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## GOLDSTONE RESOURCES\*

1 August 2012

### BUY

12mth PRICE TARGET 15p

#### Stock Data

Current Price: 3.93p  
Market Cap: £12.5m  
Shares Outstanding: 318m

#### 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: 3.88p-8.88p

#### Key Metrics

Net Cash, Optiva estimate  
(July 2012): \$3.25m  
JORC Resource: 502,000 ounces of gold

#### Directors

Gennen McDowall Chairman Non Exec  
Jurie Wessels CEO  
Hendrik Schloemann Exploration  
Andrew McIlwain Non-Exec  
Bill Geier Non-Exec

#### Major Shareholders

Unity Mining 33.9%  
JIM Nominees 6.8%  
Fiske Nominees 6.4%  
Barclays Bank 5.3%  
TD Waterhouse 4.2%

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

### GHANA RESOURCE UPGRADE

GoldStone Resources today updated the JORC resource estimate on its flagship brownfield Homase/Akrokerrri gold licence in Ghana, increasing the overall resource size by 24% from 406,000 to 502,000 ounces of gold.

This is the first resource to include drilling data from GoldStone's own exploration work, instead of being solely based upon the historical data of previous project owners, which was the case with the previous resource estimates. Encouragingly the overall grade increased from 1.42 g/t to 1.74 g/t, thus improving the project's potential economic viability. It must be pointed out that the amount of resource in the higher confidence category of 'Measured' did decline by around 44,000 ounces, from 157,298 to 113,000 (Figure 2). However in the next category of 'Indicated' the resource improved by around 111,000 ounces, from 122,755 to 234,000. Nevertheless today's resource numbers should be viewed as an interim upgrade, as the management anticipate upgrading the Homase/Akrokerrri resource later this year to incorporate data from 20 holes drilled since April 2012, should they prove positive. Of these 20 holes, the assay results from 15 are awaited. As we have explained in this report, Homase/Akrokerrri may represent just one of the resources that could be identified in the permit area, which lie within the fertile Ashanti gold belt, from where over 70m ounces of gold have been discovered to date.

### INVESTMENT RECOMMENDATION

We have re-worked our numbers using today's resource upgrade and arrived at a 15p price target, which is unchanged from our previous estimate. The positive impact of a larger JORC resource estimate has been negated by a lower amount of ounces in the 'Measured' category, as explained in more depth later in this research note. Our target price of 15p, nevertheless represents considerable upside potential of almost 300% from the current share price of around 4p. Investors should not forget we have only considered the current exploration value of Homase/Akrokerrri and not taken into account projects elsewhere such as those in the gold exploration frontier countries of Gabon and Senegal, where active exploration programmes are underway. A major discovery in either country could surprise investors and completely change the nature of this investment.

## HOMASE & AKROKERRI (GHANA)

Homase/Akrokerrri represents the Group's most advanced project, which covers an area of 143 sq km. The project areas are located within the prolific Ashanti Gold Belt, where around 70m oz of gold have been discovered and just 15km north-east of the 42m ounce Obuasi mine operated by Anglo-Gold Ashanti. On the Homase permit, GoldStone owns 65% and can earn an interest of up to 85%. At Akrokerrri a 95.1% interest is held.

Ashanti Goldfields previously mined Homase 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 trucked to the Obuasi processing plant.

