

GoldStone Resources

13 January 2010

BUY

Stock Data

Current Price:	1.58p
Market Cap:	£2.06m
Shares Outstanding:	130.8m

Company Profile

Sector:	Gold, Resources
Ticker:	GRL.L
Exchange:	AIM London
Broker & NOMAD:	Westhouse Securities
Website:	GoldStoneresources.com

Activities

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

Performance Data

52 Week Range:	0.34p-2.64p
All Time Range:	0.34p-29.50p

Key Metrics

Net Cash estimate (Jan 2010):	£500,000
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Directors

Jurie Wessels	CEO, FD
Hendrik Schloemann	Exploration
Nico van der Hoven	Non Exec Chairman

Major Shareholders

Geoquest Holdings	30.9%
Pershing Nominees	9.8%
TD Waterhouse Nominees	6.9%
Barclayshare Nominees	6.8%
David Harding	4.0%
Jim Nominees	3.7%
LR Nominees	3.3%

INVESTMENT RECOMMENDATION

GoldStone Resources has undergone a number of changes recently in terms of management and projects, most notably in the last four months, and is now growing a portfolio of gold exploration projects in Ghana and Senegal, located near a number of multi million ounce world class gold deposits.

The current market cap of £2.06m values the stock near its basement value that just about includes its quoted value and cash reserves. Investors have yet to appreciate the potential upside for GoldStone's brownfield project at Homase to be advanced rapidly to resource status. Market opinion towards the shares which have been quoted on AIM for almost six years is still anchored in the past, when the Group's management composition and geographic focus was different than today.

With newsflow anticipated from key exploration interests in Ghana in the coming months, new licences to be added and against the backdrop of a continued strong gold price environment, a market re-rating should be imminent. The current share price looks a clear anomaly, especially when compared to neighbouring Pelangio Exploration, which is at an earlier stage of gold exploration and yet has a market cap of £44m. To this end we initiate coverage on GoldStone Resources with a **BUY** recommendation.

KEY STRENGTHS

- ❖ Located in the highly prolific Ashanti Gold Belt, where over 70m ounces of gold have been found 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.
- ❖ Given Homase's brownfield nature there is a good prospect that in the short term a resource of up to 400,000 ounces of gold can be defined. 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 per ounce. Furthermore the licence area was not extensively explored.
- ❖ Manso Amenfi also has potential to be a company maker. 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.
- ❖ 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.



BACKGROUND & NEW STRATEGY

The management structure, exploration portfolio and geographic focus has changed considerably since GoldStone gained an AIM quotation back in March 2004, after raising £5.6m gross in a Placing at 25p. The original remit was to explore for mineable gold palaeo-placer and bauxite deposits in Guyana, South America, under the direction of the former Exploration Director, Dr Lawrie Minter. Unfortunately this previous exploration team was unable to find the bonanza style deposits it hoped to locate and as a consequence GoldStone started to look for new project opportunities in 2007 and focused their attention on the African continent.

A number of management changes have since taken place including the appointment of Dr Hendrik Schloemann as Exploration Director in April 2008 and the elevation of Jurie Wessels to CEO in May 2009. In the last four months, GoldStone's transformation has gathered pace, with three new gold hydrothermal exploration projects in Ghana and Senegal. All of these are in proven multi million ounce gold producing regions, and furthermore located in economically stable African countries, with exploration and mining friendly policies. The three projects fit into GoldStone's new strategy of seeking gold deposits with the potential to host over 1.5m ounces of gold and capable of being economically exploited rapidly afterwards. Ahead, the objective is to build a portfolio of projects at different stages, from grassroots to advanced brownfields exploration.

