

Gryphon Gold (TSX: GGN, OTC BB: GYPH) - Positive pre-feasibility study on the Borealis Oxide Project

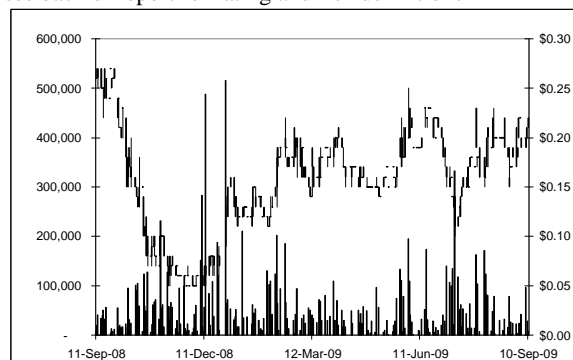
Sector/Industry: Junior Exploration/Mining

www.gryphongold.com

Market Data (as of September 11, 2009)

Current Price	C\$0.235
Fair Value	C\$0.70 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.05 - C\$0.27
Shares O/S	67.96 mm
Market Cap	C\$15.97 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	7.09
YoY Return	-13.0%
YoY TSX	-10.8%

*see back of report for rating and risk definitions



(Note: All figures are in US\$ unless otherwise specified)

Key Financial Data (FYE - March 31)

(US\$)	2008	2009	Q1-2010
Cash & Cash Equivalents	4,347,937	799,517	627,815
Working Capital	3,937,611	(4,281,691)	(4,646,571)
Mineral Assets	12,209,864	6,687,831	6,786,269
Total Assets	17,192,800	7,918,328	7,695,956
Net Income/(Loss)	(7,850,766)	(9,943,231)	(395,716)
EPS	(0.13)	(0.16)	(0.01)

Investment Highlights

- The pre-feasibility study on the Borealis Oxide Project showed a 27% increase in Au equivalent resources in the measured and indicated categories.
- The base-case scenario has an after-tax net present value of \$12.5 million at a 5% discount rate (\$8.26 million at a 10% discount rate), an after-tax internal rate of return (IRR) of 27%, and a 2.25 year payback period, based on a gold price of \$800/oz and a silver price of \$12/oz.
- Our DCF valuation model, at the time of our initiating report on February 23, 2009, had estimated an after-tax NPV (at a discount rate of 11.5%) of \$8.93 million.
- Gryphon continues to utilize a joint venture model to advance Nevada Eagle's properties while reducing risks:
 - a) Enters into a Lease Agreement on the Hole in the Wall Property with Newmont Mining Corporation (NYSE: NEM).
 - b) Sells its Blue Mountain Project to Nevada Geothermal (OTCBB: NGLPF; TSXV: NGP).
 - c) Signs Letter of Intent on the Argentite Property in Nevada
- GGN currently has about \$0.97 million in cash. Although the company has considerably reduced its burn rate, Gryphon has to raise capital to repay its convertible promissory note and to advance the Borealis property.

Gryphon Gold is primarily focused on the Borealis gold property in Nevada, which has a NI 43-101 compliant resource estimate of 1.5 million ounces measured and indicated, and 1.1 million ounces inferred. The property has an oxide resource that is amenable to heap leaching. The company is using the joint venture model to advance a portfolio of over 50 properties acquired through the acquisition of Nevada Eagle Resources.

Overview

The following is a summary of the major developments since our initiating report in February 2009:

- Encouraging pre-feasibility study results on the Borealis Oxide Project in Nevada.
- Enters into a lease agreement on the Hole in the Wall Property with Newmont Mining Corporation (NYSE: NEM).
- Sells its Blue Mountain Project to Nevada Geothermal (OTCBB: NGLPF; TSXV: NGP).
- Signs Letter of Intent on the Argentite Property in Nevada

**Encouraging
Pre-Feasibility
Study on the
Borealis Oxide
Project**

On July 20, 2009, Gryphon Gold announced the receipt of a positive pre-feasibility study on its Borealis Oxide Project in the Walker Lane Belt of Western Nevada. According to the study, the base-case scenario has an after-tax net present value (NPV) \$12.5 million at a 5% discount rate (\$8.26 million at a 10% discount rate), an after-tax internal rate of return (IRR) of 27%, and a 2.25 year payback period, based on a gold price of \$800/oz and a silver price of \$12/oz. The following table shows the sensitivity of the NPV and IRR to changes in gold price assumptions.

