

Gold Springs Resource Corp.
(TSX: GRC / OTCQB: GRCAF)

BUY

Current Price: C\$0.17

Fair Value: C\$0.33

Risk: 5

Surpasses One Million Ounces/Raising Our Fair Value Estimate

Sector / Industry: Junior Mining

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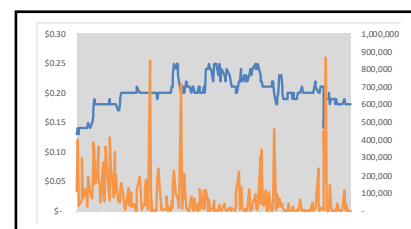
Highlights

- M&I resources **increased 33% to 1 Moz AuEq.** M&I resources account for 87% of total resources (previously 88%). Contained ounces increased due to a significant increase in tonnage (up 42%), partially offset by lower grades (down 4%).
- The updated resource is based on six deposits (previously four) out of 33 known targets. Management's goal is to delineate a 3+ Moz resource within the next two to three years, and position itself as an acquisition target. **We believe GRC's 1 Moz status should allow it to attract more following from larger gold players, financiers, and institutional investors.**
- We believe there is **significant room for resource expansion** as there are multiple untested targets with the same high-resistivity signature as the known resources.
- GRC is conducting a resource expansion drill program comprised of 20,100 m of RC drilling, and 2,000 m of core drilling. Approximately 14 holes/2,828 m of RC drilling have been completed to date.
- An updated resource, and an **updated PEA, are expected in Q1-2023.** As a result of the larger resource estimate, we are expecting a stronger updated PEA.
- We have a **positive outlook on gold prices** due to negative real rates, rising production costs, and as inflation is likely to be persistent through the year (6%-7%), despite rising rates.
- **Upcoming near-term catalysts** include potential for another rally in gold prices, and drill results.

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Price Performance (1-year)



	YTD	12M
GRC	-27%	21%
TSX	-11%	-7%

Company Data

52 Week Range	C\$0.14–C\$0.27
Shares O/S	256M
Market Cap.	C\$44M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	1.4x

Key Financial Data (FYE - Dec 31)

(US\$)	2021	Q1-2022
Cash	\$3,824,025	\$3,622,482
Working Capital	\$3,947,988	\$3,554,466
Mineral Assets	\$19,971,593	\$20,264,490
Total Assets	\$25,166,112	\$24,887,590
Net Income (Loss)	-\$1,488,283	-\$243,313
EPS	-\$0.01	-0.00

*See last page for important disclosures, rating and risk definitions. All figures in US\$ unless otherwise specified.

Significant Resource Upgrade at Gold Springs (Utah-Nevada Border)

The updated resource estimate incorporated results of 2021 drilling at the North and South Jumbo, Tremor, Charlie Ross, and White Point deposits.

A key advantage of Gold Springs is that its deposits are relatively shallow (within a depth of 200 m), with significant surface outcropping

M&I resources increased 36% to 832 Koz Au (previously 610 Koz Au), implying longer mine-life

Grades declined 4%, implying potential for higher OPEX

The update was based on 82 holes (totaling 18,076 m) of additional drilling

Two new deposits (Charlie Ross and Tremor) were added to the resource estimate

Only six of the 33 known targets have resource estimates

Gold Springs Resource Estimate, June 2022

Category	\$1,800 Pit Constrained - 0.25 g/t gold cutoff						
	Tonnes (1000s)	Au		Ag		AuEq	
		Grade (g/t)	Troy oz (1000s)	Grade (g/t)	Troy oz (1000s)	Grade (g/t)	Troy oz (1000s)
Measured	26,493	0.51	439	9.05	7,826	0.64	548
Indicated	24,061	0.50	392	5.94	4,658	0.59	457
Measured & indicated	50,555	0.51	832	7.68	12,484	0.62	1,005
Inferred	8,635	0.45	125	5.03	1,397	0.52	144

* With an effective date of 13 June 2022 and based on the drilling results as of 31.12.2021

