

GOLDSTONE RESOURCES

21 April 2010

BUY

12-mth Price Target: 20p

Stock Data

Current Price: 4.35p
Market Cap: £5.7m
Shares Outstanding: 130.8m

Company Profile

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

Activities

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

Performance Data

52 Week Range: 0.36p-6.30p
All Time Range: 0.34p-29.50p

Key Metrics

Net Cash estimate
(Apr 2010): £400,000

Directors

Jurie Wessels CEO, FD
Hendrik Schloemann Exploration
Nico van der Hoven Chairman (Non Exec)
Gennen McDowall Non Exec

Major Shareholders

Cenkos Channel Islands Nom	14.5%
Barclayshare Nominees	8.0%
TD Waterhouse Nominees	7.4%
David Harding	5.0%
LR Nominees	4.8%
Share Nominees	3.8%

RESOURCE UPDATE

GoldStone today made a landmark announcement by informing the market that it has defined an initial JORC resource on its Homase project in Ghana. A total of 282,608 ounces of gold have been defined within 6.32m tonnes of ore at an average grade of 1.4 g/t gold, using a cut off of 0.5 g/t. Encouragingly 81% of the resource was defined within the Measured (157,298 ozs at 1.61 g/t) and Indicated (72,531 ozs at 1.33 g/t) categories, thereby underlining the advanced status of the project, given that the pit was previously mined by AngloGold Ashanti seven years ago when gold traded at much lower levels.

The management also outlined the exploration potential ahead, as the Homase licence covers the same structure that controlled the formation of the nearby 42m ounce Obuasi gold deposit. The thinking is that high grade shoots identified to date at Homase may continue to plunge steeply beyond their current known extent of 150 metres. In comparison Obuasi was exploited both at surface and at a much deeper depth to around 2,000 metres.

INVESTMENT RECOMMENDATION

Value has been added to GoldStone in the last three months with the securing of licences in Ghana and the clearing of a legacy stock overhang in late February. These have been just two of the main drivers behind the stock's rise from 1.58p in January, when we recommend the shares as a 'Buy'. The new GoldStone led by CEO Jurie Wessels and Exploration Director Hendrik Schloemann are swiftly advancing the Group up the value curve. With a resource figure underpinning the stock valuation and the prospect of near term exploration newsflow from Ghana to come, the recent upward share price momentum is likely to continue. GoldStone will be looking to move Homase towards the production stage and at the same time find new deposits on either the Homase or Manso Amenfi licences to rival those found elsewhere in this highly prospective region. The potential securing of new licences in Gabon and possible link up with a strategic partner could encourage further movement in the stock.

Given that an initial resource figure has been defined, the valuation comparisons with TSX listed Pelangio Resources and other exploration companies operating in Ghana such as Red Back Mining and PMI Gold look all the more compelling. Neighbouring Pelangio Resources is currently valued at £18m by the market despite having no defined resource figure. We believe the valuation gap with Pelangio and other Ghana focused explorers will continue to close in the coming months. Any positive exploration newsflow from Ghana could accelerate closure of this gap. We therefore recommend GoldStone as a 'Buy', with a price target of 20p. This is based upon only the current estimated value of Homase, and does not factor in potential for the discovery of a new deposit on the licence or an extension of the mineralisation on the existing pit. The advancement of projects elsewhere at Manso Amenfi in Ghana or earlier stage projects in Senegal or Gabon could provide investors with added future value.



KEY STRENGTHS

At Homase only a small 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.

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 very high.

Manso Amenfi also has potential to be a company maker in its own right. It lies along strike of two major gold trends that have yielded several huge discoveries such as Prestea (10.7m oz).

Ghana is an excellent country 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.

Early mover advantage in Gabon, where two gold explorations licences are being 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 exploration companies.

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. Investors will be looking to see if history can repeat itself for Hendrik at GoldStone.

VALUATION

To arrive at a valuation for Homase we have been guided by the comprehensive research written by Edison Investment Research in its Gold Sector report (January 2010). This sampled 132 gold companies quoted in London, Canada, Australia and Johannesburg to derive a weighted average for each Inferred, Indicated and Measured ounce of gold at \$33.7, \$158.6 and \$339.9. To be conservative we have applied a 25% discount factor to these figures, which therefore gives a valuation of \$42.5m (Inferred 52,779 oz * \$25, Indicated 72,531 * \$119 and Measured 157,298 * \$255) for GoldStone's 85% interest. As Homase is a brownfield site that was previously mined and is located in the prolific Ashanti Gold Belt it could be argued that a premium and not a discount should be applied. To be prudent we have ignored these factors. Therefore based upon just Homase, we calculate a valuation and price target of 20p per share, which takes into account future participation fees and exploration expenditure that need to be made to earn an 85% interest.

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