Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA
Analyst

Vincent Weber, B.Sc.
Research Associate - Mining

Kevin Liu, BBA, BSc
Research Associate

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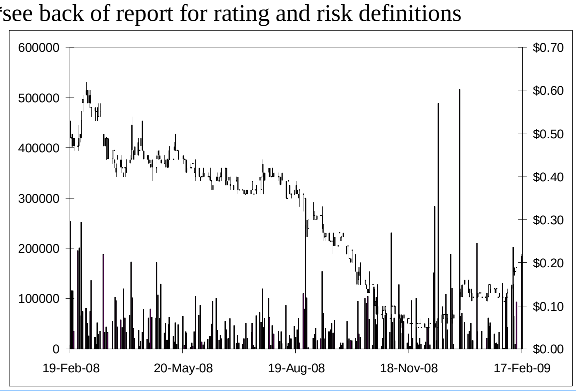
Gryphon Gold (TSX: GGN, OTC BB: GYPH) – Initiating Coverage; Focusing on Gold projects in Nevada

Sector/Industry: Junior Mining **www.gryphongold.com**

Market Data (as of February 20, 2009)

Current Price	$0.18
Fair Value	**$0.62**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	$0.045 - $0.620
Shares O/S	61.96 million
Market Cap	C$11.15 million
Current Yield	N/A
P/E (forward)	N/A
P/B	3.31
YoY Return	-63.3%
YoY TSX	-39.6%

*see back of report for rating and risk definitions



Investment Highlights

- Gryphon Gold's primary asset is the advanced stage Borealis gold property in Nevada.
- The company's 2007 drill program resulted in a 704,000 ounce increase in gold resources. According to the updated resource estimates, the Borealis property holds a 1.42 million ounce measured and indicated and, 1.10 million ounce inferred gold resource.
- An independent Preliminary Assessment of the oxide resource estimates a 46,000 oz/year open-pit oxide heap leach gold mine with an initial mine life of 5 years.
- Geophysical studies are currently being evaluated and drill site permitting is underway in pediments.
- The company controls a portfolio of 54 exploration projects in Nevada and surrounding states through their acquisition of Nevada Eagle Resources. The company is utilizing a joint venture model to advance these properties.
- Several of the Nevada Eagle properties host historic resource estimates totaling 900,000 ounces.

Key Financial Data (FYE - March 31) (US$)	**2006**	**2007**	**2008**	**2009 (9 mo)**
Cash & Cash Equivalents	9,390,925	7,150,154	4,347,937	1,014,678
Working Capital	8,374,384	6,525,160	3,937,611	638,587
Mineral Assets	1,898,207	1,920,371	12,209,864	7,127,995
Total Assets	11,693,218	9,553,194	17,192,800	8,594,770
Net Income/(Loss)	(5,602,336)	(8,737,141)	(7,850,766)	(9,174,236)
EPS	(0.19)	(0.21)	(0.13)	(0.15)

Gryphon Gold is primarily focused on the Borealis gold property in Nevada, which has a NI 43-101 compliant resource estimate of 1.42 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 54 properties acquired through the acquisition of Nevada Eagle Resources.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Company Overview

Gryphon Gold is focused on gold exploration and development in Nevada, one of the world's premier districts for gold mining. The company's primary asset is the Borealis property in southwestern Nevada along the Walker Lane Gold Trend. The company also utilizes the joint venture model to advance their 54 projects acquired through the 100% acquisition of Nevada Eagle Resources. This allows them to participate in successful exploration for gold while minimizing risk and dilution.

Corporate History

Gryphon Gold completed its initial public offering and commenced trading on the TSX Exchange in December 2005. The company has two wholly owned subsidiaries. The Borealis Mining Company controls the Borealis property. In 2006, the company focused on the development of the Borealis heap leach mine, including the completion of a feasibility study. They shelved development work to focus on further exploration at Borealis. They acquired Nevada Eagle Resources, a private company, as a wholly owned subsidiary in August 2007, adding 54 properties to their Nevada portfolio. These properties have a cumulative historic, non NI 43-101 compliant resource of approximately 900,000 ounces of gold. The company is seeking to joint venture the majority of these properties.