Updated Resource by Deposit

Category	Deposit	\$1,800 Pit Constrained - 0.25 g/t gold cutoff					
		Tonnes (1000s)	Gold		Silver		
			g/t	Troy oz	g/t	Troy oz	
Measured	North Jumbo & Tremor	15,752	0.47	240,037	10.88	5,509,666	
	South Jumbo	6,457	0.55	114,558	5.99	1,243,721	
	Grey Eagle	2,852	0.65	59,388	7.23	663,363	
	Charlie Ross	0		0		0	
	White Point	0		0		0	
	Thor*	1,432	0.55	25,395	8.89	409,193	
	Total	26,493	0.51	439,378	9.05	7,825,943	
Indicated	North Jumbo	5,509	0.39	69,433	6.82	1,208,618	
	South Jumbo	5,657	0.55	100,007	4.67	848,739	
	Grey Eagle	4,433	0.59	84,273	7.03	1,002,347	
	Charlie Ross	4,943	0.56	88,292	6.23	990,498	
	White Point	1,274	0.39	16,120	3.81	155,799	
	Thor*	2,245	0.47	34,113	6.26	451,998	
	Total	24,061	0.50	392,238	5.94	4,657,999	
Measured & Indicated	North Jumbo	21,261	0.45	309,470	9.83	6,718,283	
	South Jumbo	12,115	0.55	214,565	5.37	2,092,461	
	Grey Eagle	7,285	0.61	143,662	7.11	1,665,711	
	Charlie Ross	4,943	0.56	88,292	6.23	990,498	
	White Point	1,274	0.39	16,120	3.81	155,799	
	Thor*	3,677	0.50	59,507	7.29	861,191	
	Total	50,555	0.51	831,616	7.68	12,483,943	
Inferred	North Jumbo	1,725	0.38	20,864	4.51	250,229	
	South Jumbo	2,929	0.38	35,474	2.99	281,905	
	Grey Eagle	783	0.39	9,816	5.90	148,327	
	Charlie Ross	1,122	0.60	21,706	8.68	313,143	
	White Point	113	0.31	1,145	2.69	9,798	
	Thor*	1,963	0.57	36,030	6.24	394,002	
	Total	8,635	0.45	125,034	5.03	1,397,404	

* Thor gold cutoff uses a grade of 0.20 g/t due to higher overall grades

Source: Company

2022 Resource Expansion Drilling

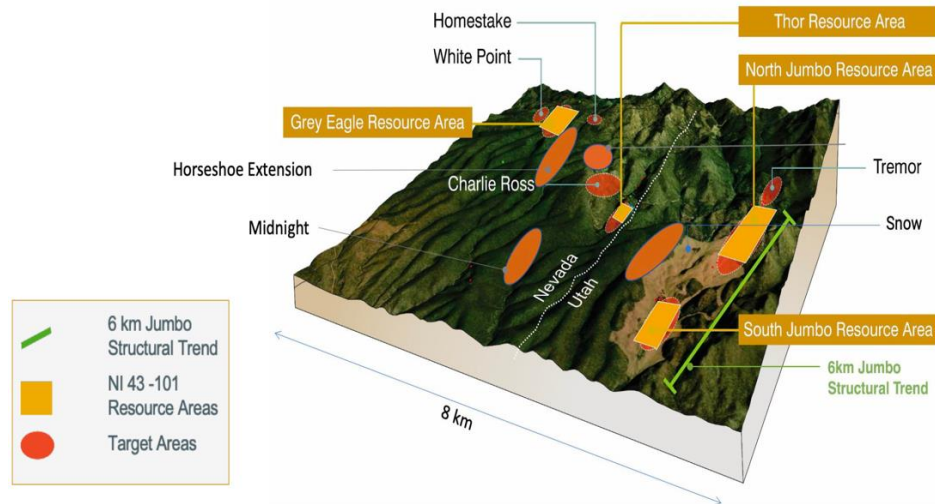
GRC is conducting 20,100 m of RC drilling, and 2,000 m of core drilling. The program is focused on expanding current resources, especially for the Jumbo trend, following-up on recent discoveries (Homestake, Charlie Ross, White Point, and Tremor) and testing five new targets (Pope, Red Light, Midnight, Snow, and Horseshoe Extension).

