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Investment Analysis for Intelligent Investors

October 27, 2008

Goldrea Resources Corp. (TSXV: GOR) – Terminated the Daye Mine Acquisition Agreement; Significant Drop in Resource and Fair Value

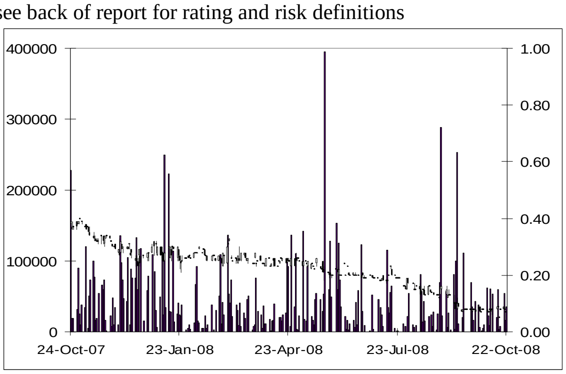
Sector/Industry: Mining

www.goldrea.com

Market Data (as of October 27, 2008)

Current Price	C$0.06
Fair Value	**C$0.20 (↓)**
Rating*	**BUY**
Risk*	**5 (Highly Spec) (↑)**
52 Week Range	C$0.05 – C$0.40
Shares O/S	58.21 mm
Market Cap	C$3.49 million
Current Yield	N/A
P/E	N/A
P/B	0.24
YoY Return	-83.8%
YoY TSXV	-70.7%

*see back of report for rating and risk definitions



Highlights

- Goldrea terminated the agreement to purchase the Shandong Daye mine and interest in its assets, due to the prolonged waiting period for the required approval from the central government of China.
- The company commenced production from its Golden Rose Mine Shaft, which has so far stockpiled over 3,000 tonnes of material. Goldrea plans to stockpile 20,000 tonnes as its first batch of ore to be processed in the Daye Mill.
- The company completed an updated NI 43-101 resource estimate for its Rushan Joint Venture project, which estimates 2.66 million tonnes at 2.03 g/t containing 0.17 million oz gold. The new resource estimate is considerably lower than the previous estimate of 0.61 million oz gold.
- The company has planned a new shaft east of the Dongjingkou Zone, which will provide access to a depth of approximately 290 meters.
- Exploration and drilling at the Crowrea/ Empress property in British Columbia continues to identify good value in molybdenum.
- We maintain our Buy rating on the company, but lower our fair value estimate to $0.20 per share from $1.20 per share, and raise our risk rating to 5 (Highly Speculative) from 4 (Speculative).

Key Financial Data (FYE - July 31) in C$	2003	2004	2005	2006	2007	2008 (9 mon)
Cash	133,677	38,838	272,527	1,055,138	9,717,875	6,064,277
Working Capital	130,012	153,555	391,627	1,150,271	9,423,916	5,940,480
Mineral Assets	560,928	346,563	1,142,361	2,187,985	6,617,559	9,321,901
Total Assets	916,277	603,872	1,623,516	3,537,534	16,836,214	16,714,312
LT Debt / Assets	-	-	-	-	-	0.47%
Net Loss	(436,321)	(974,203)	(932,112)	(1,190,382)	(1,997,605)	(1,161,397)
Loss per Share	(0.05)	(0.08)	(0.06)	(0.05)	(0.05)	(0.02)

Goldrea Resources Corp. (GOR) is a junior mining company that holds joint venture projects in Shandong Province China. The company commenced production from its Golden Rose Mine, with mineral materials to be processed in the Daye Mill. Goldrea is also conducting exploration drilling at a molybdenum property in British Columbia.

Company Overview

Goldrea Resources Corporation (TSX-V: GOR) is a British Columbia based junior mining company with projects in China, British Columbia, Quebec, and Arizona. The company's key projects are its joint venture projects in China and the Dobbin and Crowrea/Empress properties in British Columbia. The company recently commenced production from its Golden Rose Mine Shaft in its Rushan Joint Venture, and plans to stockpile 20,000 tonnes as the first batch of ore to be processed in the Daye Mill. GOR also completed an updated NI 43-101 resource estimate for the Rushan Joint Venture project, which estimates 2.66 million tonnes at 2.03 g/t containing 0.17 million oz gold. This new resource estimate is considerably lower than the previous estimate of 0.61 million oz gold. The resource estimate dropped due to a higher cutoff, incorporation of recovery and better defined cost measures. In addition, exploration at the Crowrea/ Empress property in British Columbian continues to return good molybdenum values.