Mining Outlook-Nevada

In terms of past and present gold production, Nevada is a world-class environment for mining. Nevada continues to be an environment amenable to mining with government and community support, and as a state, is currently the world's fourth largest producer of gold, after South Africa, China, and Australia. Nevada produces 83% of the United States' gold production. The government has favorable land use policies, taxation structure, and is very secure. Well-trained mining technicians are available for hire all over Nevada. We continue to believe that the United States is a good place to conduct exploration and mining, due to its security, infrastructure, mining history, political stability, and mineral potential.

Nevada's rank for favorable mining investments in the world for 2007/2008

Category	**World Rank**
Security	2
Mineral Potential	8
Best Practice Mineral Potential	18
Policy Potential	2
Composite Policy & Mineral Potential	2
Infrastructure	3
Political Stability	4
Regulatory Duplication & Inconsistencies	10
Taxation Regime	1

Source: The Fraser Institute, an Economic Think Tank based in Canada

One potential risk that has surfaced in recent months is growing calls from some entities in Nevada to raise taxes on gold miners. This comes as the economic downturn has caused a projected $2.3 billion shortfall in the state's budget, and gold prices increase. However, industry lobbyists have testified that the gold industry is cyclical and it would not be fair to tax it as a stable business. Lawmakers, including the governor, have said that mining taxes will not be raised in 2009. However, we believe, that even if taxes were raised, mining companies in Nevada still benefit from a favorable tax structure, and taxes would be raised from a very low base, as the table below shows.

Table 1. Nevada gold mine industry deductions from gross production value, 2000-2007 ($ million)

Year	Gross production value	Reported taxable value	Deducted value	% deducted	NPOM taxes paid to state general fund
2007	4,853	1,262	3,591	74	30.4
2006	4,333	1,035	3,298	76	23.5
2005	3,388	648	2,740	81	14.1
2004	3,025	710	2,315	77	16.0
2003	2,728	626	2,102	77	14.1
2002	2,473	386	2,090	84	8.3
2001	2,270	326	1,944	86	6.9
2000	2,473	483	1,990	80	12.0
Total	**25,546**	**5,476**	**20,070**	**78.5**	**125.3**