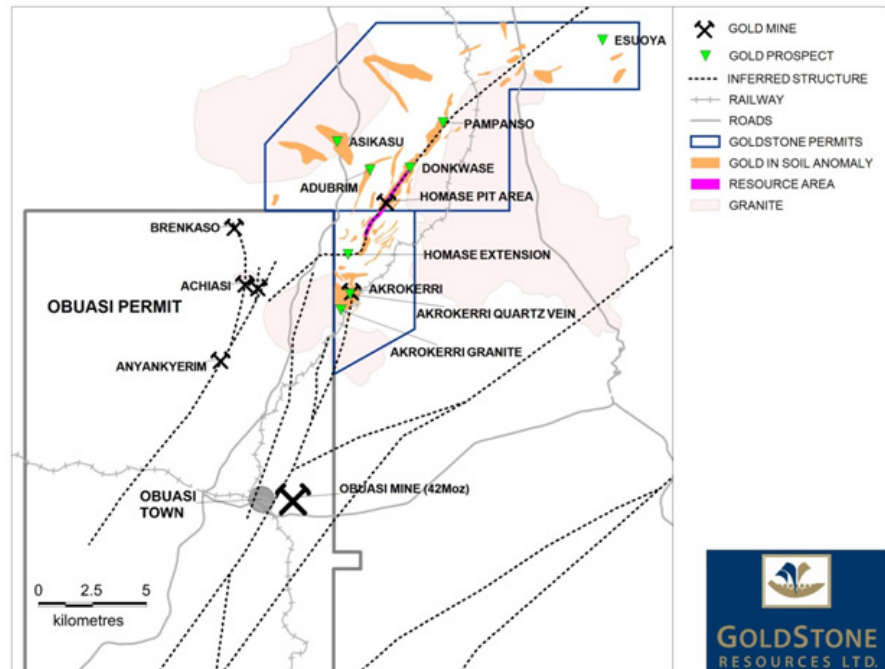


Figure 1: Homase/Akrokerrri Project area. – Source GoldStone Resources June 2012

*“... has been expanded by Perseus from a small open pit of 276,000 ounces to over 6m ounces.”*

GoldStone began drilling at Homase/Akrokerrri in June 2011, with the twin objectives of extending the existing resource and discovering new gold deposits. The vision is to repeat the success of other explorers in the area that have expanded small open pit gold resources to 1m ounces or more. One such example that stands out 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.

*“Data from a further 20 holes drilled since April 2012 will be used for an upgraded resource, to be announced ...”*

Drilling results from GoldStone's exploration activities have been very positive. The main deposit could be exploited via both open pit and underground mining. Today's resource upgrade incorporates results from 23 holes completed between June 2011 and March 2012, which intersected mineralisation along a strike length of 640 metres under the northern half of the Homase open pit. The upgrade estimate was also based upon exploration work conducted by previous explorers and knowledge gathered by the authors at SEMS Exploration Services Limited in West Africa. Data from a further 20 holes drilled since April 2012 will be used for an upgraded resource, to be announced hopefully later this year, assuming they prove positive. Of these 20 holes, the results from only 5 have been assayed and announced to date. These further 20 holes cover a much larger strike length of 1,600 metres and have been targeted at depth extensions of the mineral resource. Potential exists to extend the mineralisation both north and south of the resources' existing strike length.

*HOMASE & AKROKERRI (GHANA) Continued*

As today's announcement outlined and can be seen from the soil anomaly areas and gold prospects identified in figure 1, the potential may exist in the future to prove up other resources on the permit area, beyond what has been already discovered at the main Homase/Akrokerrri pit. The management seem particularly excited about the potential of the Adubrim prospect that runs parallel to the existing resource area, along with the Akrokerrri quartz vein system that was the subject of colonial mining activities when 75,000 ounces of gold at 24 g/t were extracted. Amongst numerous other targets, some enticingly seem to be on the same structural trend as the massive 42m ounce Obuasi gold mine. Given the abundance of exploration data gathered over the last year in Ghana, along with the awaited results from the airborne VTEM survey, the management intend to pause active drilling exploration for the time being, to analyse this enormous wealth of data to enable future drill targets to be prioritised.