Termination of the Daye Mine Acquisition Agreement

In September 2008, **the company terminated its agreement to acquire the Daye Gold Mine located near Rushan City, Shandong Province, China**. The company decided to terminate the agreement as it has yet to receive the required approval from the central government of China. The final agreement to acquire 80% interest in the mine was signed in November 2006.

Despite the termination of the agreement, the company intends to negotiate a Toll Milling Agreement with the Daye Mining Group to process minerals from its exploration and cross-cutting, such as from its Golden Rose Mine Shaft (discussed below).

Rushan Joint Venture

Overview: The company continues to explore on its 65,000 hectares of exploration licenses in Shandong Province, China, through its 89% owned Chinese subsidiary, Rushan Goldrea Gold Inc, a joint venture with China Rushan (the underlying owner of the Daye Mine).

To date, the company has completed 50,115 meters of diamond drilling from 169 drill holes, and recently updated its NI 43-101 resource estimate for the project to 2.66 million tonnes at 2.03 g/t containing 0.17 million oz of gold in the indicated resource category. This previous estimate was 0.61 million oz (in indicated & inferred categories), based on a technical report completed in January 2007. Based on our discussion with management, the lower resource estimate is due to a higher cutoff of US$20.26/tonne (compared to US$7/tonne in the previous estimate), incorporating a recovery rate of 84%, and better defined cost parameters.

Exploration: To date, drilling has identified several new shoots of gold mineralization along the 4.5 kilometer Daye structure, including the Shijia zone, Tianjia Zone, Shanxi Zone, and Jingkou Zone. Goldrea is aggressively pursuing new gold ore resources and have been releasing new drilling results regularly for these zones to outline the extent of gold mineralization and the grade. Most of the drilling results have been in the 1-2 grams/tonne range, and widths range from under 1 meter to 10 meters. Higher grades have been encountered in smaller sections, as gold often concentrates in small higher-grade nuggets throughout the gold body. The company's most recent drilling intercepts ranged from 0.9-3.66 grams/tonne with intervals ranging from 0.4 meter to 2.71 meter.

The company's exploration fill-in drilling is nearing completion with holes sufficiently close spaced to meet provincial government authorities' requirements that the information collected is adequate to warrant the issuance of a mining license.

Production Commenced from the Golden Rose Mine: The company completed the Golden Rose Mine five compartment shaft on its property to a final depth of 235.5 metres in May 2007. The shaft should be capable of bringing 400 tons/day to the surface in ¾ ton rocker dump cars. Crosscutting commenced in March 2008, and later the company started production and lateral access at the Golden Rose Mine. At the end of August 2008, about 3,150 tonnes of material was stockpiled. Goldrea plans to stockpile 20,000 tonnes as a first batch of ore to be processed in the Daye Mill on a contract basis. The Daye Mill, on which the company terminated its acquisition agreement, has a capacity to operate at 1,800 tonnes/day with ore from its own low-grade open pit mine. The Golden Rose Mine Shaft is located on 87% owned Goldrea land, and represents Goldrea's first production in China.

Golden Dragon Shaft: Goldrea announced plans for a second shaft in June 2007. This shaft will be collared east of the Dongjingkou Zone as defined by exploration drilling. Currently, the company plans to begin work when crews are available from the Golden Rose Shaft infrastructure installation. Land acquisition agreements with local farmers have been sorted out and work can begin as soon as design work is completed. This shaft will provide access to the Dongjingkou Zone mineralization at a depth of approximately 290 meters. At this time, the Golden Dragon Shaft is for exploration purposes, as a mining permit and mining lease must be issued before it can be used for production. According to our recent discussion with management, the company may delay the implementation of this project in light of current capital market conditions.

Updated Resource Estimate: The company recently completed an updated NI 43-101 resource estimate for its Rushan Joint Venture project, **which estimates 2.66 million tonnes at 2.03 g/t containing 0.17 million oz of gold in the indicated resource category**. The study has a US$20.26 per tonne cutoff, with an 84% recovery based on actual recoveries experienced at the Daye Mill. NPV of the project was calculated to be $6.77 million at a gold price of $800/oz, and $12.73 million at $900/oz.