Source: Nevada Department of Taxation

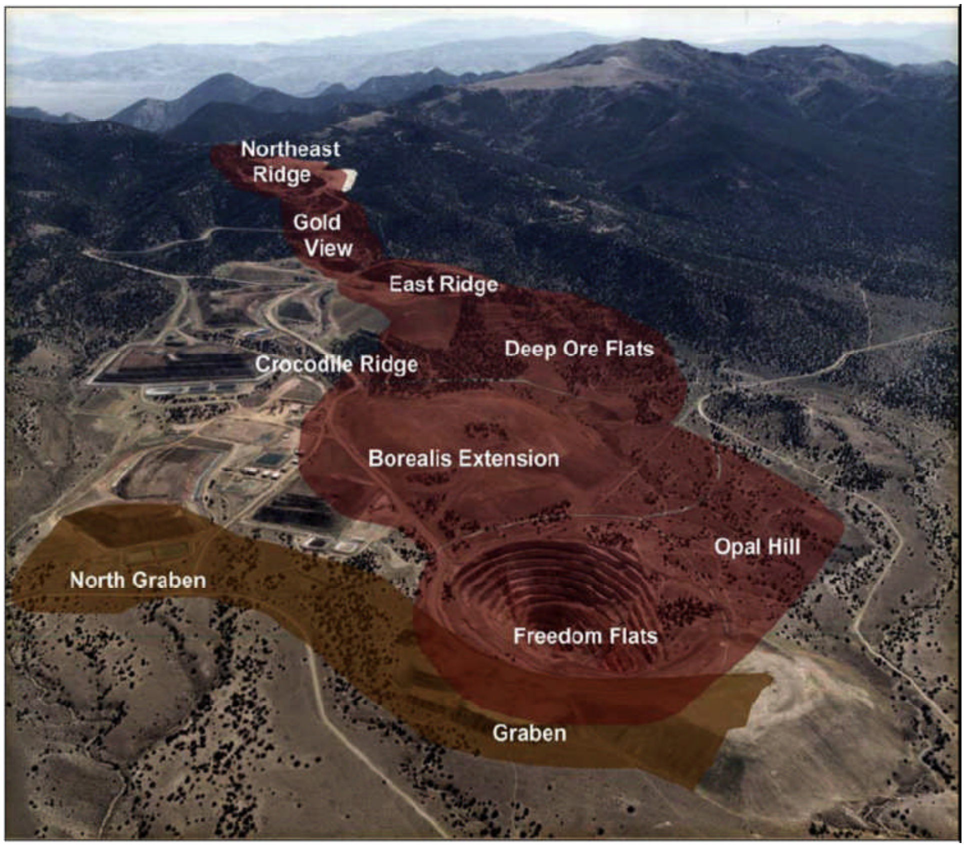
Joint Venture Model

Gryphon Gold is utilizing the joint venture model to advance Nevada Eagle's large property portfolio in Nevada. This model was conceived to minimize risk while simultaneously advancing many properties. Through this model, the underlying owner is rewarded for the acquisition of the property, and the joint venture partner funds exploration and development. The underlying owner then has increased exposure to the success of these joint ventured properties with little risk. This model has been criticized for its diverse focus, and investors were concerned that joint ventures reduced upside potential. However, many companies adopted this model during a market downturn at the end of the 1990s, when exploration companies recognized the value of reducing risk and capital expenditures while advancing many projects. Now, there are many junior mining companies that aim to become prospect generators and joint venture their properties.

Borealis

Property Overview: The 17,200 acre Borealis property is the company's flagship property. The property hosts an oxide gold resource amenable to open pit heap leach extraction, and a sulfide resource that will require conventional processing. In the past two years, the company has focused on exploration for additional oxide and sulfide resources. The company believes there is excellent potential for a deep seated Carlin style gold deposit on the property.

Ownership: The company holds 100% ownership in the property through a wholly owned subsidiary, Borealis Mining Company (BMC). BMC acquired the core claims through an option agreement with Golden Phoenix (OTCBB: GPXM) that was finalized in 2005, and added many others through staking. The core 122 claims acquired through leasing are subject to a variable net smelter return royalty (NSR), which is calculated as the price of gold divided by one hundred expressed as a percentage.



Historic Oxide Pits on the property
Source: Gryphon Gold Corp.

On August 22, 2008, the company announced they entered into an 18 month option agreement to reduce and fix the NSR. Under the terms of the option, the royalty will be fixed at 5% versus a variable rate royalty. Upon exercise, Gryphon will pay the royalty holders US$1.75 million in cash, 7.73 million in shares and a three year US$1.91 million - 5% debenture (convertible into common shares at $0.70/share for the first year, and escalating by $0.10/share per year until maturity). The option payment is $0.25 million for the first 12 months, and an additional $0.125 million to extend it to 18 months.

Historic Exploration/Production: The Borealis property was discovered in 1978 by Houston International Minerals Company. It has been mined by a series of companies beginning in 1981, using open pit, heap leach extraction. In total, 8 deposits on the property were mined over nine years: Borealis, East Ridge, Deep Ore Flats, Gold View, Freedom Flats, Northeast Ridge, Jaimes Ridge, and Cerro Duro Mines. Active mining operations in the area ended in 1990. The total production from eight open pit operations is estimated to be 10.7 million tons of ore averaging 0.059 oz of gold per ton. Approximately 500,000 ounces of gold and 1.5 million ounces of silver were recovered from heap leaching. Reclamation of the mine continued for several years.

