

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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Castle Gold Corp. (TSX.V: CSG) – Initiating Coverage; Gold Producer Benefits from Strong Gold Prices

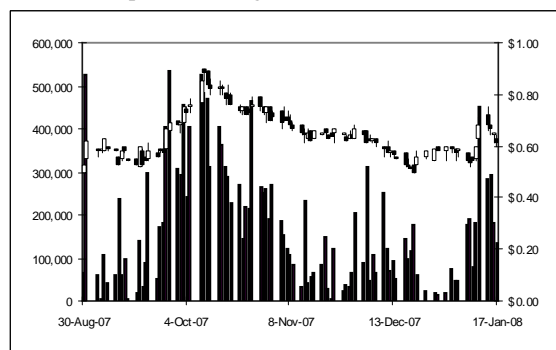
Sector/Industry: Junior Mining/ Gold

www.castlegoldcorp.com

Market Data (as of December 4, 2007)

Current Price	C\$0.61
Fair Value	C\$1.15
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	N/A
Shares O/S	75,310,782
Market Cap	C\$45.94 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.72
YoY Return	N/A
YoY TSXV	-7.8%

*see back of report for rating and risk definitions



Investment Highlights

- Castle Gold is a production oriented company. They operate two mines in Mexico (Durango) and Guatemala.
- Both mines are open pit, heap leach operations with long term potential for higher grade, underground, conventional milling operations.
- In 2008, the company is planning to release updated NI 43-101 compliant resource estimates for El Sastre and El Castillo.
- A drilling program to bring the historic resource at La Fortuna to NI 43-101 compliant standards commenced in January 2008.
- Castle's management team has notable experience in building companies organically from cash flow.

Risks

- The company is in its early stages of production.
- The success of further development, exploration, and expansion is a significant factor in Castle's success.
- Like other junior producing companies, the value of the company depends heavily on gold prices.

(C \$)	Q3-2007 9 mo	2007E	2008E
Revenues	5,521,561	11,171,218	25,538,055
Net Income	43,317	2,650,699	8,593,217
EPS	-	0.05	0.11
Cash + Marketable Securities	2,054,234	5,275,519	2,756,058
Working Capital	3,276,524	7,037,155	6,783,260
Mineral Assets & PPE	37,953,673	37,646,009	46,503,861
Total Assets	43,064,240	1,836,852	3,426,827

Castle Gold is producing from the 100% owned El Castillo Gold Mine in Durango, Mexico and the 50% owned El Sastre Mine in Guatemala. The company's strategy, pioneered by experienced management, is to start with small, low cost heap leaching operations, build resources and grow production out of cash flow. Advanced exploration to define a NI 43-101 compliant resource estimate at La Fortuna is underway.

Company Overview

Castle Gold is a production oriented company focused on low cost properties with long-term growth potential in Latin America. They operate the 100% owned El Castillo gold mine in Mexico, and jointly operate, and own, 50% of the El Sastre gold mine in Guatemala. 2008 should be a big year for the company, as they will achieve full initial capacity operations at both mines, release updated 43-101 compliant resource estimates for both properties, and continue economic studies to continue unlocking the value of both properties. The company plans to further increase production rates at both mines. In addition, the company is planning to complete drilling to bring the historic resource estimate at La Fortuna to NI 43-101 compliant standards.



Source: Castle Gold Corp.

Corporate History

Castle Gold was formed in August 2007 from the amalgamation of Morgain Minerals and Aurogin Minerals. Morgain owned the El Castillo gold project, which had a completed prefeasibility study, and La Fortuna, an advanced exploration project. Both properties are located in Durango, Mexico. Aurogin owned 50% of the producing El Sastre gold mine in Guatemala and is carrying out exploration in the area. The amalgamation was not an arms length transaction, as the two companies had one common director and one common member of management. This conflict of interest was mitigated, as the common director abstained from voting.

El Castillo Mine

Property Overview: The 216 hectare El Castillo Project, formerly known as El Cairo, is currently in pre-production and should achieve production status the first quarter of 2008.

Ownership: The property is comprised of four concessions, in which Castle maintains 100% interest. One concession is subject to a 2% net smelter return royalty, but this claim is east of the mine and is not known to host mineralization at this time.

Castle controls 835 hectares of surface rights, covering the mineral rights and a large area

beyond the mineral rights. This includes overlapping onto mineral rights controlled by another company. Castle is using areas within these surface rights to install mining infrastructure. This is completely within Castle's rights to the surface, but conflicts could arise with the owner of the mineral rights.

Historic Exploration/Production: Battle Mountain Gold discovered the El Castillo Project during a regional exploration program in 1995. This program was exploring for bulk tonnage gold targets grading less than 1 g/t gold. Battle Mountain drilled 207 reverse circulation holes and six diamond core holes and completed a resource estimate, scoping study, and pre-feasibility study by 1999. When Newmont Mining Corp. (NYSE: NEM) acquired Battle Mountain in 2000, they felt El Castillo was too small to meet their corporate goals and turned the property back to the Mexican government. Morgain acquired the property in 2002, and has access to all of Battle Mountain's historic exploration work.

Accessibility and Infrastructure: The property is located 100 kilometers north of the city of Durango, Mexico. Driving distance to the property is 117 kilometers, of which 111 kilometers are paved and the final six kilometers are well-maintained gravel roads. Durango is a major mining supply center and source for qualified labor. Abundant water is available on site.

Geology and Mineralization: El Castillo is a low sulphidation epithermal project hosted by volcanic rocks. The mineralized veins have been oxidized in the upper 150-200 meters. Mineralization is contained in northwest trending lenses up to 150 meters long and 40 meters wide.