Ludi Joint Venture

Goldrea has entered into a new joint venture with China Shandong No. 3 Mineral and Geological Exploration Institute (3rd Brigade), the Ludi Joint Venture, to explore the continuation of the breccia unit with gold mineralized veins to the south for a distance of 6.5 kilometers. Eight exploration licenses have been granted for this area, which are immediately to the south and west of Goldrea's existing exploration licenses along the Daye Mineral zone. The company has agreed to spend $1.4 million over 4 years to earn a 64% interest in the Joint Venture. The 3rd Brigade, the company's joint venture partner, has drilled and retuned 4.24 g/t gold over 9 meters from a drill hole positioned approximately 200 meters to the south of GOR's existing drilling. The company is currently planning to commence work on this property.

Crowrea/ Empress Property

Property Overview: The 9,721 hectare Crowrea property and the adjacent Empress property in British Columbia are the company's primary focus in Canada. The Crowrea property has seen significant historic exploration by the company, including trenching, drilling, geophysics, and geochemistry. Recent magnetic surveys and sampling has suggested that high grade molybdenum veins may be associated with a large porphyry body on the property similar to the Brenda Mine 15 kilometers to the north. The company has staked new claims encompassing three magnetic lows identified through geophysical surveys.

Ownership: This property is held in equal joint ownership between Molycor Gold Corp (TSXV: MOR) and Goldrea Resources. They equally fund exploration on the property.

Historic Exploration/Production: The Crowrea property is the joint venture's oldest property and was an original discovery in 1995. The two companies aggressively explored the property in 1996, including surface sampling, trenching, and drilling to calculate a small resource on the Webb Site Zone. The 1996 drilling program included 8,200 meters of diamond drilling and 2,700 feet of percussion drilling. The results indicated high-grade molybdenum potential over good widths.

The property remained dormant until 2005, when molybdenum hit record highs. The company completed 26 diamond drill holes on the Webb Site and Noranda Zones, each approximately 35 meters deep. The results were similar to the previous drilling program.

In April 2007, the company announced the addition of the HP claims to the Crowrea property. The HP property was once held by the joint venture in 1995-1997. The HP claims were explored by Cominco Inc. in the 1980's. Cominco drilled 8 percussion holes totaling 783 meters, including 1 hole with a maximum grade of 0.091% molybdenum. The joint venture completed geochemical and geophysical surveys in 1997, but subsequently dropped the claims due to the low price of molybdenum. They identified more molybdenum soil anomalies beyond those identified by Cominco in 1979. Molycor's previous exploration on the property will benefit their work now, considering that Molybdenum prices are still above US$30/lb.

The property is located 15 kilometers south of the former Brenda copper/moly Mine, operated by Noranda (now Xstrata plc – LSE: XTA). The Brenda Mine produced 182 million tonnes of ore grading 0.183% copper and 0.049% molybdenum from 1970-1990. It is one of the lowest grade copper mines in Canadian history, but it managed to remain profitable in its 20 year history through very careful grade control of the open pit.

Accessibility and Infrastructure: The property is located near Summerland, British Columbia, in the Okanagan region. Accessibility and infrastructure is generally good, with power, water, and road access available.

Geology and Mineralization: The Webb Site Zone at Crowrea is a high-grade molybdenum deposit, contained in narrow mineralized veins within a 1 kilometer long dike.

The company believes that there is potential for a large tonnage low-grade orebody as well as additional high-grade dike zones on the property.

Current Developments: The company completed a Phase I drilling and trenching program in July 2007, for an estimated cost of $105,000. This program consisted of 10 holes totaling 712 meters. This program was successful in extending the Webb Zone an additional 100 meters along strike. 4 of the 10 holes were not mineralized, weakly mineralized, or missed their intended target. The drilling that did reach its target was high grade. The significant assays from the drilling program are summarized in the table below. The deposit is still open along strike, as well as to depth and a number of soil anomalies remain to be tested. A Phase II drilling program has been planned to follow up on these results and the company is currently awaiting receipt of the permit.

Hole	**Meters**	**Mo%**
DDH 07-01	1.21-1.37	0.148
And	16.4-17.0	1
And	30.7-31.4	0.412
And	33.5-34.1	0.046
And	44.5-45.1	0.152
DDH 07-03	20.4-21	1.11
DDH 07-05	50.6-53.6	0.148

Source: Company

The company is completing a geochemical survey on three magnetic lows on the Crowrea property. Soil samples will be analyzed for molybdenum to identify potential copper-moly deposits.