	Gold price	
	\$800/oz	\$900/oz
Net Present Value (M\$@5%) - after-tax	\$12.5	\$26.8
IRR (after-tax)	27%	51%

The primary assumptions and inputs used in the base-case scenario are highlighted in the following table.

Base-Case Scenario	
Mineral Resources - M+I	16.65 Mt @0.023 opt Au
Mineral Resources - Inferred(in situ)	7.96 Mt @0.021 opt Au
Mineral Resources - Inferred(heaps/dumps)	17.79 Mt @0.010 opt Au
Annual Production	50,000 gold equivalent oz
Mine Life (years)	5
Capital Costs (US\$, mm)	\$22.60
Operating Costs (US\$/oz)	\$515
Cash Operating Cost (US\$/oz)	\$476
Gold Price (US\$/oz)	\$800
Discount rate	5%
Net Present Value (after-tax) - US\$,mm	\$12.53 mm @ 5%
	\$8.26 mm @ 10%
IRR (after-tax)	27%
Payback	2.25 years

Note: The NPV and IRR analysis was based on only the measured and indicated resource estimates.

The two most noteworthy changes in the pre-feasibility study are the following:

Resource estimate - The pre-feasibility study for the Borealis Oxide Project showed a 27%

increase in Au equivalent resources in the measured and indicated categories (inferred resource estimates changed little) from the NI 43-101 resource estimate released in April 2008.

Operating and capital cost estimates – Although capital cost estimates were almost in line with the PEA (announced in September 2008), operating cost estimates were raised from \$478/oz to \$515/oz.

Our DCF valuation model, at the time of our initiating report on February 23, 2009, had estimated an after-tax NPV (at a discount rate of 11.5%) of \$8.93 million, versus pre-feasibility study NPV estimates of \$8.26 million (at 10%), and \$12.53 million (at 5%). Our NPV estimate is not directly comparable to the pre-feasibility NPV estimates as the pre-feasibility study estimate was based only on the measured and indicated resources, while our estimate was based on 100% of measured and indicated, and 50% of inferred resources. The following table highlights the primary differences between the two models for comparison purposes.

	FRC (previous forecasts)	Pre-feasibility Study
Resource estimate	100% of 340,000 oz Au (measured) + 50% of 375,200 Au (inferred)	Measured + Indicated - 377,356 oz Au, and 3 mm oz Ag
Average Grade	0.02 opt / 0.57 gpt	0.04 opt / 1.2 gpt
Gold Price (US\$/oz)	\$600	\$800
Silver Price (US\$/oz)	\$11	\$12
Operating Cost (US\$/oz)	\$348	\$515
Recovery (Au)	75.0%	65.5%
Capital Costs (in US\$, millions)	\$19.20	\$22.60
NPV (in US\$, mm) after-tax	\$8.93 mm @ 11.5%	\$8.25 mm @10% / \$12.53 mm @ 5%

Overall, we believe the pre-feasibility study results are encouraging, and confirm our opinion that the Borealis Oxide Project is economic.

Current Status - Gryphon's primary objectives continue to be:

- 1. Bring the Borealis Oxide project into production** - It should take approximately 6 months to construct the mine (according to the pre-feasibility study)
- 2. Increase sulphide resource at Borealis**
- 3. Use cash flows from the oxide deposit to help fund development of the sulphide deposit** – An independent scoping study was commissioned to determine the potential of mining the sulphide gold resource (which currently stands at 1.09 million ounces measured and indicated, and 0.72 million ounces inferred). The scoping study, however, was delayed in order to conserve cash.

Joint Venture Model

Gryphon continues to utilize a joint venture model to advance Nevada Eagle's properties while reducing risks. The following were the major developments on the Nevada Eagle properties since our initiating report.

Enters into a Lease Agreement with Newmont - On July 9, 2009, Gryphon Gold reported that its wholly owned subsidiary, Nevada Eagle Resources, entered into a lease agreement with Newmont Mining Corporation, wherein Newmont will undertake exploration and development of the Hole In The Wall property, located on the southeastern extent of the Lovelock-Austin Mineral Belt (Nevada).