Metallurgy: The company completed two test heap leach pads, one high grade, one low grade, in 2005. The ore used was run of the mine (ROM), which means that it was not crushed. This was to test the amenability of the ore to direct leaching, which would save on crushing costs. The results indicated the recoveries were low for both pads, in the 50-55% range, but could be improved 15%-20% by crushing to a $<1/2-3/4''$. This was confirmed by laboratory column tests in 2006. The gold at El Castillo is fine grained and the majority is leached in the first 25 days. Cyanide consumption is 0.2 kg per tonne of ore. There is a relatively constant concentration of unrecoverable gold in the deposit that does not respond to leaching regardless of time period. However, results from a crushed ore test indicate that increased leaching times of an additional 30-45 days may be necessary for crushed ore.

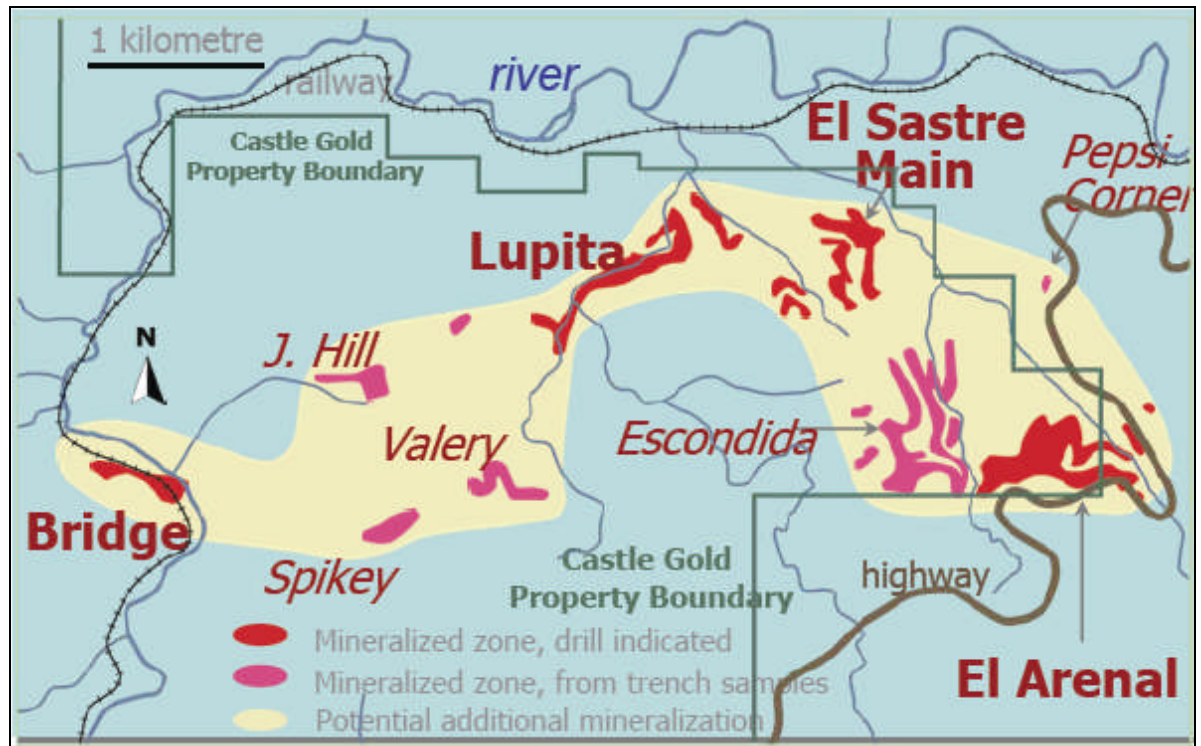
Economic Studies: A pre-feasibility study by A.C.A. Howe, summarized in the table below, was completed for Morgain Minerals in October 2006. Two prefeasibility studies were completed previously, in 2002 and 2003. The 2006 report recommended a 1.4 million tonne/year heap leach operation with a capital cost of \$5.70 million and operating costs of \$6.64/tonne. This works out to \$336/oz of gold. The breakeven (after tax) gold price, including recovery of operating costs and capital costs, is approximately US\$379/oz.

Base Case \$450/oz gold	\$500/oz gold
NPV: \$13.864 million (at 8% discount)	NPV: \$21.113 million (at 8% discount)
IRR: 34%	IRR: 54%
Payback: 2.8 year (after tax)	Payback: 1.8 years (after tax)

Current Status: Pre-production leaching commenced in July 2007. The company estimated a production amount of 3,000 ounces in 2007, 22,500 ounces/year in 2008, and 30,000 ounces/year in 2009. During, 2008, after completion of a new resource estimate, the company will study and determine ultimate production rates, likely 40,000 to 50,000 ounces per year.

Resource Estimates: The current resource estimate was calculated by A.C.A. Howe in 2002. This resource is presented at 0.4 g/t gold cut-off.

Category	Tonnes	Gold Grade (g/t)	Silver Grade (g/t)	Copper Grade (%)	Gold Content (ounces)
Measured	21.25 million	0.804	1.76	0.017	549,303
Indicated	9.2 million	0.750	1.56	0.016	221,843
Inferred	496,000	0.787	4.17	0.029	12,550



Source: Castle Gold Corp.

Property Overview: The El Sastre Mine and regional exploration properties are located in Guatemala. We also discuss the contiguous Lupita and Bridge properties in this section.

El Sastre Mine

Ownership: The company maintains 50% ownership in the El Sastre Mine. The remaining 50% is held by two private individuals in Guatemala. A 1% net smelter royalty is owed to the government of Guatemala.