GOR completed a magnetometer survey over the Empress property in October 2007, which assisted in defining drill targets by identifying magnetic lows. A drilling program to test the Empress porphyry deposit over a 250 by 250 meter area commenced in October 2007. Nine holes were completed. The company has announced assay results from three holes, which were low grade over wide intervals at shallow depths (up to 30 meters).

Most recently, in its spring 2008 program, the company completed an additional 10 drill holes in the central portion of the property (a 730 X 360 meter area) for molybdenum (and copper/gold) bearing mineralization. Assays of this drilling program returned good values in molybdenum with wide intersections of grades. The following table shows highlights of the drilling results. Together with drilling in 2007, GOR has drilled 19 holes totaling 3,493 meters on the property. Mineralization observed in core from all 19 holes consists of disseminated and fracture filling molybdenite-pyrite-chalcopyrite.

Hole	Meter	Mo (%)
Emp 10	12 - 81	0.089
Emp 10	102 -105	0.12
Emp 11	4 - 27	0.104
Emp 12	6 - 24	0.11
Emp 13	75 - 96	0.14
Emp 14	69 - 93	0.08
Emp 15	117 - 135	0.097
Emp 17	141 - 159	0.098
Emp 19	93 - 99	0.12
Emp 19	102 - 111	0.082
Emp 19	114 - 129	0.18

Source: Company

Resource Estimate: Upon completion of the 1996 drilling program, the company estimated a "drill indicated" resource of 500,000 tonnes grading 0.320% MoS_2. This resource was calculated before the implementation of NI 43-101 in 2001, and is thus not compliant with these regulations.

The company intends to complete a NI 43-101 compliant resource estimate when sufficient drilling has been completed to support an estimate.

Gold Rush Property

The company's 100% owned Gold Rush property consists of 18 mining claims, and is located in Mojave County, 25 miles west– northwest of Kingman, Arizona. The Gold Rush property has a historical resource estimate in excess of 40,000 oz of gold (1.3 million tons grading 0.032 oz/ton gold) delineated by Western States (the previous operator). The gold resource occupies a prominent detachment fault within Precambrian rocks, which are overlain by silicified, brecciated, volcanic dome features of the Tertiary Age.

Management

Mr. Blair, the Chief Operating Officer of Goldrea Resources Corp., has been appointed to the board of directors. His biography follows.

Paul L. Blair – Director

Mr. Blair is responsible for the transition of the operating Daye Gold Mine located near Rushan City, Shandong Province, China from Daye to Goldrea Management. Mr. Blair has a Bachelor of Science in Geological Engineering from Montana Tech as well as having completed courses in Management and Accounting at the University of Utah. Mr. Blair's experience includes a detailed evaluation on an underground gold mine in Gansu Province, China. He has been involved in feasibility, permitting and design of a large open pit/heap leach in Inner Mongolia and managed the operation of an open pit mine and construction of a mill and camp in Qinghai.

Previous to his recent work in China, Mr. Blair worked in various management capacities in North, Central and South America. His work included preparation of scoping studies, supervision of bankability feasibility studies, management of detailed design and EPCM; management of start-up, turn-around, closure and expansion of major mining projects and management of producing operations.

China Mining Outlook

According to statistics from the China Gold Association (CGA), China produced 270.29 tons of gold in 2007, up 12.67% compared to 2006. Xinhua News reported that China was just two tons short of South Africa in gold production in 2007. CGA predicts China to increase its annual gold output by over 10% to 300 tonnes in 2008, surpassing South Africa as the world's largest gold producer. Gold output in China is expected to increase by between 10% and 15% on an annual basis over the next 10 years. A Xinhua news article states China's gold output reached 100 tons for the first time in 1995, and doubled by 2003. New discoveries have contributed to the rise in output with five big mines found in China in 2007.