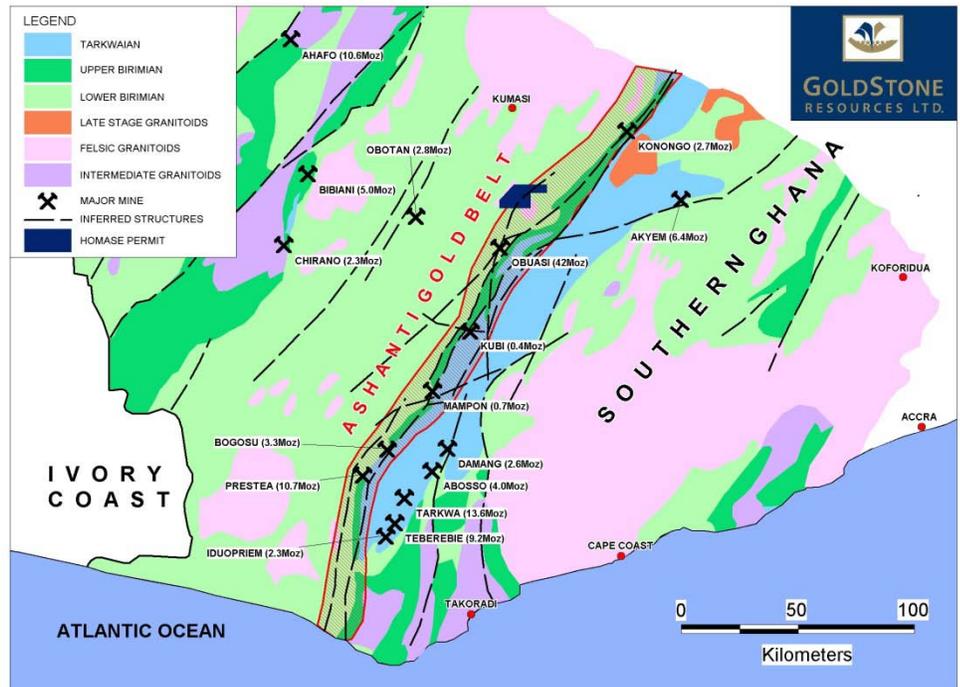


PROJECTS

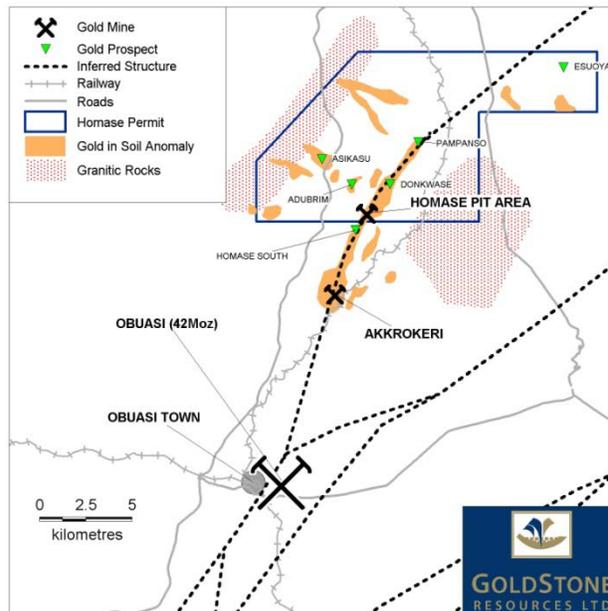
GHANA, HOMASE

This represents GoldStone's flagship project, upon which an interest of up to 85% is being earned by spending \$2.5m in staged payments on exploration in partnership with Ghanaian company Cherry Hill. Ministerial consent for this Joint Venture is awaited, which we hope will be soon. The green light has already been given by the Minerals Commission to Cherry Hill and the licences' good standing. The project covers 115 sq km and is located within the highly prolific Ashanti Gold Belt, where over 70m ounces of gold have been discovered to date (see Pic 1). Of greater note is the fact that it lies 15km from the world famous 42m ounce Obuasi mine which has been in production for over 100 years and is currently operated by AngloGold Ashanti.

The Homase licence was previously explored by Shea Gold between 1998 and 2000 and then mined by Ashanti Goldfields in 2002 and 2003. During this time around 40,000 ounces of gold were recovered from the oxide portion at grades varying between 2.6 and 2.7 g/t, although this was limited to a strike length of only 800 metres of a 3 km mineralised zone. Costs on the open pit mine were astonishingly low at under \$280 per ounce, although this was against the background of a much different gold price environment than today, when the metal traded at only \$320 to \$380 per ounce.



Pic 1: – Homase licence area and surrounding gold discoveries (Source: GoldStone Resources Ltd).



Pic 2: Homase licence area and proximity of 42m oz gold Obuasi mine (Source: GoldStone Resources Ltd).

Homase represents an attractive exploration target, as it appears to have the same style of hydrothermal mineralisation and lies on the same controlling structure as Obuasi. Exploration work will mainly focus on testing the extent of the mineralisation below the current Homase pits which were mined to depths of 65 metres (pit 1) and 20 metres (pit 2) and potential for high grade shoot discoveries. Given the availability of historical drill data, GoldStone believes an initial JORC or NI compliant resource can be established within a short time frame. The licence area also contains a number of exploration targets at various stages of discovery, as previously identified by Shea Gold.