The company optioned the Lupita property in January 2006 from Exploraciones Mineras de America Central, S.A. Under the terms of the agreement, the company is required to spend

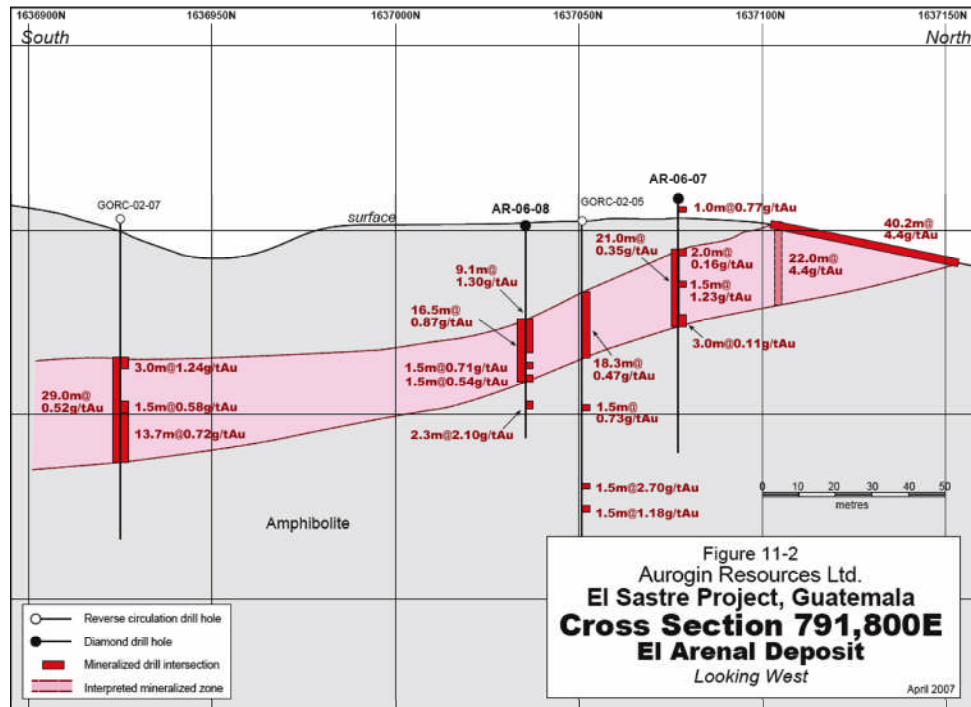
US\$0.9 million on exploration, pay US\$360,000, and grant 800,000 shares by September 30, 2008. The company will have earned 51% interest under these terms. They can increase their interest to 65% by completing a feasibility study by 2010, and increase again to 70% by putting the project into production by June 30, 2012.

The company optioned the Bridge property in 2006 from Exploraciones Mineras de America Central, S.A. Under the terms of the agreement, the company was required to spend US\$0.5 million on exploration, pay US\$240,000, and grant 500,000 shares by September 30, 2007. The company has completed this agreement to earn a 51% interest. They can increase their interest to 65% by completing a feasibility study by 2009, and increase again to 70% by putting the project into production by December 31, 2011.

Historic Exploration/Production: The property was discovered by Radius Gold and Goldfields in 2001. Aurogin acquired the property in 2004, and narrowed their production focus to the Main Zone. A resource estimate was determined in 2005. The company began construction in 2006, including a 5,000 m² heap leach pad, tailings ponds, and carbon recovery plant.

Accessibility and Infrastructure: The properties are accessible from the highway that links Guatemala City to Puerto Barrios. This highway crosses the southern part of the property, and the road from the highway to the mine is unpaved. The company has constructed an open pit mine, heap leach pad, and gold recovery plant as well as associated support buildings. At this time, power is supplied by an oil-burning generator.

Geology and Mineralization: The El Sastre and Arenal deposits are classified as orogenic gold deposits. These deposits are found adjacent to deep crustal fault zones, and occur as vein fill of shear and fault zones. The El Sastre Main Zone is flat lying, with approximate dimensions of 600 meters length, 300 meters width, and a thickness ranging from 4-6 meters. The mineralization occurs as stockworks or breccias, and is overlain by 15 meters of overburden. The El Sastre deposit is oxidized at surface, making it amenable to heap leaching.



Source: Castle Gold Corp.

Arenal Zone: The Arenal zone has similar geology and metallurgy to the El Sastre Main Zone. The company is focused on exploring the area between Arenal and El Sastre Main, as they have the potential to join.

The Bridge and Lupita properties are classified as epigenetic gold deposits, meaning that they formed after the formation of surrounding rocks. They are formed by hydrothermal waters.

Lupita Zone: The Lupita zone is located 600 meters west of the El Sastre Main Zone. There are a number of mineralized areas that warrant exploration on the Lupita property, but the Lupita Zone is the only one that has been defined through drilling at this time.

Bridge Zone: The Bridge Zone is located 4 kilometers west of El Sastre Main Zone. It is still open to the south and east.

Metallurgy: The El Sastre Main Zone is currently a heap leach operation and achieves gold recoveries of approximately 80%. Aurogin uses carbon columns to recover gold. The loaded carbon is transported to Idaho, USA, where it is stripped and then transported to Maine, USA, where it is refined.

Economic Studies: The company plans to complete a pre-feasibility study for the El Arenal mine for 2008. The company will also consider studies of the economics of underground mining and conventional milling of El Sastre Main Zone and El Arenal.

A scoping study completed in 2006 has outlined the following parameters for operations at

El Sastre. This study used a base gold price of \$500/ounce.

Capital Costs	US\$3.9 million over life of mine
Operating Costs	\$13.89/tonne
Metallurgical Recovery	80%
Stripping Ratio	0.80:1

Current Status: In 2006, the company leached approximately 17,000 tonnes of ore. The first gold pour was in December 2006. In 2007, the company produced approximately 12,500 ounces of gold. The company is aiming to produce 25,000 ounces of gold in 2008. 50% of these productions amounts to Castle. Drilling and trenching will continue to expand known resources and upgrade the Lupita, Bridge, and El Arenal Zones to measured and indicated status. According to management, they are in negotiations to increase ownership in the mine.