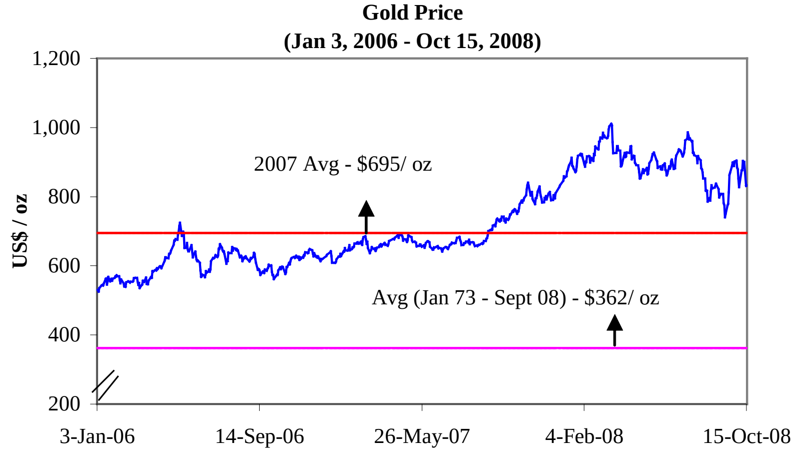
According to InfoMine, laws require all gold and silver to be sold to the Bank of China (China's central bank), which controls the purchase and distribution of these precious metals in China. The major law that regulates the Chinese mining industry is the Mineral Resources Law, which was issued in 1986 and revised in 1996. The Mineral Resources Law allowed foreign investment in mineral exploration and exploitation in China in the form of Chinese and foreign joint ventures, but state owned mining enterprises were dominant in the mining of the country's mineral resources. However, in light of high economic growth, the Chinese government also encourages foreign exploration and development of mineral projects to meet its economic expansion needs. Mining companies have to acquire exploration permits or licenses for the exploration and exploitation of mineral resources in China. However, mineral property acquisition procedures involve hard work that has resulted in the failure of many foreign mining companies trying to acquire properties in China. The most important task in acquiring a property in China is lobbying the provincial government, as well as complicated paper work. Minor mistakes or approaches may result in unsuccessful campaigns in China. The Chinese Constitution stipulates all mineral resources occurring within China's territorial boundaries belong to the State.

Although we believe the business environment for the foreign mining companies in China has improved over the past years, we note that political risks still exist to a certain degree that could negatively affect companies in all stages of mining, including acquiring permits to explore, develop and produce mineral resources in the country.

Outlook for Gold

Supply and Demand: Global demand for gold hit a record high of $21.2 billion in Q2-2008, up 9% YOY. Global investment demand recorded the strongest growth reaching $3.5 billion in Q2, up 29% YOY (U.S., China, Egypt and Vietnam were the major contributors). However, as a result of higher gold prices and increased volatility, total identifiable global demand in terms of tonnage dropped by 19% YOY, from 906 tonnes to 736 tonnes, as jewelry consumption, which accounted for 69% of the total demand in Q2-2008, dropped by 24% YOY.

The following chart shows gold prices since January 2006. Gold is currently trading at about US$724/oz.

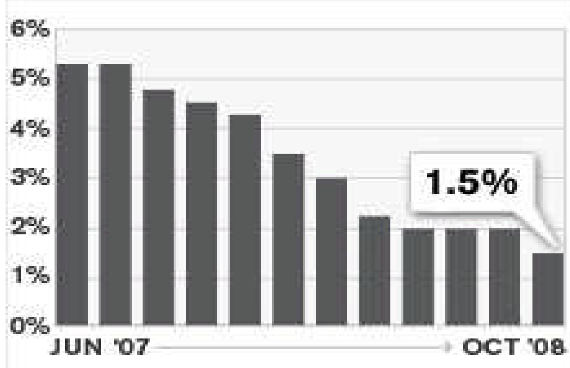


Source: KITCO and FRC

Going forward, we expect jewelry demand to stay soft for the next 6 to 12 months primarily because we expect prices to be volatile during the period due to uncertainties in the direction of the global economy. We expect jewelry demand to increase as prices stabilize. Although supply-demand fundamentals do not look very favorable for gold, we believe high gold production costs (although we expect costs to moderate due to the expected drop in labor, materials and fuel costs, we believe they will be well above historic averages) and the following macro economic conditions will keep prices high in the short-term.