*"... same structural trend as the massive 42m ounce Obuasi gold mine."*

Resource Category	Former Gold JORC Resource June 2011			New Gold JORC Resource July 2012			Change in Resource -/+ (oz) to nearest '000
	Tonnage (m't)	Grade (g/t)	Contained Gold (oz)	Tonnage (m't)	Grade (g/t)	Contained Gold (oz)	
Measured	3.03	1.61	157,298	1.55	2.26	113,000	-44,000
Indicated	2.70	1.42	122,755	4.17	1.75	234,000	+111,000
Measured & Indicated	5.73	1.52	280,053	5.72	1.89	347,000	+67,000
Inferred	3.15	1.24	125,503	3.27	1.47	155,000	+30,000
<b>TOTAL (0.5 g/t cut off)</b>	<b>8.87</b>	<b>1.42</b>	<b>405,556</b>	<b>8.99</b>	<b>1.74</b>	<b>502,000</b>	<b>+96,000</b>

*Figure 2: Combined Akrokerrri/Homase Resource.*

*“ Toro Gold a private London based exploration company proved up 1.05m ounces of gold at 2.2 g/t on its Mako project during a short 9-month ...”*

**SENEGAL**

**Sangola, Senegal** - The 100% owned project covers 471 sq km and is largely unexplored, but highly prospective for a manifold of reasons including its location within a major gold bearing system called the Main Transcurrent Shear Zone (MTZ) which contains Randgold’s 3.4m oz gold deposit at Massawa. More recently, Toro Gold, a private London based exploration company proved up 1.05m ounces of gold at 2.2 g/t on its Mako project during a short 9-month drilling programme, when only 19 holes were drilled. Mako lies just north of GoldStone’s Sangola permit area and underlines the prospectivity of the region, which seems to be largely untapped.

The near term objective is to conduct a 15,000 metre rotary air blast drill programme. The largest part of this was completed ahead of the wet season that started in June. The objective of the programme is to test a 6km long surface anomaly at Thiabedji. Other anomalies may be tested once the wet season is over. Along with the drilling results, we may also learn further details from the airborne survey data and results of samples taken from rock outcrops at Thiabedji in the coming months.