The company expects to announce an updated resource estimate at El Sastre in Q1-2008, and updated resources for Lupita and Bridge in the second half of 2008.

Resource Estimates: The joint venture has defined the following resources for the El Sastre property. The company hopes to expand the mine life by 4 years by converting inferred resources to measured and indicated. In the longer term, they are targeting at least 15-20 million tonnes grading 1.5-2.5 g/t gold with potential for at least one million ounces of gold.

Category	Tonnes (metric)	Grade (g/t gold)	Gold Content (ounces)
El Sastre Main			
Probable Reserves	868,000	2.45 g/t	68,500
Inferred	1.44 million	2.2 g/t	102,000
El Arenal			
Inferred	1.83 million	1.3 g/t	76,000
Lupita			
Inferred	13 million	1.24 g/t	518,000
Bridge			
Inferred	1.26 million	1.71 g/t	69,700

La Fortuna Property

Property Overview: The 10,457 hectare past producing La Fortuna Mine in Durango, Mexico, was acquired by Morgain Minerals in 2006. This property is the company's next target for production.

Ownership: The core 606 hectares of the property were acquired from the previous owner and are subject to a 1% NSR to Alamos Gold.

Historic Exploration/Production: The history of operations at La Fortuna has been largely unprofitable. The property was discovered in 1884, and 200,000 tonnes of high grade ore was removed and processed between 1886 and 1892. Dore was shipped to Tacoma, Washington, but transportation costs and poor recovery made the operation uneconomic.

The property was explored by the Mexican Geologic Survey in the 1970s, and a private individual installed a 80 tpd mill in 1987 to process sulfide ore. The historic resource is based on 121 diamond drill holes totaling 18,900 meters.

Accessibility and Infrastructure: The property is located in the northwestern corner of Durango, Mexico, 70 kilometers northeast of Culiacan, in the state of Sinaloa. The majority of the 100 kilometer drive is unpaved, and the last 40 kilometers can be quite rough. The property is 7 kilometers north of the Hymaya River, which is fordable during the dry season but requires small vehicle ferry transport between July and December.

The La Fortuna property is developed with underground adits and shafts consisting of 8 levels at 20-30 meter intervals. The longest level, #2, reaches up to 300 meters north-south and 120 meters east west.

Geology and Mineralization: The gold-silver-copper mineralized body is a mixture of stockwork, veinlets, and fracture fillings. The deposit can be traced over 200 meters along strike and 150 meters east-west, with a thickness of 20-40 meters.

Metallurgy: Some material at La Fortuna is heap leachable, and some is not. We believe conventional milling likely makes more economic sense, as it will recover more of the high-grade material.

Current Status: A US\$0.2 million exploration program has been outlined to prepare a NI 43-101 compliant resource estimate, and drilling commenced in January 2008. A NI 43-101 resource estimate is expected by Q2-2008, which will be quickly followed by a scoping study. Significant exploration potential exists on the extended property package.

Resource Estimates: This property has a historic resource estimate of 4.5 million tonnes grading 2.25 g/t gold, 29.9 g/t silver, and 0.23% copper. This equals 321,981 ounces of gold, 4.28 million ounces of silver, and 22.57 million pounds of copper.

Management

Chester F. Millar - Chairman and Director

Mr. Millar is a pioneer of heap leaching gold production and of the large-scale bulk mining methods used for mining low-grade gold deposits in the Western United States. Under his guidance, Afton Mines (1968-1973), Glamis Gold Limited and Eldorado Gold Corporation grew from small exploration and early production concerns into substantial mining companies. Mr. Millar served as Chairman of Glamis Limited from 1985 to 1998, Chairman of Eldorado Gold Corporation from 1992 to 1994 and Chairman of Alamos Gold Inc. from 1996 to 2003.

Christopher E. Babcock - President, Chief Executive Officer and Director

Mr. Babcock has over 20 years mining experience including management, development, construction, operation and administration of open pit heap leach gold mines. Fourteen of these years were spent working in Mexico. He has held positions with Alamos Gold Inc. (Manager of Mexico), Eldorado Gold Corporation, La Teko Resources, and Grupo MMM. Mr. Babcock served as President and CEO of Morgan Minerals Inc. from July 2006 until its

amalgamation with Castle Gold Corporation in August 2007.

Darren M. Koningen - Vice-President Operations and Director

Mr. Koningen has over 15 years of global experience in the mining and metals industry and is well versed in mineral process development, feasibility studies, engineering design, project and field engineering, commissioning and plant operations. He has completed numerous gold processing engagements while employed as a Senior Process Engineer with Kvaerner Engineering and Construction and as an independent Metallurgical Consultant. Most recently, as Vice President of Engineering, Mr. Koningen was responsible for all engineering activities in the development and construction of a heap leach gold project in Central America.

Richard J. Adams - Director

Mr. Adams has an international track record in mine due diligence, construction, development, planning, operation and closure, corporate restructuring, risk management, business and marketing plan creation and financial evaluation and modeling. He is experienced in gold, nickel, copper, zinc, diamond, aluminum, iron ore, magnesium and oil-sand mining operations and has been employed by or consulted to most of the world's largest resource companies including AngloGold Ashanti Limited, Barrick Gold Corporation, Placer Dome Inc., Xstrata Plc., Cambior Inc., Inco Limited, Falconbridge Limited, Teck Cominco Limited, Hudson Bay Mining & Smelting, De Beers, Rio Tinto and Syncrude Canada Ltd. Most recently, as Vice President (Mining) he led all engineering activities for a Merchant Bank with significant equity investments in 15 TSX-listed junior resource companies with a combined market capitalization of \$750 million. Prior to this, he was employed by the international engineering firm, Hatch, where he was responsible for due diligence reviews of over 30 mining projects.