Newmont is required to pay annual pre-production royalty payments of \$15,000 in the first two years, and then \$25,000 each year thereafter. Once the project is placed into production, Newmont has to pay Nevada Eagle a net smelter return royalty of 3% at a gold price of up to \$850/oz, to a maximum rate of 5.5% if gold prices exceed \$1,200/oz. 50% of all the payments received by Nevada Eagle will go to Douglas R. Bowden, a private individual who jointly holds the claims with Nevada Eagle.

The Hole in the Wall property, which is in very early stages, has 30 unpatented lode mining claims covering approximately 245 hectares. Recently collected surface rock samples contain up to 3.88 g/t gold, with associated anomalous arsenic (maximum of 3,900 ppm), antimony (maximum of 41 ppm) and mercury (maximum of 15 ppm).

Sells the Blue Mountain Project to Nevada Geothermal - Gryphon, on April 8, 2009, announced that Nevada Eagle Resources (NER), its wholly owned subsidiary, has sold its Blue Mountain project to the Nevada Geothermal Power Company. The Blue Mountain Project, which is 20 miles south of the high grade Sleeper deposit mined by Amax Gold (NYSE: AU; TSX: AXG), has an undeveloped, high level, epithermal gold system.

Nevada Geothermal, on top of the \$50,000 it already paid for the 31 claims on the property, will pay Gryphon a 2% NSR from the core claims, and a 0.5% NSR on any future precious metal production from mineral rights located within the area of interest (17 square miles).

Signs Letter of Intent on Argentite Property, Nevada - In March 2009, Gryphon announced that Nevada Eagle Resources has entered into a Letter of Intent (LOI) on the Argentite property (located in the Silver Peak Mining District about 50 miles southwest of Tonopah, Nevada) to complete an exploration agreement with option to form a Joint Venture with Piedmont Mining Company, Inc. (OTC BB: PIED).

Upon signing a formal agreement, Piedmont will pay Nevada Eagle \$8,000, and will undertake a work commitment of \$0.75 million over a five year period to earn a 51% interest, or up to a 70% interest upon completion of a bankable feasibility study. Piedmont will also make annual payments of \$10,000 by the first anniversary of the agreement, \$15,000 on the second anniversary, \$20,000 by the third anniversary, and \$25,000 by the fourth anniversary, all of which will be credited against the work commitment.

Additions to Board

On August 4, 2009, the company announced that Terence J. Cryan has been appointed to the Board of Directors. A brief biography of Mr. Cyan, as provided by the company, follows:

Mr. Cryan comes to Gryphon with 20 years in investment banking. Mr. Cryan graduated with honours from Tufts University in Medford, Massachusetts with a Bachelor of Arts degree in Economics/Political Science. He then went onto the London School of Economics to earn his Masters of Science degree in Economics. Mr. Cryan began his career in 1985 as a Portfolio Manager/Investment Officer for Chase Investment Management Corp in New York, NY. In 1987 he located to London, England where he gained extensive knowledge of cross border corporate finance as well as mergers and acquisitions. Mr. Cryan's career continued as a managing director at Paine Webber/Kidder Peabody and then served as Senior Managing Director at Bear Stearns & Co. Currently, Mr. Cryan serves as the Managing Director to Concert Energy Partners, LLC and as President & CEO to Medical Acoustics LLC.

Financials

At the end of Q1-2010 (quarter ended June 2009), the company had \$0.63 million in cash. Its working capital deficit was \$4.65 million (primarily due to the convertible promissory note with a face value of \$5 million due in March 2010). Gryphon significantly lowered its burn rate (cash spent on operating and investing activities) from \$0.29 million per month in FY2009 (12 month period ended March 2009), to \$0.10 million per month in Q1-2010. The table below shows a summary of the company's cash position.

(US\$)	2008	2009	Q1-2010
Cash & Cash Equivalents	4,347,937	799,517	627,815
Working Capital	3,937,611	(4,281,691)	(4,646,571)
Current Ratio	7.11	0.18	0.15
LT Debts/ Assets	25.8%	0.0%	0.0%
Burn Rate/Month (incl exploration costs)	(584,344)	(294,030)	(96,775)
Cash from financing activities	6,939,462	(12,700)	-

Stock Options and Warrants: At the end of June 2009, the company had 4.64 million stock options outstanding (weighted average exercise price – \$0.52), and 9.49 million warrants outstanding (weighted average exercise price - \$1.07) outstanding. In July 2009, the company extended and repriced all its outstanding warrants to \$0.18 until September 20, 2009, and \$0.40 from September 21, 2009 to December 31, 2009.

