

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

**Pursuing a \$20M Non-Dilutive Financing and an Aggressive Resource Expansion Drill Program**

**BUY**

**Current Price: C\$0.13**

**Fair Value: C\$0.30**

**Risk: 5**

**Sector / Industry: Junior Mining**

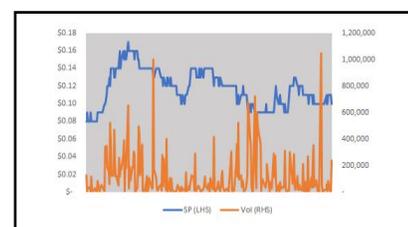
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### Highlights

- Pursuing a \$20M rights offering (non-equity) to fund exploration to potentially increase the resource-base of its 100% owned Gold Springs project to 3 Moz. Rights holders will receive 1.0%-1.5% of the net proceeds (for each \$1M investment), if GRC is acquired after reaching 3 Moz in resources. The project currently has 610 Koz (0.53 gpt) in measured and indicated, and 90 Koz (0.49 gpt) in inferred resources.
- **\$2M raised to date, with \$1M coming from an independent director, reflecting the board's conviction on management's exploration strategy.**
- A major highlight of this innovative rights offering is that it allows GRC to advance its project without any share dilution.
- GRC is conducting a 10,000 m drill program. Approximately 22 holes/3,931 m have been drilled to date. 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. **Only four of 32 known targets have resource estimates.**
- GRC's shares are trading at C\$36/oz vs C\$69 for comparables, based on 100% of measured and indicated, and 50% of inferred resources.
- **Shares are trading at just 22% of the Gold Springs project's AT-NPV10%, using \$1,450/oz gold.**
- We expect gold prices to strengthen in H2-2021, as inflation kicks in from a global economic recovery. We also expect the high volatility in bitcoin prices to drive some investors back to gold.
- **Upcoming catalysts include stronger gold prices in H2, drill results, and the ongoing financing.**

**Sid Rajeev, B.Tech, MBA, CFA**  
Head of Research

### Price Performance (1-year)



|      | YTD | 12M |
|------|-----|-----|
| Ret. | 8%  | 63% |
| TSX  | 15% | 31% |

### Company Data

|                 |                 |
|-----------------|-----------------|
| 52 Week Range   | C\$0.08–C\$0.17 |
| Shares O/S      | 249M            |
| Market Cap.     | C\$32M          |
| Yield (forward) | N/A             |
| P/E (forward)   | N/A             |
| P/B             | 1.2x            |

### Key Financial Data (FYE - Dec 31)

| (US\$)            | 2020         | Q1-2021      |
|-------------------|--------------|--------------|
| Cash              | \$1,595,615  | \$1,475,686  |
| Working Capital   | \$1,871,926  | \$1,387,151  |
| Mineral Assets    | \$18,830,813 | \$19,099,523 |
| Total Assets      | \$23,716,428 | \$23,284,085 |
| Net Income (Loss) | -\$1,350,960 | -\$457,080   |
| EPS               | -\$0.01      | -\$0.00      |

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

*No need to raise additional capital for at least 2 years*

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

In April, the company announced plans to pursue a non-brokered private placement of up to \$20M, comprising of up to \$10M in Series A Secured Rights, and up to \$10M in Series B Secured Rights. The company will start issuing Series B after closing the first \$10M Series A offering. **As a sweetener for early investors**, Series A holders will receive 1.5% of the net proceeds (per \$1M investment) from 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. If the company is acquired prior to reaching 3 Moz, investors of this offering will receive 5x of their initial investment, if the transaction is conducted without their consent. The rights will remain outstanding (with no provisions for conversion to equity or debt) until an exist transaction occurs.

**If fully subscribed (\$20M), investors of this offering will receive 25% of the proceeds from an exit transaction.** As junior explorers are currently trading at C\$69/oz, a 3 Moz resource-base will be valued at approximately \$168M, implying \$42M for investors of this offering. The remaining funds (\$126M) will go to existing shareholders. GRC's current MCAP is just \$26M. Therefore, we believe both shareholders and rights holders have strong upside potential, if management is able to expand the project's resources to over 3 Moz.

| Resource (Moz)                    | 1.50           | 2.00            | 2.50            | 3.00            | 3.50            |
|-----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Rights Holders (\$M) - 25%        | \$21.04        | \$28.05         | \$35.06         | \$42.07         | \$49.09         |
| Existing Shareholders (\$M) - 75% | \$63.11        | \$84.15         | \$105.18        | \$126.22        | \$147.26        |
| <b>Total</b>                      | <b>\$84.15</b> | <b>\$112.20</b> | <b>\$140.24</b> | <b>\$168.29</b> | <b>\$196.34</b> |

Source: FRC

GRC has closed the first \$2M. An independent director subscribed for \$1M. Investors of this tranche also received 2M warrants (exercise price of \$0.11 per share for two years).