John H. Paterson - Director

Mr. Paterson, M.Sc., P.Eng., is a mining engineer with a diverse range of mining experience with both major and junior mining companies as well as an independent consultant. Mr. Paterson's first foray into heap-leach mining was with Eden Roc Mineral Corp. where he was instrumental in developing the Afema lateritic gold deposit in the Ivory Coast. He then joined Geomaque Explorations where, as Chief Executive Officer, two heap-leach gold mines were developed. The San Francisco Mine in Sonora, Mexico, was initially scheduled to produce 150,000 ounces but additional reserves were added and the mine eventually produced 300,000 ounces over a five year operating life. The Vueltas Del Rio mine in Honduras was commissioned in 2001 producing at a rate of 40,000 ounces per year. Mr. Paterson serves on the board of Sparton Resources, which is earning into the Luxi project in Yunnan, China, a heap leach operation currently producing at a rate of 5,000 ounces per year. He also serves on the board of Everton Resources Inc. and McVicar Resources Inc. and is a director of the Prospectors and Developers Association of Canada.

Edward G. Thompson - Director

Mr. Thompson, M.A.Sc., P.Eng., is a professional engineer and geologist with over 40 years of experience in all aspects of management in the North and South American mining industry. He is the President of E.G. Thompson Mining Consultants Inc. and is a past

President of the Prospectors and Developers Association of Canada. His career started in the late 1950s with Teck Corp. as a geologist, followed by senior positions at Lacana Mining Corp., a sponsor of the Cordex Syndicate in Nevada where he was directly involved with the development of 12 mines. During 1986 to 1990, he was the President of Mingold Resources (Canada) and a director of Exploration of Westgold Resources (USA) and was active in gold exploration and acquisitions. He is a director of Freewest Resources Canada Inc., Western Troy Capital Resources Inc., Tri Origin Exploration Ltd., Consolidated Thompson Lundmark Gold Mines Ltd. and is the Chairman and a director of Sparton Resources Inc. and Golden Queen Mining Co. Ltd. as well as a founder of Aurogin Resources Ltd.

Rodrigo Sanchez-Mejorada V. - Director

Mr. Sanchez-Mejorada V. is a Managing Partner of the law firm of Sanchez-Mejorada, Velasco y Ribe in Mexico. He is an advisor to several multinational mining, industrial and service companies, and has served as an advisor and outside legal counsel to the Mexican Government (Nacional Financiera, Ministry of the Treasury and Public Credit, Ministry of Energy, Mines and State Industry).

He co-drafted the 1990 Regulations of the Mining Law and the current Mining Law of Mexico (1992), as well as serving as an advisor on amendments to the Mining Law (approved by the Mexican Congress in 2005). In 1998, Mr. Sanchez-Mejorada served as a member of the World Bank mission to Nicaragua regarding the modernization of the mining legislation of that country. In addition to his law degree, Mr. Sanchez-Mejorada holds a MBA from Harvard University and is an author and frequent lecturer on mining laws, regulations and business in Mexico.

Joseph Giuffre – Corporate Secretary

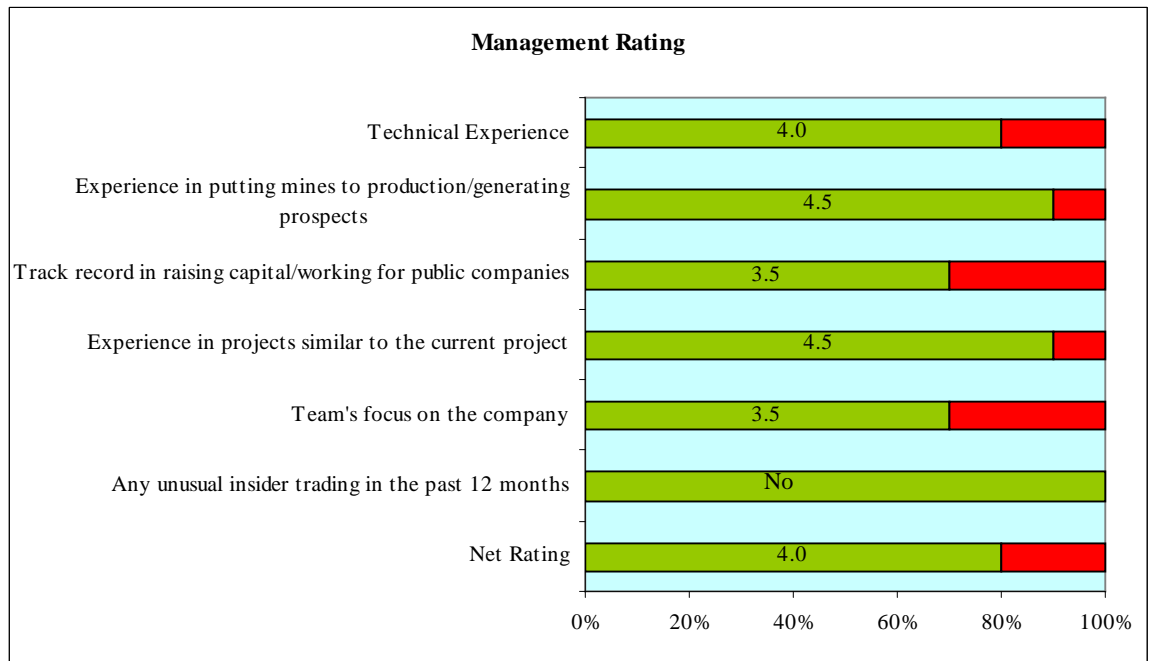
Mr. Giuffre is founding partner in the Axiom Law Corporation and has extensive experience in business and legal matters, and has a transaction-based practice in the areas of corporate finance, securities, mining, corporate structuring, project finance, mergers and acquisitions and all areas of corporate governance.

