

# Growth Stocks Weekly

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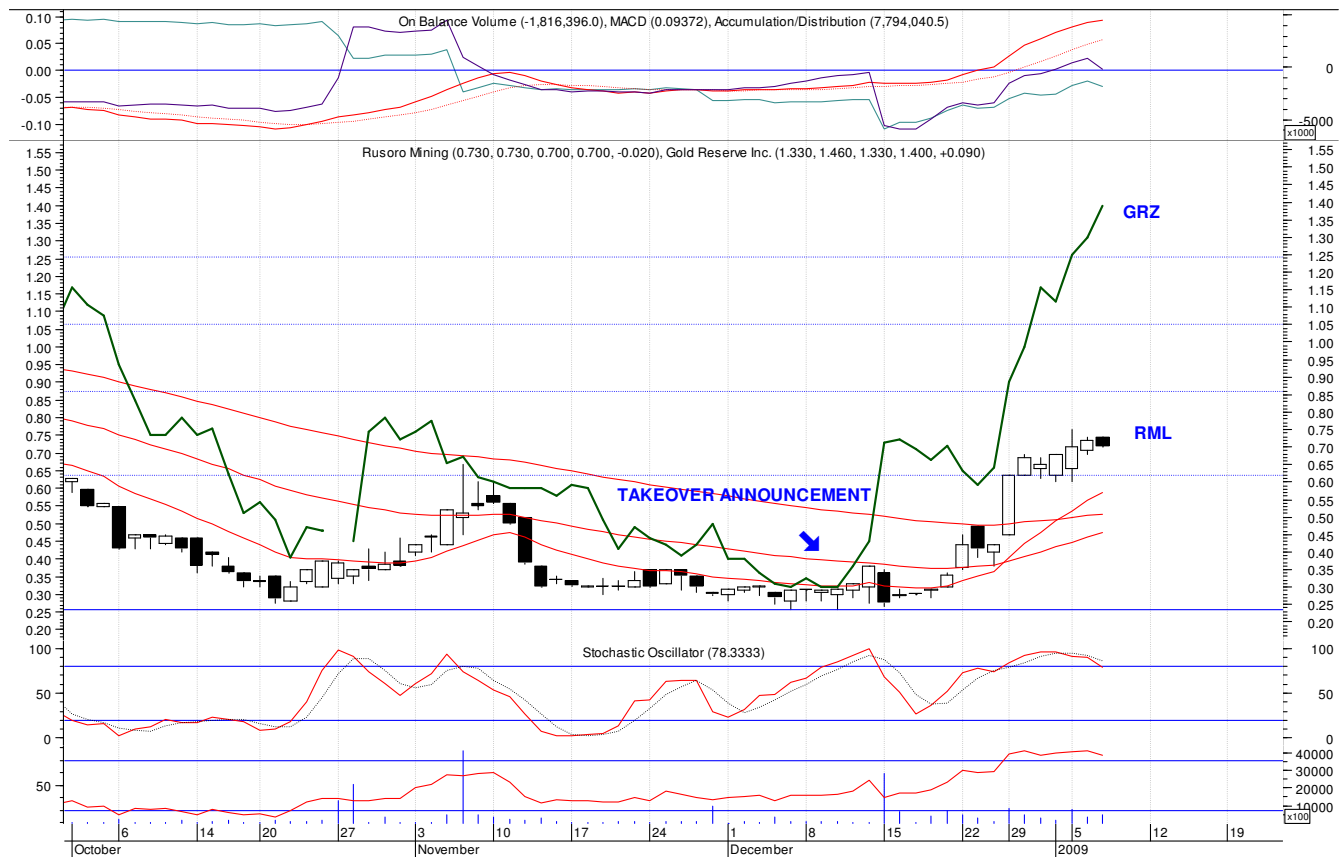
Publisher: Agilis Capital Corporation, Inc. ~ Since: May, 1995 ~ Editor: Richard Reinhard ~ E-Mail: [reinhard@shaw.ca](mailto:reinhard@shaw.ca)

Performance: 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

## Junior Gold and Natural Resource Sector Report

January 7, 2009

### Consolidating Venezuela's Gold Belt RUSORO MINING (RML-TSX Venture) UPDATE



Daily chart: Comparison of GRZ and RML share performance

#### Rusoro's Takeover Bid for Gold Reserve

On December 15<sup>th</sup> Rusoro made a hostile bid for control of Gold Reserve (GRZ-TSXv), offering shareholders an exchange of 3 Rusoro common shares for each Gold Reserve Class A common share.