The property was farmed out for exploration, and a number of companies drilled the property through the 1990s. Golden Phoenix entered into an agreement to acquire the property in 1997, and finalized 100% interest beginning in 2000. Golden Phoenix maintained the property and worked to compile historic data to develop exploration targets. They joint ventured the property to Borealis Mining Company, a wholly owned subsidiary of Gryphon Gold, in 2003. Gryphon Gold immediately commenced on a plan to redevelop the Borealis deposit based on the remaining resource, and hired Behre Dolbear to complete a preliminary economic assessment.

2006 Exploration Program: After going public in 2005, the company focused on permitting for the Borealis oxide gold resource, as well as exploration of the Graben deposit. They received all of the permitting required to put the oxide gold resource into production using heap leaching extraction. However, upon completion of the feasibility study in August 2006, the company had to revise the oxide gold resource based on lower silver grades than previously estimated. This cut into the margins of the project, and the company made the decision at the end of 2006, to focus on exploration at Borealis and not continue with production.

Exploration in 2006 defined the Graben deposit as being over 700 meters long, 200-450 meters wide, and 30-210 meters thick, with an average grade of 2-2.5 g/t gold. The geophysics and mapping suggested that the deposit may extend to the north by 700-1,000 meters. **These dimensions, and the grades obtained through drilling, suggest that the Graben deposit could have million ounce potential.**

2007 Exploration Program: In 2007, the company completed a $4.5 million exploration program and drilled over 40 reverse circulation holes. The company focused on the Graben sulfide deposit, which is a higher grade (2-2.5 g/t) gold deposit potentially amenable to both open pit and underground mining. They also explored the Central and Western Pediments northwest of the Graben deposit. Geophysics was very useful in defining large, deep gold anomalies with similar potential to Graben.

The in-fill holes at Graben were very positive, indicating the consistency of mineralization. Hole G-32 had two gold mineralized sections totaling 96 meters (315 ft) grading 2.5 g/tonne gold and G-31 had two sections totaling 146 meters (475 ft) grading 1.3 g/tonne gold. The company also expanded the Graben deposit significantly, intersecting good grades of gold in holes drilled in step out in all directions of the previously defined Graben deposit. Hole G-42, drilled to the west, intersected 26 meters of 3.4 g/t gold, Hole G-43, drilled to the northeast, intersected 75 meters of 3.0 g/t gold, and Hole G-51, drilled to the south, intersected 174 meters of anomalous gold mineralization.

Accessibility and Infrastructure: The Borealis property is located 16 miles south of the town of Hawthorne off a gravel spur road from State Highway 359. The town of Hawthorne provides some services for mineral exploration as well as infrastructure, fuel, and housing. More mining services are available in Reno, Nevada, approximately 130 miles away.

Geology and Mineralization: The Borealis district contains multiple coalescing hydrothermal centers having alteration and mineralization characteristic of high-sulfidation systems. Gold deposits of the district typically have high-grade gold mineralization centrally located along steeply dipping structures, and have lower-grade gold mineralization both surrounding the high-grade, and commonly occurring in more permeable volcanic rocks in relatively flat-lying zones. The gold deposits with minor amounts of silver mineralization are hosted by Miocene andesitic flows, laharic breccias and volcaniclastic tuffs, which generally strike northeasterly and dip shallowly to the northwest. Pediment gravels cover the altered-mineralized volcanic rocks at lower elevations along the mountain front, and there is potential for discovery of more blind deposits, similar to the Graben and the Freedom Flats deposits.

Graben and Pediment Deposit: The Graben and Pediment deposits are blind targets located below alluvial cover. They were discovered and have been delineated through drilling. The Graben deposit is a broad mineralized horizon with three higher grade (3 g/t gold) intervals within. Although these deposits are over 150 meters deep, the grades and size may prove large enough to consider underground or open pit mining.