Maricruz Alvarado, MBA, CGA, CPI - Chief Financial Officer

Maricruz is responsible for all areas of financial reporting and related aspects of regulatory compliance. She has over 20 years of accounting experience in the private and public sector.

Management Rating

We believe that the most important aspect of a junior mining company is its management. Therefore we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for Castle Gold (see below) was 4.0, which we have rated above average.** The management team is production focused and has a strong track record of building public companies. They have special expertise in open pit, heap leach operations.



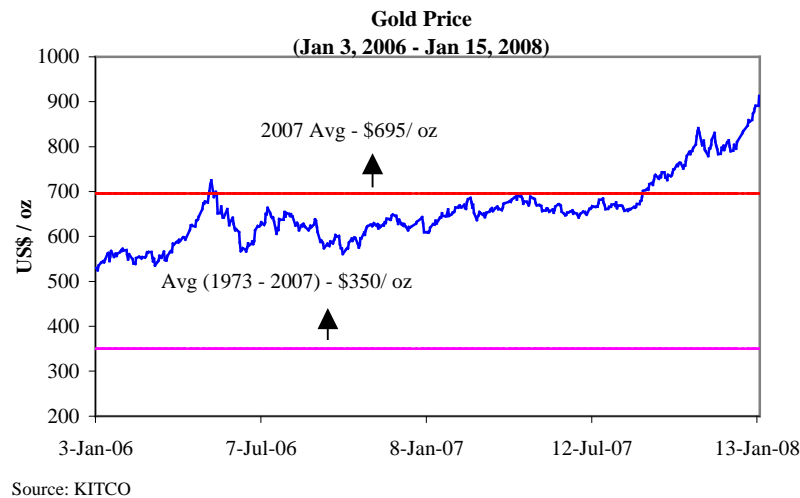
Strength of Board

The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship or business that could materially interfere with the director’s ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. In this report, we introduce our strength of board rating for Castle Gold, which uses information available from the company’s annual “Management Information Circular” to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Committee. This report also identifies any non-arms length transactions and management’s compensation.

Castle Gold’s Board of Directors is made up of 7 individuals: Richard Adams, Darren Koningen, Chester Millar, John Paterson, Rodrigo Sanchez-Mejorada V., Edward G. Thompson, and Christopher Babcock. The unrelated/independent board members are Richard Adams, John Paterson, Rodrigo Sanchez-Mejorada V., and Edward Thompson. The remaining directors are executive officers of the company, and are thus not independent. The Audit Committee is made up of Richard Adams, John Paterson, and Rodrigo Sanchez-Mejorada V. The Compensation and Nominating Committee is made up of Chester Millar, John Paterson, and Edward Thompson. The Corporate Governance Committee is made up of Darren Koningen, Rodrigo Sanchez-Mejorada V., and Edward Thompson.

Outlook on Gold

The chart below shows gold prices since January 2006. Gold prices are currently trading at their record highs, and as of January 15, 2007, were trading at US\$913, which reflects a YOY increase of 46%.



Although gold prices have risen considerably in the second half of 2007 and early 2008, and are currently trading at record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

The U.S. dollar is expected to depreciate with respect to other major global currencies, based on an expected slow down in the U.S. economy, and relatively lower real interest rates in the U.S., compared to other major countries in the world.

The U.S. housing industry is not expected to recover before the end of 2008, and recently, the U.S. economy reported job losses for the first time in four years. Both these factors further signal a slowdown in the U.S. economy. Even though the U.S. Federal Reserve cut interest rates from 5.25% to 4.25% in their last three meetings, we expect to see further rate cuts in the first half of 2008 to tackle the ongoing credit crunch problems and the softening U.S. housing industry. The rate cuts in turn will add to inflationary pressures and simultaneously depreciate the value of the U.S. dollar, which we believe is an ideal condition for gold prices to move higher.

We have also noticed a positive correlation between gold and oil prices, in times of high oil prices. High oil prices create inflationary expectations among investors and lead them to drift towards gold. Oil is currently trading just above US\$90/bbl, and prices are expected to stay above \$80/bbl through 2010, which we believe will also have a positive effect on the demand for gold.

Therefore, based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices, we continue to be bullish on gold prices. Although we do not expect prices to move up as fast as they did in the past few months, we expect prices to gradually move up, as the U.S. economy moves closer to a recession. The average revised forecasts for gold prices are US\$875/oz in 2008, and US\$900/oz in 2009. We have used a long-term (2011+) gold price forecast of US\$600/oz in

our valuation models.

Financials

In the first nine months of FY2007 (ended September 2007), the company generated \$5.52 million in revenues (from sales of 8,053 oz of gold), at an operating cost of \$201.66/oz. CSG posted a net income of \$0.04 million (EPS: \$0.00) in the 9-month period in FY2007. Based on our production forecasts for the El Castillo and El Sastre projects, we estimate the company will generate revenues of \$11.17 million (from 17,729 oz of gold eq.) and \$25.54 million (from 38,330 oz of gold eq.), respectively. Our EPS forecasts for FY2007 and FY2008 are \$2.65 million (EPS: \$0.05) and \$8.59 million (EPS: \$0.11), respectively.

We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.24 million per month in the first nine months of FY2007. The table below shows the company's cash and liquidity position.