## Resource Expansion Drilling

GRC is conducting a 10,000 m (50 holes) drill program. Approximately 22 holes/3,931 m have been drilled to date. The program is focused on expanding North and South Jumbo's resources, and testing the new Juniper target.

The district-scale 80 sq.km Gold Springs project is located on the Nevada-Utah border in the Great Basin of the Western U.S., which includes several historic mining districts

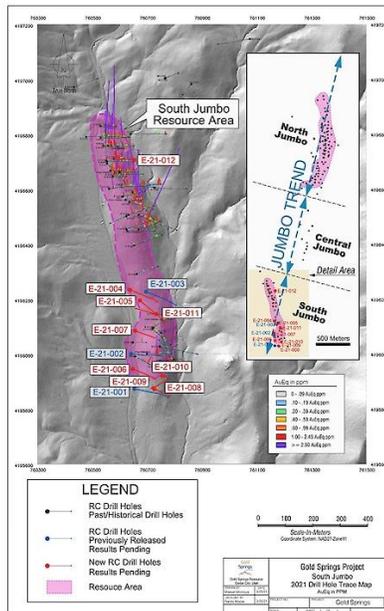
**Project Location**



Source: Technical Report/Company

The North and South Jumbo targets (located 1.5 km apart along a 6 km Jumbo trend) account for 70% of the measured and indicated resource.

**South Jumbo Resource**



Management's initial focus is on South Jumbo

The project hosts low-sulphidation epithermal gold deposits (low-cost, heap leach operations), which are highly prevalent in Nevada

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

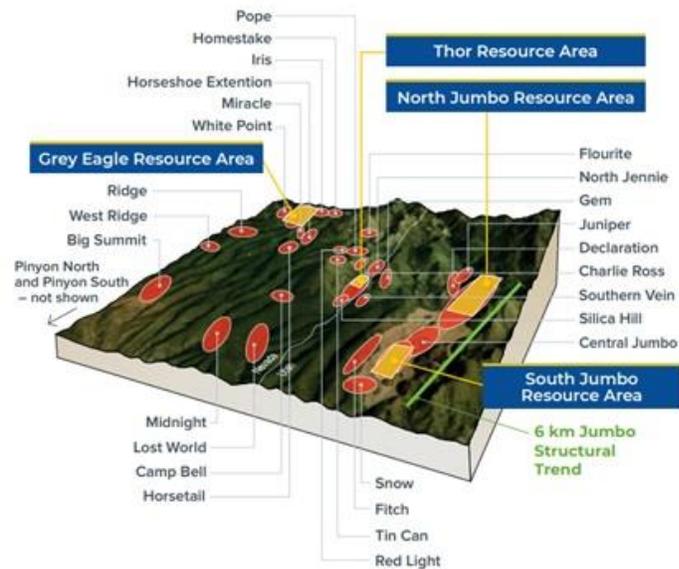
Only four of the 32 known targets have resource estimates

610 Koz (0.53 gpt) measured and indicated, and 90 Koz (0.49 gpt) inferred gold

AT-NPV @ 10% of US\$111M, implying shares are trading at just 22% of AT-NPV

### Four of 32 targets have resource estimates

| Zone        | Dimensions  | Drilling                         |
|-------------|---|----------------------------------|
| North Jumbo | 1,500 m strike, with potential for expanding by another 1,200 m | 95 holes drilled / 14,893 metres |
| South Jumbo | 1,300 m strike, potential for expansion in the southern area    | 37 holes drilled / 5,153 metres  |
| Grey Eagle  | 850 m strike  | 85 holes drilled / 12,275 metres |
| Thor        | 400 m strike, potential for expansion in the southern area      | 14 holes                         |



#### 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

An updated resource is expected in 2021, after completion of the current drill program. Management's upcoming plans are shown below.

Upcoming catalysts



Source: Company

## Financials

\$1.5M in cash at the end of Q1; subsequently raised \$2M from the ongoing financing

| (in US\$)                      | 2020         | Q1-2021     |
|--------------------------------|--------------|-------------|
| Cash                           | \$1,595,615  | \$1,475,686 |
| Working Capital                | \$1,871,926  | \$1,387,151 |
| Current Ratio                  | 3.58         | 2.91        |
| Monthly Burn Rate (G&A)        | -\$77,331    | -\$73,046   |
| Cash Spent on Properties       | -\$1,284,804 | -\$168,657  |
| Cash from Financing Activities | \$52,271     | -           |

Source: FRC / Company

In-the-money options and warrants can bring in another C\$1.1M

**Stock Options and Warrants:** The company has 16.8M options (weighted average exercise price of C\$0.09), and 2M (C\$0.11) warrants outstanding.

