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Investment Analysis Group

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Gold Reserve: Discussing our New Investment Thesis

Summary

- The company is currently **waiting for certain construction permits** from the Venezuelan government before construction.
- **Venezuela recently announced a possible legislation** that would require the state to own a 50% stake in all future mining operations. GRZ, along with a peer company, Crystallex (KRY: AMEX) stock dropped promptly after the announcement. We believe the market misinterpreted the information which provides us with a buying opportunity because:
 1. **Gold Reserve will not be affected by the legislation.** The government is only targeting companies with existing mines that have not begun operation or have not actively pursued commencement of their project.
 2. Some articles even venture to guess that the entire announcement might just be media scare and rumor, which is not uncommon in the United States because of its general negative views on Chavez's leftist "Bolivarian Revolution", and from experiences in dealing with Chavez and his attack on oil companies.

Recent Performance

GRZ (since Oct. 27, 2006)



Source: Yahoo! Finance

Company Data

| | |
|-------------------------|-------------------|
| Company Name | Gold Reserve Inc. |
| Sector | Basic Materials |
| Ticker | GRZ |
| Closing Price | \$3.92 |
| Beta | 3.59 |
| Rating | Buy |
| Data | |
| Market Cap (\$MM) | 157.84 |
| 52 Week Range | 1.75-9.75 |
| Avg. Daily Vol. (thou.) | 47,953.71 |
| Shares (MM) | 39.96 |
| Cash/Share | 1.045 |

Source: IAG Estimates, and Company Reports

Feasibility Summary

| | | |
|--------------------------|-----------|-----------|
| Gold Price | \$500.00 | USD |
| Total Estimated Recovery | 7,776,000 | ounces |
| Grade | 0.703 | g / tonne |
| Metallurgical Recovery | 95% | |
| Time to Construction | 2.5 | years |
| Discount Rate | 12% | |

Valuation

| | | |
|---------------------------------|------------------|---------|
| Total Costs | US\$ | |
| All-in costs | \$263 | oz/gold |
| FCF | \$237.00 | oz/gold |
| Annual gold production | 486,000 | oz |
| Total Annual FCF | \$115,182,000.00 | |
| Taxes | 40% | |
| Annual FCF Net Taxes | \$69,109,200.00 | |
| Annuity PVF | 6.9740 | |
| PV | \$481,966,604 | |
| 2.5 Year No-Production Discount | \$363,054,555 | |

| | |
|--------------------------|---------------|
| Current Enterprise Value | \$116,072,000 |
| Upside Potential | 213% |

Source: Investment Analysis Group Estimates, and Company Reports

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Business Description

- Gold Reserve Inc. is a late-stage gold properties development company operating in Venezuela. The company owns two properties:
 - Brisas: Main value driver for the company; appx. 9.5m in proven & probable reserves, annual production capacity of 486k oz gold and 68m lb copper; estimated mine life of 16 years (all info. According to their latest feasibility study, published 01/2005).
 - Choco 5: Still in exploration and pre-feasibility commencement stage.

Industry Analysis

- Over the past few years there has been a significant increase in gold production globally, yet production is off its 2000 highs. The production increase was due to a rapid increase in commodity prices. Recently these prices have corrected as their rapid growth, driven by a sharp increase in demand from emerging economies like China and India, was unsustainable in the long run. We do not foresee rapid commodity price increases in the near future.
- Gold has also benefited from the devaluation of the dollar and inflation concerns. These catalysts have been mitigated by the pressure on China to revalue its currency, and the FED's tightening cycle which has demonstrated its concern for monitoring inflation.
- **Our investment thesis for GRZ is NOT primarily driven by the price of gold, and is valid at gold prices above \$500.** GRZ's value is derived from its gold reserves estimated by the feasibility study.

Financials

The company has not recognized any revenues from operations. The mine operations will be funded by a recently closed IPO which yielded about \$30MM for the company.

Summary & Recommendation

Although it is uncertain when the company will gain the necessary permit to start mining the Brisas project, we believe there is enough evidence suggesting it will be issued during our investment horizon. The current political environment in Venezuela may encourage candidates to push-through legislation in order to get elected. Also, GRZ has already obtained the required environmental permits for the project. We maintain a "Buy" recommendation on the stock as long as gold prices remain above \$500, and the political environment in Venezuela does not deteriorate.

Acknowledgements

We would like to acknowledge Andrew Yeh and Ming Che for contributing to this report.

Rating Definitions

Buy – Near-term positive outlook on the stock. We believe that investors should be long this stock based on expected stock and/or sector catalysts in the coming one to three months.

Neutral – The stock will perform in-line with its relevant sector or market as defined by the analyst in the coming 12 months.

Sell – Near-term negative outlook on the stock. We believe that investors should be short this stock based on expected stock and/or sector catalysts in the coming one to three months.

Contact Information

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Disclosures

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