(in C\$)	Q3-2007 (9 mo)
Working Capital	3,276,524
Current Ratio	2.8
LT Debts/ Assets	17.1%
Burn Rate (incl exploration costs)	(236,445)
Cash from financing activities	250,244

At the end of September 2007, the company had cash (including marketable securities) and working capital of \$2.05 million and \$3.28 million. Subsequently, the company raised \$1.11 million through the exercise of 1.91 million warrants at \$0.58 per share.

Stock Options and Warrants: At the end of Q3-2007, the company had 7.10 million warrants outstanding (2.85 million are currently 'in-the-money') with a weighted average exercise price of \$0.74, and expiry dates between January 2008 and June 2009. The company also had 5.02 million stock options outstanding (approximately 4.10 million are currently 'in-the-money' – assuming none of the outstanding options were exercised since the end of September 2007) with a weighted average exercise price of \$0.59, and maturity periods between 1.7 years and 4.7 years.

Conclusions: We believe the company is in a sound cash position. Our models suggest that cash from operations will help fund exploration and development activities for the net 12 months.

Valuation

Our Discounted Cash Flow (DCF) valuation on the company is \$84.69 million, or \$1.11 per share. A summary of our valuation on each of the properties is shown below.

Valuation Summary		
El Castillo	\$58,156,232	\$0.76
El Sastre	\$22,379,240	\$0.29
La Fortuna	\$7,609,231	\$0.10
WC	\$3,917,023	\$0.05
Debt	(7,370,488)	(\$0.10)
Net Value	\$84,691,239	\$1.11
Shares (diluted)	76,487,290	

DCF Valuation Summary - El Castillo Mine	
Ownership	100%
Mineral Resources (in tonnes)	30,698,000
Gold Grade (gpt)	0.788
Silver Grade (gpt)	1.720
Contained Gold (in troy oz)	777,411
Contained Silver (in troy oz)	1,697,114
Recovery - Gold	70%
Recovery - Silver	70%
Mine Life (years)	14
Long-term Gold Price (US\$/oz)	600
Long-term Silver Price (US\$/oz)	11
Capital Costs	\$10,000,000
Operating & Admin costs (\$/tonne)	\$6.64
Discount rate	12.84%
Net Present Value	\$58,156,232
No. of Shares	76,487,290
Fair Value per Share	\$0.76

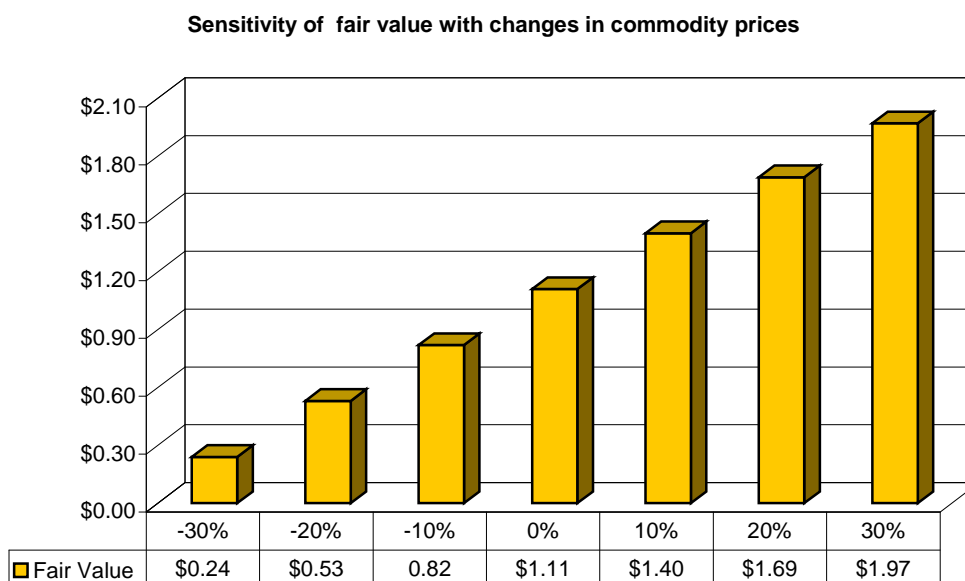
DCF Valuation Summary - El Sastre Mine	
Ownership	El Saster - 50%; Lupita & Bridge - 70%
Mineral Resources (in tonnes)	9,633,000
Wt. Avg. Gold Grade (gpt)	1.46
Contained Gold (in troy oz)	451,350
Recovery - Gold	80%
Mine Life (years)	10
Long-term Gold Price (US\$/oz)	600
Capital Costs	\$10,000,000
Wt. Avg. Operating Costs (\$/oz)	\$295
Discount rate	16.49%
Net Present Value	\$22,379,240
No. of Shares	76,487,290
Fair Value per Share	\$0.29

DCF Valuation Summary - La Fortuna	
Ownership	100%
Mineral Resources (in tonnes)	2,250,000
Gold Grade (gpt)	2.250
Silver Grade (gpt)	29.900
Contained Gold (in troy oz)	162,763
Contained Silver (in troy oz)	2,162,941
Recovery - Gold	70%
Recovery - Silver	70%
Mine Life (years)	2
Long-term Gold Price (US\$/oz)	600
Long-term Silver Price (US\$/oz)	11
Capital Costs	\$40,000,000
Operating & Admin costs (\$/tonne)	\$12
Discount rate	12.84%
Net Present Value	\$7,609,231
No. of Shares	76,487,290
Fair Value per Share	\$0.10

Our valuation is highly sensitive to our gold price forecasts. We used the following gold price forecasts in our valuation models.

(in US\$/oz.)	2008	2009	2010	2011+
Gold	\$875	\$900	\$790	\$600
Silver	\$15.50	\$15.80	\$11.00	\$11.00

The chart below shows the sensitivity of our fair value estimate on the company to changes in gold and silver forecasts.