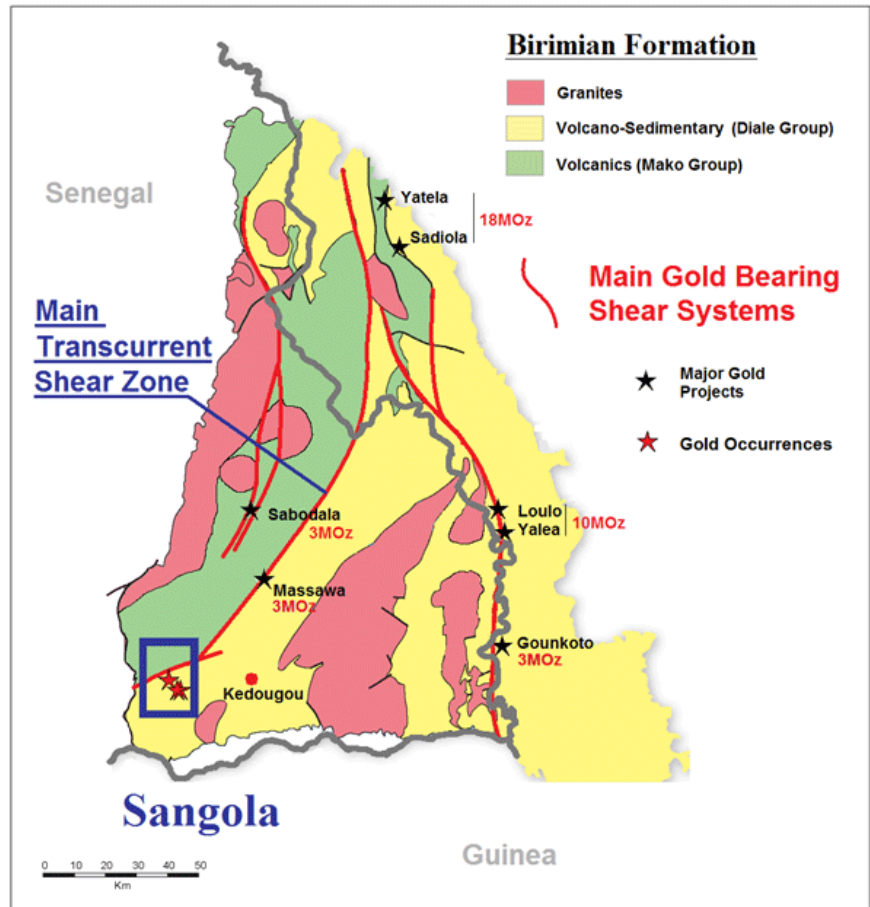


Figure 3: Senegal Project Area. Source GoldStone Resources June 2012

## OTHER GOLD PROSPECTIVE GOLD PROJECTS

**Manso Amenfi, Ghana** – Along with its main Homase/Akrokerry asset, the Group is also advancing the Manso Amenfi grassroots 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 identified several highly prospective targets. To date around 2,200 samples have been taken on the permit.

*“... the results of a €14m European Union funded exploration programme between 2005 and 2009 which identified ...”*

**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 they have ‘cherry picked’ the most promising areas in Gabon, based upon the results of a €14m European Union funded exploration programme between 2005 and 2009 which identified a number of gold anomalies. An initial 3,000 metre drill programme started at Oyem in late July to test the central part of a 15km long by 400 metre wide gold in soil anomaly. Earlier stage work is being conducted at Ngoutou to find out more about a soil anomaly that is over 15 km long.

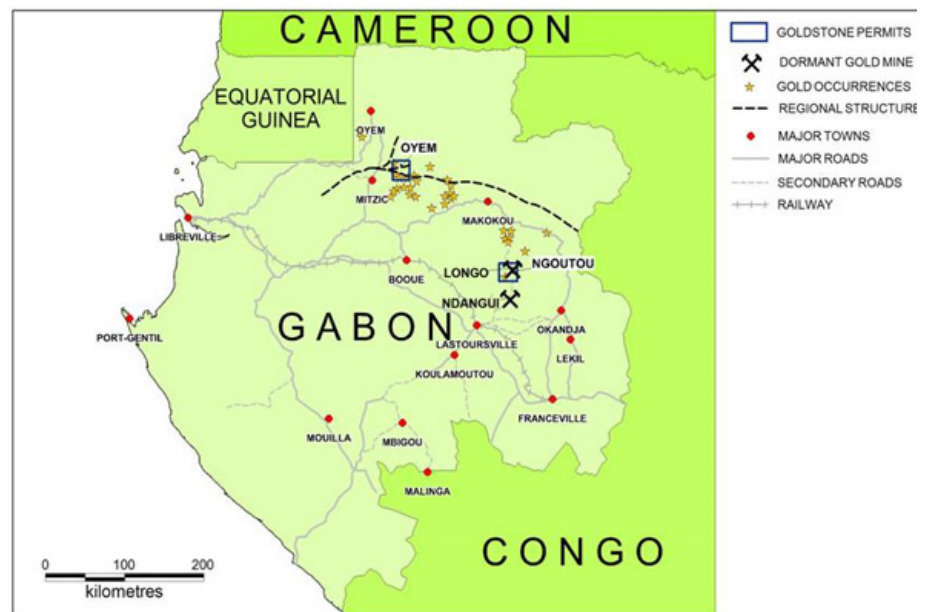


Figure 4: Gabon Project area. Source GoldStone Resources June 2012

## VALUATION

Our previous GoldStone valuations were benchmarked against Edison Investment Research's Gold Sector Research report (January 2010) which 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. A value was then computed by multiplying these figures against each GoldStone JORC ounce, according to the confidence category in which the gold fell within. We also adjusted Edison's gold valuation numbers according to the prevailing gold price and applied a 25% discount for prudence purposes. Given that the gold price has increased by over 50% since January 2010, when Edison published its research, we feel it is time to adopt an adjusted approach.

Our adjusted method links the exploration value of ounces in the ground to the spot price. We have therefore valued each Measured, Indicated and Inferred resource ounce against a different percentage of the current gold spot price. These values are in line with Edison's values per ounce in January 2010, when compared to the spot price at the time of \$1,100. As before, we have applied a 25% discount to these numbers. We have therefore valued each Measured ounce at 23% of the current gold spot price of \$1,620, Indicated ounces at 11% and Inferred at 2%. These values correspond to Edison's research in 2010 minus a 25% discount for prudence purposes. An example of the calculation for Measured ounces is outlined in Figure 5.