Gold Reserve owns the massive Brisas gold/copper project and Choco 5 gold exploration property in Bolivar State, Venezuela. The prize there is a potential open pit mine containing a measured and indicated mineral resource of 11.8 million ounces of gold and 1.6 billion pounds of copper, with an expected mine life of over 18 years.

After 16 years in Venezuela and spending an estimated US\$230 million on Brisas alone Gold Reserve management has been unable to acquire the necessary permits to start development and production, and recently started selling off key pieces of equipment.

Rusoro Mining's management are experienced operators in Venezuela with strong governmental relationships. Since 2002, Rusoro spent in excess of US\$100 million and has grown from an advanced explorer to a growing junior gold producer with a significant gold Reserve/Resource base. Rusoro is currently a pure gold producer of about 100,000 oz/year, and is targeting to ramp up production to the 500,000 oz/year level by late 2010.

Rusoro is already a significant consolidator in the region, having recently acquired 100% of Gold Fields' Venezuelan assets for US\$150 million in cash, 140 million shares and US\$30 million in a convertible vendor take-back loan, for a total transaction cost of about US\$516 million. Through this transaction Gold Fields became the single largest shareholder of Rusoro, holding approximately 38% of the company's shares.

On December 15<sup>th</sup> Rusoro's offer to Gold Reserve represented a premium of 140% to Gold Reserve's share price, and a 209% premium based on the volume-weighted average trading prices for Rusoro and Gold Reserve for the previous 30 trading days.

For a more comprehensive discussion of the dynamics of this play and Rusoro's bigger picture consolidation plans please refer to our December 15<sup>th</sup> report: <http://www.growthstocksweekly.com/pdf/GSW-RusoroMining-121508.pdf>

### ***Gold Reserve's defensive measures failing***

Gold Reserve has been issuing increasingly desperate press releases designed to win over shareholder opinion – a battle largely being lost judging from the market reaction. Gold Reserve's sweeping generalizations and innuendo offer little in the way of substance.

Yesterday Gold Reserve announced that it filed an investor presentation with Canadian securities regulatory authorities and the Securities and Exchange Commission "in connection with Rusoro Mining Ltd.'s ("Rusoro") (TSX-V: RML.V) unsolicited offer to acquire Gold Reserve". The market's subsequent reaction tells us that Gold Reserve's shareholder base will indeed tender their shares before the deadline of January 21st.

As can be clearly seen in our comparison chart at the lead page of this update, Gold Reserve's share price is under strong accumulation as the "arb" between Rusoro's share price and the three-shares-for-one offer becomes increasingly less risky. We read the market's strength as institutional support for Rusoro's bid, and their willingness buy Gold Reserve shares in anticipation of receiving the tender value, which still offers a "takeover premium" of 47% based on Rusoro's close of \$0.71 and Gold Reserve's close of \$1.45 today. Three shares of Rusoro still represent \$2.13 of potential value for each Gold Reserve today.

Gold Reserve's financial advisors, J.P. Morgan Securities Inc. and RBC Capital Markets, have each provided a written opinion dated December 30, 2008 that the consideration offered under the Rusoro Offer is inadequate, from a financial point of view, to Gold Reserve Shareholders.

The same J.P. Morgan and RBC Capital Markets syndicated US\$164.2 million in a combination of Gold Reserve convertible notes and common shares to its clients with Gold Reserve shares at \$5.80 per share. Anything less than \$5.80 a share is going to represent a paper loss to the clients of J.P. Morgan and RBC Capital Markets who participated. It may come down to J.P. Morgan and RBC Capital Markets negotiating directly with Rusoro management at the end of the day to give them some hope to ever see their money back.

### ***Conclusion***

While Rusoro's offer is admittedly well-timed and "opportunistic" -- praying on Gold Reserve's failure to find traction in Venezuela's "it's not what you know, but who you know" quagmire, this is where survival of the fittest is the only law. The most important element necessary to unlock shareholder value in Venezuela is relationships. Rusoro has proven itself in this aspect, and has the ability to raise capital and bring in expertise to get the job done. Gold Reserve shareholders are enjoying a quick 400% increase in their share price thanks to Rusoro's efforts, which can quickly evaporate should the bid fail. Hopefully they are smarter now than they were when bought into the dream (nightmare) at \$5.80 per share.

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