Metallurgy: The eight open pit mines developed on the property were processed using cyanide heap leaching. Gold and silver were recovered using the Merrill Crowe process. Gold recoveries historically averaged upper 70s – mid 80s%, and silver recoveries ranged from 15-50%. This is for oxide and mixed sulfide material. Some material was processed run of mine (ROM) meaning that it was uncrushed, while others were agglomerated using cement to achieve better solution percolation and pH control. ROM material was usually low grade and recoveries were less than 50% for gold and less than 20% for silver.

Feasibility Study: A feasibility study for the oxide resource was completed in August 2006 by Knight Piesold using a gold price of US$475/oz, and a silver price of US$7.92/oz. After the feasibility study, the amount of recoverable silver was revised downward, which negatively impacted the economics of the project, and led the company to postpone development and project financing for production.

Resource	13.7 million tonnes grading 1.0 g/t gold and 18.5 g/t silver**, reduced significantly during resource revision**
Operating Rate	7,300 tonnes/day
Mine Life	6 years, expandable to 8.5 years based on inferred resource
Capital Cost	$15.4 million
Operating Cost	US $264/ounce
Stripping Ratio	1.4: 1
NPV	$14,834,000 (5% discount)
IRR	31%

Resource Estimates: The company's 2007 drill program resulted in a 704,000 ounce increase in gold resources. The table below shows a summary of the updated 43-101 compliant resource estimate released in April - May 2008.

	Jan-07			May-08		
	Tons, 000	Grade (Oz/ton)	Ozs of Au	Tons, 000	Grade (Oz/ton)	Ozs of Au
Measured	16,360	0.031	503,700	6,600	0.058	383,900
Indicated	24,900	0.029	709,800	29,000	0.035	1,038,600
Inferred	1,000	0.020	609,200	50,300	0.022	1,104,500

As shown in the table above, the increase in ounces was a result of an improvement in grade and total tonnage. The resource is in two distinct deposits:

- **Oxide deposit** consisting of 340,000 (15.6 million tons at 0.022 opt) Measured and Indicated ounces and 385,000 (26.8 million tons at 0.014 opt) Inferred ounces
- **Sulphide deposit** consisting of 1.09 million ounces (21 million tons at 0.05 opt) Measured and Indicated, and 715,000 ounces (22.5 million tons at 0.03 opt) Inferred.

The 2007 drilling program also identified three substantially larger anomalies under the pediments of the Borealis property similar in most respects to the one hosting the current resources. The results of the follow up Magnetotelluric surveys suggest that the initial drilling may be on the margins of higher-grade gold systems, thereby warranting follow up drilling.

Preliminary Assessment: On September 2, 2008, the company announced positive results of an independent NI 43-101 compliant Preliminary Assessment on the oxide portion. The report was prepared by Telesto Nevada Inc. of Reno, NV, in collaboration with Knight Piésold Consulting & Co. of Denver, CO.

For the oxide portion of the deposit, the Preliminary Assessment estimates a 46,000 oz/year open-pit oxide heap leach (at 5,500 tpd) gold mine with an initial mine life of 5 years based on mining of 356,000 ounces of the total 725,000 ounce oxide resource. An alternative mining plan will be prepared to mine the remaining 369,000 ounces thereby increasing the mine life of the oxide resource. Cash flows from the oxide deposit will help fund development of the larger 1.8 million ounce sulphide deposit. Highlights of the study follow:

Summary	
Gold Price (US$/oz)	775
Silver Price (US$/oz)	12
Grade	0.04 opt
Strip Ratio	1.5:1
Average Annual Production	46,000 oz Au
Initial Capital Cost	US$19.2 million
Operating Costs (incl. Silver Credit of US$39/oz)	US$439/oz
Mine life	5
Payback	28 months