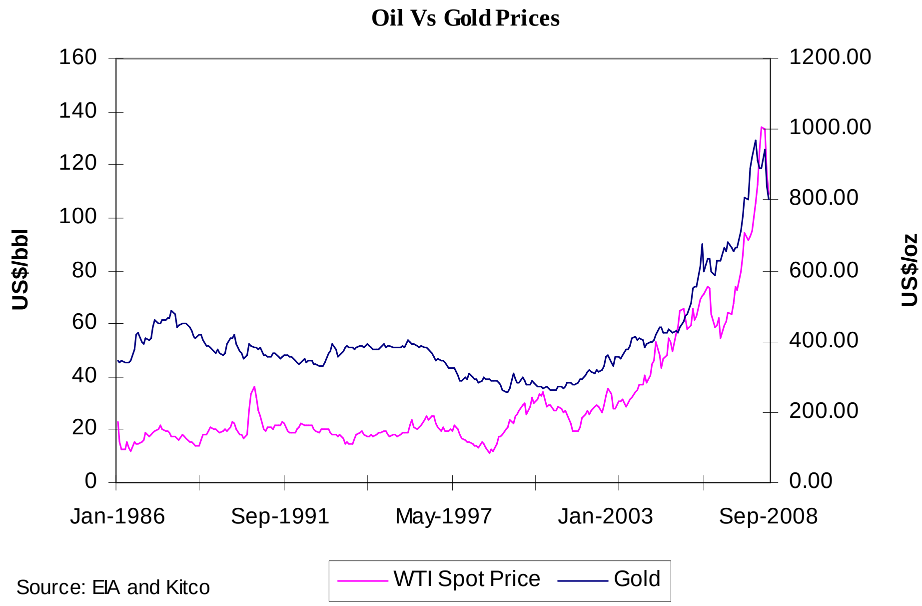
a) The slow down in the U.S. economy and relatively lower real interest rates, we believe, will put downward pressure on the US$ with respect to other global currencies. According to the International Monetary Fund's (IMF) latest forecasts, the U.S. is projected to grow by 1.6% in 2008 and slow to 0.1% in 2009. The ongoing financial crisis in the U.S., show that the credit crisis is intensifying and threatening the U.S. economy.

In addition, real interest rates in the U.S., as we had predicted, turned negative as the Fed cut interest rates eight times since September 2007, from 5.25% to 1.50%.



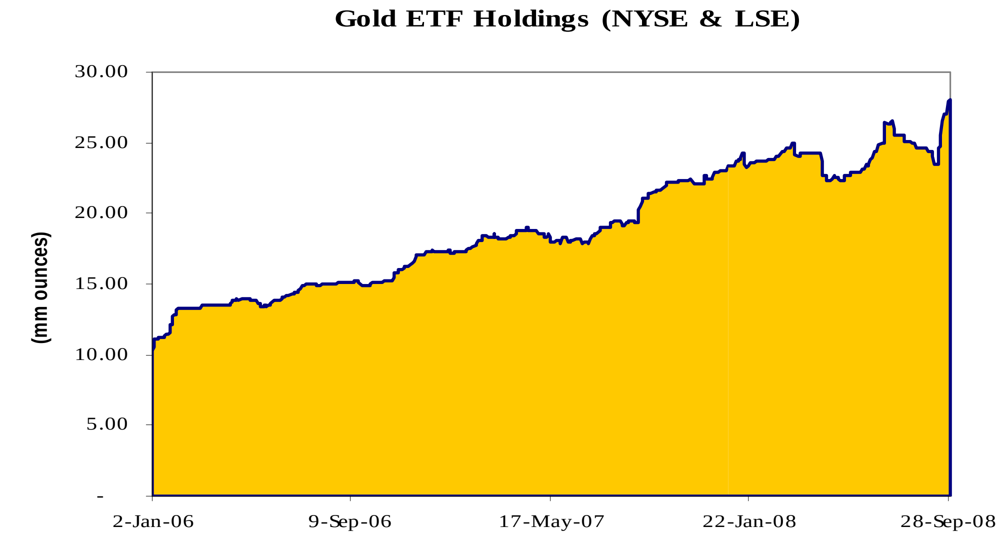
Negative real interest rates are very unfavorable for the US$, as investors typically sell currency and look for alternative safe haven investments, like gold. Although inflation concerns have subdued due to the significant drop in commodity prices and slower economic growth projections, we expect negative real interest rates in the U.S. to persist for the next growth projections, we expect negative real interest rates in the U.S. to persist for the next six months at least.

b) We have noticed a positive correlation between gold and oil prices in times of high oil prices. High oil prices create inflationary expectations among investors and lead them to drift towards gold. The following chart shows oil and gold prices since 1986. We noticed that the positive correlation between monthly log changes in oil and gold prices increased during January 2006 – January 2008, when oil prices were high, from the historic correlation (1986 – 2006) of 0.18 to 0.49; a significant jump.