Edison Weighted Average as at Jan 2010 for Measured Ounces, per/oz		\$339.9
Spot Gold Price, January 2010, per/oz		\$1,100
Measured Average / Jan 2010 Spot Price	\$339.9 / \$1,100	30.9%
Less 25%	30.9 * 0.75	23%

Figure 5: Edison Jan 2010 to Present comparison

... the cash costs at Perseus Mining's nearby Edikan gold mine in Ghana are \$550 per ounce.

As Edison highlighted in January 2010, investors are willing to pay much more for resource ounces in the higher categories of Measured and Indicated than the lowest category of Inferred. We believe the value for each Measured ounce at \$372 could represent around half the potential profit margin which could be made from any future mining operation at Homase/Akrokkerri, once CAPEX, operating costs, taxes and royalties are taken into consideration. It is interesting to note the cash costs at Perseus Mining's nearby Edikan gold mine in Ghana are \$550 per ounce.

Our numbers do not include the Group's current estimated cash of \$3.25m or ascribe any exploration value to projects in Senegal or Gabon.

As outlined below (Figure 5), a target price of 15.1p has been computed from today's upgraded JORC resource at Homase/Akrokkerri. Despite an increased resource size and grade, our valuation is almost the same as before (15.0p – 23 February 2012), due to the lower amount of resource ounces in the Measured category. Our target price could move higher if an upgraded resource estimate is made later this year. Our numbers do not include the Group's current estimated cash of \$3.25m or ascribe any exploration value to projects in Senegal or Gabon. An announcement of a major discovery in either country in the coming months could therefore boost the valuation.

Resource Category	JORC Ounces	Valuation % of Gold Spot Price \$1,620 per/ounce	Value per Ounce (\$')	Total Value (\$'m)
Measured	113,000	23%	372.6	42.1
Indicated	234,000	11%	178.2	41.7
Inferred	155,000	2%	32.4	5.0
<b>TOTAL</b>				\$88.8m
<b>GoldStone's 85% interest</b>				\$75.5m
<b>Conversion to Sterling £/\$1.57</b>				£48.1m
<b>Price Per Share (shares in issue 318m)</b>				15.1p

Figure 6: Share Resource Valuation.

## SUMMARY

### LOCATION STRENGTHS

*“... a mature democratic culture and an established gold mining industry with major*

*“... yielded over 20m ounces of gold to date, including a recent nearby 1m oz discovery by Toro 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 gold deposit approaching one million ounces or more in the Homase pit area or elsewhere on the Homase/Akokkerri permits looks enticingly high.
- ❖ 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. A workable taxation and legal environment makes Ghana a good place for a miner to operate.
- ❖ All of GoldStone’s Ghana projects are located within trucking distance of existing processing plants, which could provide an opportunity to provide early cash flow if some of the permit areas are fast tracked to production.
- ❖ Exploration potential of the 471 sq km Sangola licence application in Senegal, which lies within an abundant gold belt that has yielded over 20m ounces of gold to date, including a recent nearby 1m oz discovery by Toro Gold.
- ❖ Early mover advantage in Gabon, where two gold explorations licences are held. GoldStone is looking to capitalise on the €14m 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

*“... developed from small open pits of 40,000 and 276,000 ounces of gold respectively to large 1.2m and 6m ounce deposits.”*

- ❖ At Homase only a small 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 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.
- ❖ Manso Amenfi lies along strike of two major gold trends that have yielded several huge discoveries such as Ayanfuri.

*“... discovery of a mammoth 14m ounce gold deposit at Fruta del Norte in Ecuador.”*

### KEY COMPANY & MANAGEMENT STRENGTHS

- ❖ Cornerstone shareholder ASX listed Unity Mining (33.6%) provides both financial and technical assistance.
- ❖ 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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