GHANA – MANSO AMENFI

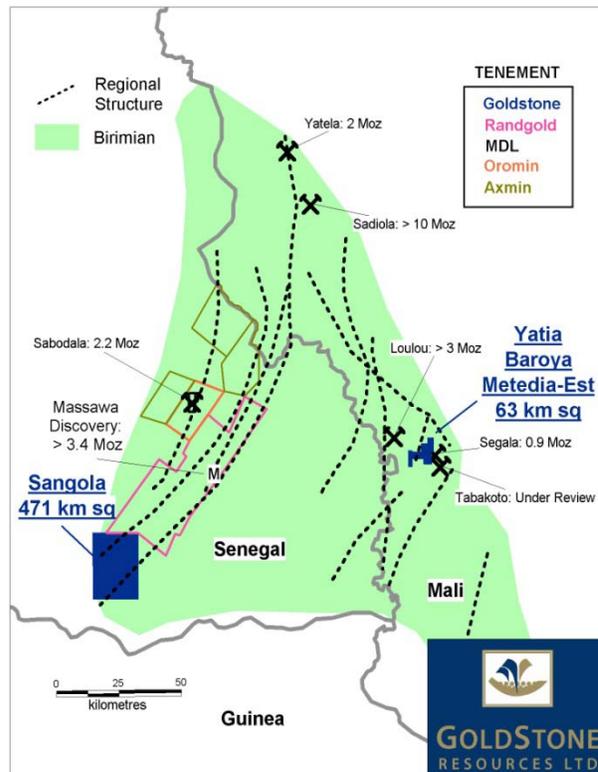
The Group's second project in Ghana is being pursued in partnership with local company Asasemu and covers 83 sq km. On this grassroots exploration project the plan is to earn an interest of up to 85% through a staged payment process by spending \$1.7m on exploration. Again like Homase, ministerial consent for the JV is awaited, which we hope will be soon. The go ahead has already been given by the Minerals Commission to Asasemu and the licences' good standing.

Manso Amenfi lies along strike of a zone of artisanal gold mining and also of the Ayanfuri gold deposit, where ASX listed Perseus Mining has defined a gold resource of 5.3m ounces. The licence also intersects another major gold trend, upon which the Prestea (10.7m oz) and Salman (2.1m oz) discoveries are located. A number of exploration targets have already been identified at Manso Amenfi, including two large gold in soil anomalies that remained untested by previous explorers. The objective is to look for large stand alone discoveries with the potential to be company makers. Smaller gold deposits could act as satellite pits to Golden Star Resources' Bogoso processing plant, which is within a short 25km trucking distance.



SENEGAL – SANGOLA

The Sangola project is another project within an area that was proven to be fertile by previous explorers. The 471 sq km project is located in south-east Senegal and has not been covered with modern exploration, despite being along strike with Sabodala (2.2m oz) and Massawa (3.4m oz), along with Yatela (2m oz) and the huge Sadiola (10m oz) mine owned by AngloGold Ashanti and IAMGOLD in neighbouring Mali. Once final approval is received from the Mining Minister in Senegal, GoldStone hopes to commence exploration on this highly prospective and unexplored project.



Pic 3: Unexplored Sangola permit area and nearby Sadiola, Yatela, Sabodala and Massawa gold deposits (Source: GoldStone Resources Ltd).

OTHER PROJECTS

Mali - Baroya, Metedia-Est & Yatia. Advanced grassroots exploration project upon which the Group has applied for three prospecting licences. The project lies at a distance of just 8 kms from the Tabakoto/Segala gold mine.

Gabon - GoldStone plans to submit two applications in this country.

India -An application has been made in Karnataka for gold and associated minerals for a prospecting licence.



GHANA BACKGROUND

Ghana is Africa's second largest gold producer with total annual production of 3m ounces, contributing over 40% to gross export earnings. In the last century, just under 60m ounces were mined in Ghana and current estimates of resources and reserves comes to over 100m ounces. A number of major mining companies operate in the country, including Newmont, Gold Fields, AngloGold Ashanti and Golden Star Resources. In addition to being drawn to Ghana's substantial mineral wealth, mining companies find the country a conducive place to operate, especially when compared to other Sub-Saharan African states. This is underlined by research from the Fraser Institute (2008), which ranks Ghana as the second most politically stable country in Africa after Botswana.