As shown in the chart, our valuation would range between \$0.24 and \$1.97 when our gold and silver price assumptions are changed by $\pm 30\%$.

In addition to a DCF valuation, we also performed a relative analysis on the company. We valued the company based on the average ratio of enterprise value (EV) to resources (gold equivalent) of its peers. As shown in the table below, the company is currently trading at \$27.3/oz, which is well below the average ratio of \$61.9/oz.

Comparables Valuation Model						
	SYM	Price	Enterprise Value	Resources (in mm oz AU eq.)	EV / Resources	
1	Starcore International Ventures Ltd.	SAM	\$0.49	\$36,572,487	399,511	\$91.5
2	Capital Gold Corporation	CGC	\$0.68	\$126,969,763	1,777,500	\$71.4
3	Andina Minerals	ADM	\$4.82	\$288,594,565	5,030,000	\$57.4
4	Castle Gold Corporation	CSG	\$0.61	\$35,369,736	1,293,972	\$27.3
Average EV / Resources						\$61.9
Fair Value of CSG						\$1.20

Note: Stock prices are as of January 17, 2008

Based on the average EV/oz of \$61.9, we estimate the fair value of CSG as \$1.20 per share.

Conclusions & Rating

Castle Gold is in production, giving it the potential to immediately capitalize on higher gold prices. The management team is production focused and has a successful record of accomplishment. We believe 2008 will be an exciting year for the company as they achieve full-scale production at El Castillo, and El Sastre, and continue to unlock the potential of these properties. Advancement of the La Fortuna property is expected as well.

Based on our valuation models, we initiate coverage on CSG with a BUY rating and fair value estimate of \$1.15 per share. Our fair value reflects an upside potential of 89% from current price levels.

Risks

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

- The company is in its early stages of production.
- The success of further development, exploration, and expansion is a significant factor in Castle's success.
- Like other producing companies, the value of the company depends on gold prices.

Appendix

Castle Gold Corporation - Income Statement (in C\$)

	2007 (9 mo)	2007E	2008E
Revenues	5,521,561	11,171,218	25,538,055
Cost of Sales	1,623,934	3,673,704	6,853,655
Gross Margins	3,897,627	7,497,514	18,684,401
Expenses			
General and Administrative	739,029	1,060,370	1,968,927
Exploration Expenses	316,746	524,815	979,094
EBITDA	2,841,852	5,912,329	15,736,380
Depreciation, Amortization and Accretion	682,630	990,294	1,142,148
EBIT	2,159,222	4,922,035	14,594,233
Other Income	(521,649)	(521,649)	(1,444,000)
Non-controlling Interest	(1,318,178)	(1,318,178)	
Income Taxes	276,078	431,509	4,557,016
Net Income (Loss)	43,317	2,650,699	8,593,217
EPS	0.00	0.05	0.11

Castle Gold Corporation - Balance Sheets

(in C\$)

	2007 -Q3	2007E	2008E
Assets			
Current Assets			
Cash and cash equivalents	1,793,268	5,014,553	2,495,092
Marketable securities	260,966	260,966	260,966
Accounts receivables	1,372,036	1,675,683	3,830,708
Inventory	1,599,583	1,836,852	3,426,827
Prepaid expenses	56,645	85,953	196,494
	5,082,498	8,874,007	10,210,087
Property, plant and equipment	3,339,548	3,031,884	11,889,736
Mineral assets	34,614,125	34,614,125	34,614,125
Other assets	28,069	28,069	28,069
	43,064,240	46,548,085	56,742,017
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	1,805,974	1,836,852	3,426,827
	1,805,974	1,836,852	3,426,827
Long-term debt	7,270,488	7,000,000	7,000,000
Provision for site closure and reclamation obligations	392,330	392,330	392,330
Future income taxes	5,250,000	5,250,000	5,250,000
Other long-term liabilities	100,000	100,000	100,000
	14,818,792	14,579,182	16,169,157
Non-controlling interest	2,250,683	2,250,683	2,250,683
Shareholders' Equity			
Share Capital	31,019,440	32,132,828	32,132,828
Contributed Surplus	1,321,429	1,324,114	1,334,854
Other	(458,705)	(458,705)	(458,705)
Deficit	(5,887,399)	(3,280,017)	5,313,199
	25,994,765	29,718,220	38,322,177
Total Liabilities and S.E	43,064,240	46,548,085	56,742,017

Castle Gold Corporation - Cash Flows
(in C\$)

	2007 (9 mo)	2007E	2008E
Operating Activities			
Net Income	43,317	2,650,699	8,593,217
Non-Cash Items:			
Amortization	682,630	990,294	1,142,148
Others	1,764,750	1,494,262	-
Stock Based Compensation	8,055	10,740	10,740
	2,498,752	5,145,995	9,746,105
Change in Non-Cash Working Capital Items:			
Accounts Receivable	(405,984)	(1,478,218)	(2,155,026)
Inventory	(627,151)	(1,340,070)	(1,589,975)
Prepaid Expenses and Deposits	(48,095)	(80,559)	(110,541)
Accounts Payable and Accrued Liabilities	361,977	1,225,565	1,589,975
	(719,253)	(1,673,282)	(2,265,566)
	1,779,499	3,472,713	7,480,538
Financing Activities			
Debt	(200,000)	(200,000)	
Equity	450,244	1,563,632	
	250,244	1,363,632	-
Investing Activities			
Property, plant and equipment	(447,454)	(447,454)	(10,000,000)
Mineral assets	(624,772)	(624,772)	
Acquisition	183,537	598,220	
	(888,689)	(474,006)	(10,000,000)
Increase(decrease) in Cash	1,141,054	4,362,339	(2,519,462)
Cash (BOP)	652,214	652,214	5,014,553
Cash (EOP)	1,793,268	5,014,553	2,495,092

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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