

Electra Inks Pivotal Deal with World's Largest Cement Co.

Contract with Lafarge Expected to Grow

ELT BUILDING HIDDEN VALUE

In an announcement made in late August, Electra Gold Ltd. finally revealed the name of the party it has been negotiating with for several months—a party that will likely become a major buyer of ELT's mineral commodity.

Cement—a word that barely draws attention. Yet consider the scale of the world cement market, and the fact that being the world's number one cement company has put Lafarge consistently within the ranks of the Fortune 500 largest companies. Since its inception in 1833, the company has created immense wealth for stakeholders. Cement, dull, you say?

While so much media focuses on precious metals, copper, diamonds and other high profile commodities, it's easy for investors to overlook the opportunity in industrial minerals. Maybe that's why you don't find many emerging growth companies in the industrial minerals space—and that's what makes Electra a rather unique opportunity.

The company has been building a solid business providing essential material for cement production along the west coast of North America for several years. With the recent addition of a new, million dollar, high capacity loading facility near its Vancouver Island, Canada property, ELT has positioned itself for

a new phase of growth. With new additions to the company's property holdings, and with Lafarge now committed to a trial run in west coast cement operations, Electra also looks to be succeeding in growth and diversification, both geographically and in product range.

Yet the company's market capitalization remains modest, with fewer than 30 million shares outstanding and a price under twenty cents, the sub-\$5.0 million market cap could easily undergo a bump up in value in the near future. Not the brassy appeal of gold or silver, ELT's industrial minerals could provide investors with very solid growth, and offer those not positioned in this sector an almost singular form of diversification.

Given recent market turmoil, ELT's significant and growing revenue distinguishes it from the mass of juniors, who are mainly exploration outfits. Investors looking for value backed by assets and cash flow will find plenty of interest in ELT.

If Lafarge finds the company's material runs well in its operations, and given the fact that this material already runs well in other cement plants, then it is likely the deal will be expanded. Cement companies typically look for a longer-term supply source, and a contract covering several years would not be out of line. Such a deal would be valued in the millions, and would translate into improved bottom line performance, as well as greater cash flow and stimulate corollary, future growth initiatives.

CHALKY GEYSERITE AN ESSENTIAL MATERIAL

To make cement, manufacturers need two key components—alumina and silica. Over the years, cement companies have shown interest in a single rock that supplies both. This is chalky geyserite.

The company's Apple Bay Project, located on

Electra Gold Ltd.

TSX-V:ELT

Shares OS
approx. 28.0 million

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Vancouver Island near Port Hardy and its well-developed infrastructure, covers readily accessible silica and alumina resources. The general geyserite section within its quarry and adjacent areas consists of an approximately 20–35 m layer of the material.

Based on a computer-generated, three-dimensional model from diamond drilling, drill indicated resources of chalky geyserite stands at 2.9 million tonnes with an average grade of 79.32 per cent silica, 13.4 per cent alumina and 7.78 per cent iron (as calculated by J. Nilsson, P.Eng. to 43-101 standards). Mining operations currently encompass only one of nine such zones known to lie within property boundaries at present.

Based on the scale and quality of the material, Electra Gold negotiated a five-year major contract with Ash Grove Cement's Seattle plant and is currently conducting a trial run with Lafarge in the Pacific Northwest.

Ash Grove has invested \$1.0 million in ELT's new high capacity load out facility that will allow for greater, rapid, and expanding volume shipments of ELT chalky geyserite along the Pacific coast. Ash Grove also funded acquisition of ELT's modern truck fleet.

KAOLIN

In Georgia, they call it "white gold." Kaolin, a soft, white material composed of the clay mineral kaolinite, finds its way into scores of every day products from toothpaste to plastic milk containers.

Kaolin is one of several types of clay, and is commonly referred to as China Clay or Paper Clay. In Georgia, kaolin was first mined in Colonial days and shipped to England. The famous Wedgwood Pottery there used considerable amounts of clay from the colonies until the English mines were opened.

Today, kaolin is the state's leading mineral product. Georgia produces about 72 per cent of the total kaolin production of the United States.

Of the one and one-half million tons of kaolin produced annually in the United States, approximately 56 per cent goes to the paper industry, where it is used as a pulp-filler as well as for coating. Filling adds weight, opaqueness, and whiteness. Coating imparts high gloss. Some newspapers have kaolin content of about

two per cent, while magazines with a relatively high gloss contain on the average of thirty per cent. With the advent of high-speed coating equipment, the production of paper clays increased to the extent that it has nearly doubled in the past ten years.