## Valuation and Rating

*GRC is trading at C\$36/oz vs the junior gold explorers' average of C\$69/oz (previously C\$61/oz)*

*Our comparables valuation increased from C\$0.21 to C\$0.22 per share; valuation increased due to higher sector multiples, offset by share dilution since our previous report*

|    | Company                        | EV / Resource  |
|----|--------------------------------|----------------|
| 1  | Pure Gold Mining Inc.          | \$327.45       |
| 2  | Victoria Gold Corp.            | \$297.52       |
| 3  | Osisko Mining                  | \$262.94       |
| 4  | Marathon Gold Corp.            | \$226.61       |
| 5  | QMX Gold                       | \$177.35       |
| 6  | Bonterra Resources             | \$103.53       |
| 7  | Probe Metals                   | \$87.88        |
| 8  | Monarch Mining                 | \$73.02        |
| 9  | GMV Minerals                   | \$72.67        |
| 10 | Sabina Gold                    | \$71.99        |
| 11 | Maple Gold Mines Ltd.          | \$69.46        |
| 12 | Fury Gold                      | \$65.49        |
| 13 | Monarch Gold (acquired)        | \$57.69        |
| 14 | Gowest Gold Ltd.               | \$51.28        |
| 15 | Nighthawk Gold Corp.           | \$49.23        |
| 16 | Renforth Resources             | \$48.61        |
| 17 | O3 Mining                      | \$43.71        |
| 18 | Gold Springs                   | \$36.18        |
| 19 | Moneta Porcupine Mines Inc.    | \$30.33        |
| 20 | Gatling Exploration            | \$25.88        |
|    | <b>Average (excl outliers)</b> | <b>\$69.23</b> |

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

Source: FRC / S&P Capital IQ / Various Companies

|   |              |
|---|--------------|
| GRC's Resource (100% M&I + 50% Inf.)                          | 818,078      |
| Average EV/ Resource Ratio (comparables)                      | \$69.23      |
| Fair Value of Assets  | \$64,174,542 |
| WC- Debt  | \$3,806,809  |
| Fair Value of GRC   | \$57,981,351 |
| No. of Shares (calculated based on the treasury stock method) | 257,725,087  |
| Fair Value per Share  | \$0.22       |

Source: FRC

Our DCF valuation decreased from C\$0.37 to C\$0.34 per share due to share dilution

| DCF Valuation                          |                     |                    |
|--|---------------------|--------------------|
| Mine Life (years)                      | 7                   |                    |
| Throughput (tpd)                       | 18,200              |                    |
| Total Tonnage (Mt)                     | 38                  |                    |
|  |                     | <b>Gold Silver</b> |
| Avg Grade (Au)                         | 0.53                | 9.27               |
| Recovery (Au)                          | 73%                 | 40%                |
| Average Annual Au Production (oz)      | 68,307              | 652,314            |
| Commodity Price (US\$/oz)              | \$1,400             | \$20               |
| Initial Capital Cost (US\$, M)         | \$85                |                    |
| Exchange rate (C\$:US\$)               | 1.23                |                    |
| Discount Rate                          | 11.5%               |                    |
| <b>After-Tax Net Asset Value (C\$)</b> | <b>\$84,557,636</b> |                    |
| Working Capital - Debt (C\$)           | \$3,806,809         |                    |
| <b>Fair Value of GRC (C\$)</b>         | <b>\$88,364,445</b> |                    |
| No. of Shares (treasury stock method)  | 257,725,087         |                    |
| <b>Fair Value per Share (C\$)</b>      | <b>\$0.34</b>       |                    |

| C\$:US\$ - 1.23 |       | Gold Price (US\$/oz) |         |         |         |         |
|-----------------|-------|----------------------|---------|---------|---------|---------|
|                 |       | \$1,200              | \$1,300 | \$1,400 | \$1,600 | \$1,800 |
| Discount Rate   | 5.0%  | \$0.34               | \$0.47  | \$0.60  | \$0.87  | \$1.14  |
|                 | 10.0% | \$0.19               | \$0.29  | \$0.39  | \$0.59  | \$0.79  |
|                 | 11.5% | \$0.16               | \$0.25  | \$0.34  | \$0.53  | \$0.71  |
|                 | 12.5% | \$0.14               | \$0.22  | \$0.31  | \$0.49  | \$0.66  |
|                 | 15.0% | \$0.09               | \$0.17  | \$0.25  | \$0.40  | \$0.55  |

Source: FRC

**We are maintaining our BUY rating and fair value estimate at \$0.30 per share. Drilling results and stronger gold prices are likely to be key catalysts for GRC's shares.**

## 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.
- No guarantee that the company will be able to expand its resource-base.
- In the event of a hostile takeover, rights holders will receive 5x their initial investment.
- Development, EIA, and permitting risks.

**As with most junior exploration / development companies, we rate GRC's 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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