (69%) lies in the higher confidence levels of Measured and Indicated.

All resource estimates to date have been based upon the analysis of historical drill data. This is likely to change soon as exploration drilling is set to commence this month to test for potential extensions to the mineralisation at both Homase and Akrokerri. In addition to providing near term newsflow and resource upgrades we will get a better feel as to whether Homase/Akrokerri can be expanded into a much larger resource. More crucially the management will get an understanding of the potential to repeat Perseus' success at Ayanfuri, where a similar open pit resource of 276,000 ounces was expanded to 6m ounces of gold. There are also several other examples of similar exploration success stories within the fertile Ashanti gold belt, where over 70m ounces of gold have been discovered to date.

#### INVESTMENT RECOMMENDATION

By incorporating the new resource estimate at Akrokerri into our valuation model that includes the resource at Homase, we have calculated a valuation for the Group of \$70m, which equates to a price per share of 19p, representing a 29% increase from our previous 14.7p figure. A resource upgrade at Akrokerri/Homase or the drilling of a new discovery within the Ghana licence areas could move the price target further north. For prudence we have applied a nil value to the earlier stage exploration projects in Senegal, Gabon and Manso Amenfi in Ghana, although these all hold potential to add incremental value to the Group or be company makers in their own right.

We are encouraged that the management are meeting the milestone timetable outlined in our 11 March 2011 research note, such as the securing of the Gabon licences, soil sample results and initial Akrokerri resource announcement. In addition to anticipated drilling results and potential resource upgrades anticipated within the next few months, it will also be interesting to see if ASX listed Unity Mining (former Bendigo Mining) continues to add to its stake. With an active drilling led newsflow programme ahead and with the stock trading at around 50% of our valuation we continue to recommend **GoldStone Resources** as a **Buy** with a 19p price target.

*"... financial and technical backing of 33% shareholder Unity Mining ..."*

*"... Dr Hendrik Schloemann, who made a significant contribution to the discovery of a mammoth 14m ounce ..."*

*"Located in the highly prolific Ashanti Gold Belt, where over 70m ounces..."*

*"... which lies within a fertile gold belt that has yielded over 20m ounces of gold to date."*

*"Both were developed from small open pits of 40,000 and 276,000 ounces of gold respectively to 1.2m and 6m ounce deposits."*

*"...an early indication that the existing Homase pit area may only represent a small fraction ..."*

## KEY COMPANY & MANAGEMENT STRENGTHS

- ❖ GoldStone has enough cash at an estimated £3.0m to meet its current planned exploration work programmes and working capital overheads for the next 12 months.
- ❖ Has the financial and technical backing of 33.5% shareholder Unity Mining (formerly Bendigo Mining) which should help speed up the development of existing and future gold resources.
- ❖ GoldStone has an experienced 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.

## LOCATION STRENGTHS

- ❖ 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 in the licence appears enticingly high.
- ❖ Ghana is an excellent country in which to operate with high political stability 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, where two gold explorations licences have recently been secured. GoldStone hopes 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 low gold price environment of \$320 to \$380 and was furthermore not extensively explored.
- ❖ Geophysical survey results revealed last September an early indication that the existing Homase pit area may only represent a small fraction of the total mineralised area within the permit.
- ❖ The model for future success at Homase is Redback's Chirano and Perseus' Ayanfuri projects in Ghana. Both were developed from small open pits of 40,000 and 276,000 ounces of gold respectively to 1.2m and 6m ounce deposits.
- ❖ Manso Amenfi lies along strike of two major gold trends that have yielded several huge discoveries such as Ayanfuri. Encouraging soil sample results in May 2011 show the potential of the licence area.

### VALUATION

To value GoldStone 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 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 40% to over \$1,500 per ounce since January 2010, we have increased these numbers by the same amount, but for prudence purposes applied a 25% discount afterwards. 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 total Group valuation of \$70m or £42.4m, giving a price per share of 19p. The figure attaches no value to Manso Amenfi in Ghana and the projects in Senegal and Gabon, as these are all earlier stage projects.

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Optiva Securities Limited, 2 Mill Street, Mayfair, London, W1S 2AT  
Tel: 0203 137 1902, Fax: 0870 130 1571

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