2022 drilling underway

Following up on recent discoveries

Maiden drilling at five new targets

2022 Drill Targets



Source: Company

After completing the ongoing drill program, the company is aiming to complete an updated resource estimate, and a PEA by Q1-2023. A 2020 PEA, which was based on just four deposits, had returned an **AT-NPV5% of \$154M, and an AT-IRR of 38.9%, using \$1,450/oz gold**. Based on the updated resource estimate, we are expecting a significantly stronger updated PEA.

2020 PEA was based on just four deposits

We are expecting a significantly stronger updated PEA

2020 PEA Highlights					
Commodity Prices (\$ per oz)	Gold - \$1,450 / Silver - \$16				
Strip Ratio	1.6				
Throughput	15,000 tpd (crushed) + 3,200 tpd (run-of-mine)				
Recovery	73% (heap leach crushed) and 40% (heap leach run-of-mine) gold				
Mine Life (years)	8				
Contained gold ounces	708,899				
Contained silver ounces	13,410,951				
LOM payable (recovered) gold oz	490,152				
LOM payable (recovered) silver oz	4,842,140				
LOM annual average gold production (oz)	61,269				
LOM annual average silver production (oz)	605,268				
Cash cost per oz	\$715				
AISC Cost per oz	\$837				
Initial Capex	\$83.5M				
AT-NPV @ 5%	\$153.6M				
AT-NPV @ 10%	\$110.5M				
AT-IRR	38.9%				
Payback Period (years)	2.9				
Gold Price	\$1,300	\$1,400	\$1,600	\$1,800	\$2,000
AT-NPV @5% (000s)	\$106,615	\$137,965	\$200,099	\$261,787	\$323,887

Source: Technical Report / Company

Financials

(in US\$)	2021	Q1-2022
Cash	\$3,824,025	\$3,622,482
Working Capital	\$3,947,988	\$3,554,466
Current Ratio	7.72	11.32
Monthly Burn Rate (G&A)	-\$57,594	-\$52,976
Cash Spent on Properties	-\$3,390,448	-\$465,984
Cash from Financing Activities	6,915,420	32,642

Source: FRC / Company

Healthy balance sheet, with no debt

Non-Equity/Debt Funding of Up to \$20M

GRC has raised \$3M of a \$20M financing. As detailed in our previous report, the financing consists of up to \$10M in Series A secured rights, and up to \$10M in Series B secured rights. Series B will be issued after closing the Series A offering. As a sweetener for early investors, Series A holders will receive 1.5% of the net proceeds (per \$1M investment) of an exit transaction. Series B holders will get 1%. An exit transaction occurs if and when the company is acquired after increasing its resource-base to 3 Moz. The rights will remain outstanding (with no provisions for conversion to equity or debt) until an exist transaction occurs.

Secured rights offering

If fully subscribed (\$20M), investors of this offering will receive 25% of the proceeds from an exit transaction. As junior gold explorers are trading at \$38/oz, a 3 Moz resource-base should be valued at approximately \$114M, implying \$28M for investors of this offering, reflecting a 40% return. The remaining funds (\$85M) will go to existing shareholders. GRC's current MCAP is just \$34M.

In-the-money options and warrants can bring in another C\$0.78M

Stock Options and Warrants: 10.23M options (weighted average exercise price of C\$0.16), and 3M warrants (weighted average exercise price of C\$0.12) are outstanding. All of the warrants and 3.58M options are in the money, implying a potential to raise C\$0.78M.