Subsequently, on September 1, 2009, the company announced it had received C\$0.89 million from the exercise of 4.93 million warrants, increasing its cash position to \$0.97 million.

Conclusion: The company currently has about \$0.97 million in cash. Although the company has considerably reduced its burn rate, Gryphon has to raise capital to repay the convertible promissory note (face amount of \$5 million, due March 30, 2010), and to advance the Borealis property. The company has the option to reduce the note payable by 50% by paying \$0.50 million in cash, and issuing 4 million shares. Also, the maturity date of the remaining \$2.5 million note payable would be extended to March 2012. GGN may exercise the option if the royalty on the Borealis property has been fixed at 5% or lower, and there is an arrangement to merge the company or the financing of a mine on the Borealis property has been completed.

Valuation **Our revised valuation on the company increased from C\$0.62 to C\$0.70 per share.**

Valuation	C\$
Borealis	
DCF	\$0.48
Real Options	\$0.64
Comparables	\$0.89
Average	\$0.67
Nevada Eagle Properties	\$0.10
Working Capital net Debt	(\$0.07)
Fair Value	\$0.70

Our valuation went up primarily because of the increase in resource estimates, and higher commodity price forecasts (we have raised our long-term gold and silver price forecasts from US\$600/oz, and US\$11/oz, to US\$750/oz, and US\$13.50/oz, respectively), offset by an increase in operating cost estimates.

Discounted Cash Flow Valuation - A summary of our DCF valuation model on the Borealis (oxide + sulphide) project is shown below:

DCF Valuation Summary - Borealis Gold Project	
Resource - Oxide (in tons) - 100% of M&I + 50% of Inf.	29,525,000
Resource - Oxide (in tons) - 100% of M&I + 50% of Inf.	32,250,000
Grade - Oxide (opt)	0.02
Grade - Sulfide (opt)	0.04
Recovery - Oxide (%)	65.5%
Recovery - Sulfide (%)	90.0%
Recovered Metal (in troy oz)	1,629,923
Production Commencement	2012
Average Annual Gold Production (000' oz per year)	47 (oxide); 100 (sulfide)
Mine Life (in years)	15
Long-Term Au Price (US\$/oz)	\$750
Long-Term Ag Price (US\$/oz)	\$13.50
Average Operating Costs (US\$/oz) - oxide	\$515
Average Operating Costs (US\$/oz) - sulphide	\$450
Capital Costs (in US\$, millions)	\$96.55
Discount Rate	11.5%
Net Present Value (C\$)	\$36,444,794
No. of Shares (diluted)	75,686,855
Value per Share	\$0.48

The following table shows the sensitivity of our valuation to changes in gold price forecasts.

Gold (US\$/oz)	VPS
\$400	(\$1.42)
\$600	(\$0.33)
\$750	\$0.48
\$800	\$0.75
\$1,000	\$1.82

Real Options Valuation – We introduce our real options valuation model in this report. It serves as a check on our DCF and comparables valuation models on the Borealis project. Our real options valuation on the company was \$0.64. All assumptions and inputs are the same as our DCF model.

Rating

Comparables Valuation – We have continued to value the Borealis project's resource estimates based on a multiple of C\$33.5/oz. Our valuation of the resource estimates on the company's Nevada Eagle properties was also based on a multiple of C\$33.5/oz, which we believe is the average EV/Resource of its peers.

Risks

Based on our revised valuation models and review of the recently released pre-feasibility study on the Borealis Oxide Project, we reiterate our BUY rating, and raise our fair value estimate from C\$0.62 to \$0.70 per share.

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company's subsidiary, Borealis Mining Company ("Borealis"), was named as codefendant in a civil action, United States v. Walker River Irrigation District, in 2005. The suit seeks to determine water rights held by the federal government for use on federal lands and does not dispute or seek any existing water rights. As there are many entities with water rights in the Walker River Irrigation District, Borealis is one of several hundred co-defendants. The suit will not invalidate Borealis' water rights, which according to the pre-feasibility study, will allow for an adequate supply of process water for the duration of the project.
- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The value of the company depends on commodity prices, primarily gold and silver.
- Access to capital and share dilution.

We continue to rate the shares a RISK of 5 (Highly 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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