Although oil prices have dropped significantly, below US$70/bbl, prices are expected to stay above $80/bbl through at least 2010, which we believe will have a positive impact on the demand for gold. However, it is important to note that if oil prices drop from current levels, we believe, they will put downward pressure on gold prices.

c) The drop in investment demand in early September (as shown in the following chart), we believe, partially explained the drop in gold prices in the first half of September.



Source: ETG

We had predicted at that time that the drop in investment demand was temporary, and that we expect demand to increase as gold continues to hold its status as a 'capital preservation asset'. Investment demand actually increased by 19% during September 10, 2008, and October 1, 2008, and so did gold prices. Gold prices moved up by 13% during the same period.

In summary, we continue to be bullish on gold prices in the near term based on a weakening U.S dollar, high oil prices and strong investment demand. The average consensus forecasts for gold prices are US$885/oz in 2008, and US$900/oz in 2009. We expect prices to moderate beyond that point as the US economy and the global GDP growth improve. We have maintained our long-term gold price assumption (2012+) at US$600/oz.

Our models indicate that GOR's share price has had little correlation with gold prices based on data since January 2006. A regression analysis between the daily changes in GOR's share price and gold prices gave a beta which was not significant.

Financials

At the end of April 2008, the company had cash and working capital of $6.06 million and $5.94 million, respectively. GOR had a net loss of $1.16 million (EPS: -$0.02) for the 9-month period ended April 30, 2008, compared to a net loss of $1.16 million (EPS: -$0.03) in the same period in the previous year.

We estimate the company had a burn rate of $0.37 million per month for the 9 months period ended April 2008, compared with $0.27 million per month for FY2007. The following table shows the company's cash position and liquidity ratios.

C$	2003	2004	2005	2006	2007	2008 (9 mon)
Current Ratio	4.62	5.80	10.75	11.15	15.24	9.62
Working Capital (in $)	130,012	153,555	391,627	1,150,271	9,423,916	5,940,480
LT Debt / Assets	-	-	-	-	-	0.47%
Burn Rate (in $)	(43,572)	(51,968)	(83,648)	(125,472)	(266,276)	(369,058)
Cash from Financing (in $)	597,983	531,141	1,238,885	2,280,212	11,737,327	647,377

Recent Financing: In February 2008, the company sold about 1.05 million Molycor shares for net proceeds of about $0.22 million. There was no major financing subsequent to the quarter ended April 2008.

Stock Options and Warrants: At the end of April 2008, the company had 4.89 million stock options outstanding, with exercise prices ranging between $0.17 and $0.65, and expiry dates between September 2008 and January 2012 (none of the stock options are currently in the money). The company also had about 8.80 million warrants outstanding with an exercise price of $0.75, and expiry date in May 2009 (none of the warrants are currently in the money).

Conclusion: As of April 30, 2008, the company had $6.06 million in cash. Assuming the company continues to burn at $0.37 million per month (9-month burn rate), we estimate the company currently has about $4.03 million cash, which will be able to fund its projects and working capital for 11 more months.

Valuation

Our revised valuation of Goldrea Resources (shown below) is $0.20/share, compared to $1.20/share in our previous report. The drop in our valuation was primarily due to the drop in resource estimates from the company's Rushan Joint Venture project. We have also included our valuation of the Gold Rush property based on its historical resource estimate.

Valuation Summary	
Rushan Joint Venture	$0.11
Gold Rush Property	$0.01
Working Capital - Debts	$0.08
Average	**$0.20**

Valuation of the Rushan Joint Venture project: As shown in the table below, our discounted cash flow (DCF) and real options valuation models gave a fair value estimate of $0.12/share and $0.09/share, respectively, on the project.