Rubber products consume about 16 per cent of the country's kaolin, with a major portion of the remainder going into such products as linoleum, paints, inks, leather, refractories, and pottery. Within the past few years, kaolin has been used in insecticide, fertilizers, and plastics.

While British Columbia, Canada is known world wide for its forest products industry, including pulp and paper manufacturing, until Electra Gold came along there was no commercial source of kaolin in the province. As a result, local industry has had to import kaolin from Georgia, pushing up cost and hampering industry's competitive position.

The proximity of Electra's kaolinite deposits in Lang Bay, near Powell River, to the large pulp and paper industrial complexes in B.C. offers customers a potentially significant cost saving in terms of shipping a locally sourced product.

MICA

The company has recently bought past-producer Canoe South flake mica deposit and the Albreda mica deposit. Acquisitions of these mica deposits are a result of continuing industrial mineral research by ELT. The company paid only the cost of staking for the claims.

ELT expects to confirm the suitability of these mica deposits for the flake muscovite market in North America. The North American market is estimated to be 45 per cent in the formulation of joint compounds in the automotive industries, 30 per cent for paints and coatings, 5.0 per cent for drilling muds, and 4.0 per cent for plastics with a broad range of applications making up the balance. North American markets are estimated to consume in excess of 100,000 tonnes per year. Electra intends to concentrate on low-volume but high-value-added mica products.

It is believed that the use of white/colourless mica as a replacement for fiberglass as a filler in the production of plastic auto bodies has great growth potential. Not only is it much less expensive than fiberglass it also has two-dimensional strength and superior flatness in comparison with the fiber shape of the glass

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OPERATIONS ON UPTREND

Sales for Q1 2007 were up 32 per cent over the same quarter in 2006. Taking into account down time due to construction of the new load out facility, ELT projects increased rate of earnings for 2007 prior to accounting for any business with Lafarge.

The company has appointed a new CFO in Marcy Keisman. Ms. Kiesman is a Certified Management Accountant with varied work experience holding accounting positions ranging from controller of a multinational non for profit to the CFO of a TSX Venture listed company. Most recently, Mrs. Kiesman has taken on contract management accounting and CFO duties for both private and publicly listed companies.

The company also completed a 1.25 million unit financing at a premium to market during the first half of 2007. Funds will be allocated to ongoing expansion plans. Insiders took down virtually the entire financing. Currently management and directors hold close to 30 per cent of the company. Estimates place the public float at approximately five million shares.

The new contract with Lafarge, the world's largest cement producer, as well as the acquisition of mica properties, further solidifies ELT's growth prospects, and it is likely that revenue for the remainder of the year will be significantly higher. Revenues for 2006 amounted to \$2.3 million, or approximately \$0.10 per share.

Ethical Operators

ELT works in partnership with the Quatsino First Nations community and has made a point of conduction itself in an environmentally and socially responsible manner.

While management changes in the past year have resulted in some of the more visible ethical proponents step into new roles, ELT remains committed to the values inculcated by company founders as it expands operations.

SUMMARY

Electra Gold continues to deliver on business plan goals. We first looked at this company over a year ago, and since then ELT has moved forward on expanding operations and improv-

ing bottom line performance. Following our report, the stock achieved a 400 per cent increase. Since then, the stock has consolidated to current levels. Meanwhile, the company has substantially improved its prospects through capital expansion and new customer orders.

The deal with Lafarge represents the beginning of what will likely be a long-term, large-scale contract for supply of geyserite for cement production.

If this contract materializes, and there is every reason to believe it will, ELT will be suppliers to two major cement producers in Lafarge and existing customer Ash Grove Cement Company.

Shipments to Ash Grove rose last year, and the company negotiated a six per cent price increase for its chalky geyserite.

The company has substantial and growing cash flow from operations, and is expanding into additional industrial minerals. The acquisition of mica properties could contribute significantly to sales and profitability going forward. Mica may become a key component in plastic automotive parts, a market expected to continue healthy growth.

ELT stock is now trading at or near the bottom of its 52-week range, and with growing cash flow, sales, and an expanding portfolio of industrial mineral properties, along with an emerging business relationship with the world's largest cement maker, Electra Gold looks to be an attractive addition to a well-diversified investment portfolio.

Moreover, there are few, if any, emerging resource companies at these price levels in the industrial minerals space. The opportunity for leveraged share price appreciation and total capital gains is considerable.

Recent market shakeups may have left investors jittery, but times like this are often the best opportunity to re-align holdings and make some excellent buys. Those with the foresight to step in now could ultimately be the best rewarded of all Electra gold investors. ☺

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