Valuation and Rating

GRC is trading at C\$37/oz (previously C\$36/oz) vs the sector average of C\$49/oz (previously C\$69/oz)

Based on the sector average multiple, we are estimating a comparables valuation of C\$0.22 per share (unchanged)

The impact of a lower sector multiple was offset by the higher resource estimate

	Company	Enterprise Value (C\$,M)	EV / Resource
1	Osisko Mining	\$1,016	\$224.04
2	Victoria Gold Corp	\$861	\$172.50
3	Pure Gold Mining Inc.	\$243	\$105.81
4	Bonterra Resources	\$133	\$94.97
5	Probe Metals	\$190	\$87.88
6	Marathon Gold Corp.	\$285	\$71.97
7	Monarch Mining	\$54	\$58.32
8	Sabina Gold	\$403	\$51.35
9	Radisson Mining Resources	\$25	\$48.22
10	Sonoro Gold	\$18	\$44.72
11	O3 Mining	\$113	\$38.58
12	Gold Springs	\$40	\$36.70
13	Fury Gold	\$87	\$34.12
14	Gowest Gold Ltd.	\$27	\$33.77
15	Nighthawk Gold Corp.	\$40	\$30.77
16	Gatling Exploration	\$15	\$29.86
17	Moneta Gold	\$156	\$25.30
18	Maple Gold Mines Ltd.	\$37	\$23.15
19	Renforth Resources	\$8	\$22.87
20	GMV Minerals	\$7	\$20.35
21	Rover Metals	\$4	\$20.00
22	Sokoman Minerals	\$39	\$19.49
23	Equity Metals	\$6	\$17.62
24	Cartier Resources	\$25	\$15.59
25	Rio2	\$35	\$6.16
	Average (excl outliers)		\$49.47

* Net Resource = 100% of M&I + 50% of Inferred Resources

GRC's Resource	1,077,000
Average EV/ Resource Ratio (comparables)	\$49.47
Fair Value of Assets	\$53,278,417
WC- Debt	\$4,380,244
Fair Value of GRC's Shares	\$57,658,661
No. of Shares (calculated based on the treasury stock method)	258,313,178
Fair Value per Share (C\$)	\$0.22

Source: FRC/S&P Capital IQ

Our DCF valuation increased from C\$0.34 to C\$0.44 per share due to the higher resource estimate, partially offset by higher OPEX/CAPEX estimates; we are modelling a 12% increase in OPEX/CAPEX estimates to account for inflation

DCF Valuation		
Mine Life (years)	9	
Throughput (tpd)	18,200	
Total Tonnage (Mt)	55	
	Gold	Silver
Avg Grade (Au)	0.51	7.47
Recovery (Au)	73%	40%
Average Annual Au Production (oz)	71,964	583,082
Commodity Price (US\$/oz)	\$1,400	\$18
Initial Capital Cost (US\$, M)	\$94	
Exchange rate (C\$:US\$)	1.29	
Discount Rate	11.5%	
After-Tax Net Asset Value (C\$)	\$110,500,929	
Working Capital - Debt (C\$)	\$4,380,244	
Fair Value of GRC (C\$)	\$114,881,173	
No. of Shares (treasury stock method)	258,313,178	
Fair Value per Share (C\$)	\$0.44	

C\$:US\$ - 1.29		Gold Price (US\$/oz)				
		\$1,200	\$1,300	\$1,400	\$1,600	\$1,800
Discount Rate	5.0%	\$0.41	\$0.59	\$0.78	\$1.15	\$1.52
	10.0%	\$0.23	\$0.37	\$0.51	\$0.79	\$1.06
	11.5%	\$0.19	\$0.32	\$0.44	\$0.70	\$0.96
	12.5%	\$0.16	\$0.28	\$0.41	\$0.65	\$0.89
	15.0%	\$0.11	\$0.22	\$0.32	\$0.54	\$0.75

Source: FRC

We are maintaining our BUY rating, and raising our fair value estimate from C\$0.30 to C\$0.33 per share. Upcoming catalyst include drilling results and potential for stronger gold prices.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Our fair value estimate is highly dependent on gold prices.
- **Exploration and development risks**
- In the event of a hostile takeover, rights holders will receive 5x of their initial investment.
- **Financing risks; access to capital**
- Development, EIA, and permitting risks.

Maintaining our risk rating 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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