DCF Valuation Summary	
Mineral Resources (in million tonnes)	2.66
Average Gold Grade (g/t)	2.03
Contained Metals (troy oz)	173,379
Recovery - conventional	84%
Recovered Gold (troy oz)	145,639
Mine Life (years)	6
Initial Capital Costs	$4,000,000
Processing Costs by Daye Mill ($/tonne)	$33.6
Discount rate	15.00%
Net Present Value	**$6,712,859**
No. of Shares	58,210,000
Fair Value per Share	**$0.12**

Real Options Valuation

	Resources (in tonnes)	Category	Grade (g/t)	Contained Metal (in troy oz)	Price(US$/oz) (Average Price in DCF)	Value (C$)
Gold	2,656,500	NI 43-101	2.03	173,379	700	104,342,705

Operating Costs ($/tonne)	$33.60	Total Value (C$)	$104,342,705
Recovery (Au)	84%	Operating Costs (C$)	$79,439,976
C$/US$	1.15	Net Value (C$)	$24,902,729

Inputs relating to the underlying asset	
Estd. Mineral Resources (in tonnes)	2,656,500
Estd.Value of Minerals if extracted today	$23,655,458
Annualized Standard Deviation of Mineral prices	19%
Capital Investment	$4,000,000
Estd. Mine Life (years)	6
Riskfree Rate	3.71%

Output

Stock Price	$23,655,458	T.Bond rate	3.71%
Strike Price	$4,000,000	Variance	0.04
Expiration (in years)	6.0	Annualized div yield	16.7%

d1 =	2.382		
N(d1) =	0.991	Value of Option	$5,514,952
d2 =	1.916	No of outstanding shares (diluted)	58,210,000
N(d2) =	0.972	**Value per share**	**$0.09**

Since the company terminated its agreement to acquire the Daye Mill, but still plans to process its ore at the mill, we have made the following assumptions regarding ore processing costs and capital costs in our valuation models:

- **Processing Costs** – Based on our discussion with management, the quoted costs to process ore by the Daye Mill were very competitive during the initial Joint Venture negotiations. However, the company indicates the price structure has to be revised, and GOR currently does not have a firm price for milling. We have assumed a processing cost of $33.6/tonne, which we believe represent a significant premium to operating costs of similar gold mines in China.

- **Capital Costs –** Management has also told us there has been no discussion of capital required at this point in time and expects the milling to be carried out on a custom milling basis. Nonetheless, we have included capital costs of $4 million for conservatism in our valuation models.

Overall, we believe the company is in a good position to obtain favorable terms to use the Daye Mill, since the mill is currently at a lower production from its own open pit mine (as the open pit resources have been exhausted, the mill is in transition from an open pit mine to an underground mine). According to management, the Daye Mill is highly underutilized and Goldrea could provide feed to the Mill.

Our average valuation on the Rushan Joint Venture project is $0.11/per share.

Valuation of the Gold Rush property: Based on a resource estimate of 20,800 oz of gold (50% of historical resource estimate), we valued the Gold Rush property at $0.01/share, based on an average EV/Resources ratio of $39.7/oz.

	Company	SYM	Price	Enterprise Value	Resource (Au in oz)	EV / Resources
1	Lake Shore Gold Corp.	TSX: LSG	$1.52	143,170,232	1,035,290	138.29
2	Harvest Gold Corp.	TSXV: HVG	$0.19	7,672,029	140,954	54.43
3	Golden Band Resources Inc.	TSXV: GBN	$0.33	40,762,816	881,323	46.25
4	GLR Resources Inc.	TSX: GRS	$0.30	20,222,496	1,091,687	18.52
				Average		**39.7**
				Fair Value		**$0.01**

Note: Share prices are YTD averages.
The ratio was based on all of measured and indicated, and half of inferred and historic resource estimates.
Average does not include 1, as it is an outlier.

Conclusion & Rating

Based on our valuation models and review of the company's progress, we maintain our BUY rating, but lower our fair value estimate to $0.20/share from $1.20 primarily due to the drop in resource estimates on the company's Rushan Joint Venture project. Our fair value estimate reflects upside potential of 237% from current price levels.

Risks

- The company will have to continue to rely on equity or debt financing to carry out its exploration and development activities. The company's ability to raise cash will depend on its share price, and a depressed share price will limit Goldrea's ability to finance future initiatives without significantly diluting the interest of existing shareholders.
- A long-term drop in the price of gold to its historic lows would have a negative effect on the share price of the company.
- The success of drilling, project development and resource expansion are important long-term success factors for the company.

At this time, we remain cautious until the company actually starts to process its ore in the Daye Mill. Therefore, we have raised our risk rating to 5 (Highly Speculative), up from 4 (Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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