Nevada Eagle Acquisition

In September 2007, Gryphon Gold finalized the acquisition of Nevada Eagle Resources, a private Nevada based exploration company with a portfolio of 54 properties in the western United States. Jerry Baughman, the principal shareholder of Nevada Eagle, and a wellrespected geologist, joined Gryphon Gold's management team. Upon completion of the transaction, Gryphon Gold paid Nevada Eagle's shareholders $2.5 million cash, issued 4.5 million shares of Gryphon Gold, and a US$5 million 5% convertible note due March 30, 2010, convertible into common shares of Gryphon Gold at US$1.00 during the first 12 months, US$1.25 during the next 12 months; US$1.50 thereafter and US$1.75 if converted on March 30, 2010. In August 2008, Gryphon entered into an option agreement with the principal shareholder of Nevada Eagle to amend the $5 million face value note payable (discussed later in the report).

Nevada Eagle Properties Overview

When the company acquired Nevada Eagle Resources as a wholly owned subsidiary, they acquired 54 properties along highly prospective gold trends in Nevada and contiguous states. 24 of the properties are in the Walker Lane Gold Belt, where the Borealis property is located. Seven properties are along the Cortez Trend, seven are along the Austin-Lovelock trend, two are along the Carlin trend, and the rest are throughout Nevada and surrounds.

The Nevada Eagle property portfolio is a large one. Approximately 28 properties have been leased or optioned to other companies, who make payments of cash and shares. The company generates approximately $600,000 annually through payments for the leased properties. Gryphon Gold holds a 2-3% net smelter return royalty on each of these properties. The company has indicated they intend to convert leased projects to joint ventures when their leases expire.

Golden Arrow, Monte Cristo, Regent, Red Rock, and Rosebud, have had work programs completed on them that could support a NI 43-101 compliant technical report. These properties have historic resource estimates totaling approximately 900,000 ounces, but they have not been disclosed in a NI 43-101 compliant technical report. Escape Gold (TSX-V: EGT) is currently drilling the Red Rock property in the Walker Lane Gold Belt.

The company has five properties from the Nevada Eagle property portfolio that have been joint ventured. Through option agreements, the earning of interest is staged and the optioner can exit at various stages. Gryphon Gold benefits through the payment of cash and shares, and usually retains a back in right, interest, or net smelter return royalty. The company plans to continue joint venturing properties.

The company has five joint ventured properties: 4 Aces, Baxter Spring, Regent, Velvet, and Stateline. The Stateline property has been joint ventured to Newmont Mining Inc. (NYSE: NEM). Under the terms of the agreement, Newmont can earn up to 60% interest in the Stateline property by spending $3.0 million on exploration by the end of 2013. They can earn an additional 10% interest by completing a feasibility study.

Management & Board of Directors

John Key - President, CEO, and Director

Mr. Key was appointed on February 5, 2008 as Chief Operating Officer and has since been appointed President, CEO, and Director (July 21, 2008). Mr. Key is a graduate of the University of Missouri – Rolla with an M.S. in Mining Engineer. He possesses 32 years of extensive mining experience. He worked for the Teck Cominco organization from 1973 to 2004 during which time he was directly responsible for running, in succession, the

Magmont, Polaris, and Red Dog mines and also served as General Manager Projects. Mr. Key oversaw over $300 million in capital expansions at Red Dog.

His primary duties at Gryphon Gold are to review the potential for an oxide mine on the Borealis property, to work on the longer term opportunities for the sulphide ore resources and to review opportunities available to Gryphon Gold.

Jerry Baughman - Vice President, Corporate Development, Director
Mr. Baughman has over 20 years of precious metals exploration experience in the western United States, with most of that time focused in Nevada. He is very skilled at acquiring quality exploration prospects to advanced projects in a timely and cost effective manner. Since the fall of 1994 Mr. Baughman began acquiring exploration stage gold properties in Nevada and surrounding states, under his company Nevada Eagle Resources LLC. Nevada Eagle has leased many of these properties to a number of the major mining companies and to a host of juniors.