EXPLORATION & MINING ELSEWHERE IN GHANA

Chirano is about 100km from Homase and one of two key mining projects held by TSE listed **Red Back Mining** (RBI). The mine has proven and probable reserves of 2.3m ounces of gold, with production at 190,000 ounces per annum and cash operating costs of \$445 per ounce. It is interesting to note that Chirano, like GoldStone's Homase project was previously a small open pit operation, with a resource of around 40,000 ounces. The resource totals were partly expanded by discovering high grade intercepts below existing pits.

Ayanfuri is an advanced stage project held by ASX listed **Perseus Mining** (PRU), upon which a resource of 5.3m ounces (3.15m Indicated and 2.13m Inferred) has been estimated. A feasibility study completed in July 2009, estimated cash operating costs of \$494 per ounce, based upon mining 192,000 ounces per annum for 10 years.

TSX listed **PMI Gold** (PMV) is a considerable player in Ghana and holds a number of exploration and mining licences. **Kubi** and **Obotan** are two of its key projects, both within 50 kms of Homase. Obotan is a similar brownfield project to Homase and was previously mined and closed in 2003 when gold prices were low. In total, 730,000 ounces of gold were mined from 3 pits by former operator Resolute Mining. PMI hopes to look at the potential for a 1m to 2m ounce bulk mineable target under one of the existing pits and seek new exploration targets within the licence.

Another company of particular interest is TSX listed **Pelangio Exploration** (PX), which holds ground over 290 sq km adjacent to AngloGold Ashanti's Obuasi mine, along with early stage gold interests and royalties in Ontario, Canada. Pelangio's Ghana project is at much earlier stage than GoldStone's Homase interest and further away from a gold resource being defined. No previous mining appears to have taken place within Pelangio's permit. Results from last year's drilling program are due to be released later this month. Despite the early stage nature of the company and its key project, the market cap is CN\$71m (£44m). The underlying market value of **Pelangio's** projects in Canada and Ghana comes to £37m after Pelangio's other equity interests and cash holdings are deducted, a figure far in excess of GoldStone's market capitalisation today.



DIRECTORS

Jurie Wessels – Chief Executive & Finance Director. Jurie is a minerals lawyer by profession and has 12 years' experience in the exploration industry. He has been FD since AIM Admission and took up the additional Board responsibility of CEO in May 2009 from Nico van der Hoven.

Dr Hendrik Schloemann – Exploration Director. A qualified geologist, Hendrik has over 15 years of exploration experience in Africa and South America. He was previously an Exploration Manager for Harmony Gold and worked for Aurelian Resources, where in 2006 he made a significant contribution to the enormous 14m ounce gold deposit discovery at Fruta del Norte in Ecuador. He joined GoldStone's Board in April 2008.

Nico van der Hoven – Non Executive Chairman. Has 14 years of experience in the exploration industry and has co-founded several exploration companies.

RECENT NEWSFLOW TIMELINE

- | | |
|------|---|
| 2009 | Nov - Manso Amenfi JV in Ghana signed on grassroots gold project.
Nov - Sangola , Senegal exploration licence granted, final ministerial approval awaited.
Oct - Homase JV on brownfield exploration project in Ghana signed.
May - Several Director changes, with Jurie Wessels appointed CEO, in addition to existing FD post. |
| 2008 | Apr - Dr Hendrik Schloemann appointed Exploration Director. |

VALUATION

Essentially the current market cap of £2.06m values the company near its base value, which includes its AIM quotation value and balance sheet cash of £500,000, with little apparent value attached to any of its projects. This is obviously a market mis-pricing considering that GoldStone is exploring in proven gold provinces, with a growing portfolio of projects including a brownfield site Homase that could be close to having a JORC resource established. Investor opinion still seems anchored to where the company was two to five years ago, when the management team and exploration objectives were much different.

From what we know so far only part of the gold resource at Homase was exploited, as mining was confined to only 800 metres of a 3km mineralised zone and to a maximum depth of 65 metres in pit 1 and only 20 metres in pit 2. Given these figures it would seem that only 10% of the resource was mined, so the open pit mineable gold potential could be in the region of 400,000 ounces of gold. This estimate could be too conservative as it does not take into consideration the potential for mineralisation below these shallow depths and additional targets in the 115 sq km licence area that could yield new gold deposits.

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