From 1990 to the present time, Mr. Baughman has been based in the Reno area and has worked as an independent geologist evaluating gold and silver properties. From 1991 to 1994 he worked for Southwestern Gold as Exploration Manager, and oversaw all precious metal exploration and development projects in Nevada. He also worked on projects in Peru for Southwestern Gold. During 1990, Mr. Baughman worked as a consulting geologist for Cambior (U.S.A.) Inc.

Mr. Baughman received his B.S. degree in Geology from the University of Nevada, Las Vegas and is a Certified Professional Geologist through the American Institute of Professional Geologists (AIPG).

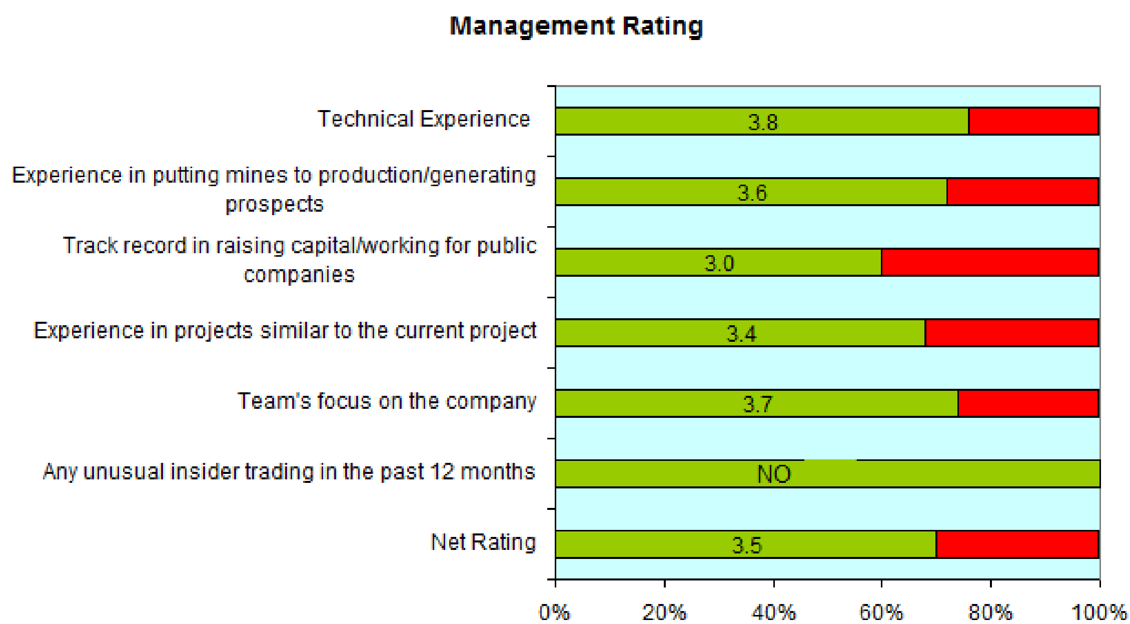
Donald Gentry - Director
Mr. Gentry is a retired Professor Emeritus and Dean of Engineering of the Colorado School of Mines. He has served as a Director of Santa Fe Pacific Gold Corporation, Newmont Mining Corporation and Newmont Gold Company.

Marvin Kaiser – Director
Mr. Kaiser graduated from Southern Illinois University-Carbondale and began his career in the field of public accounting becoming a Certified Public Accountant in 1965. His career in the natural resources industry began in 1969 with Ranchers Exploration and Development Corporation where he held various positions including Chief Financial Officer and Senior Vice President until the company was combined with Hecla Mining Company in 1984. Mr. Kaiser also served as Chief Financial Officer of AMAX Gold, Inc from 1989 until 1993 when AMAX was combined with Cyprus Mining. Subsequent to leaving AMAX, Mr. Kaiser joined The Doe Run Company as Chief Financial Officer. At the time of his retirement from Doe Run in 2006, he held the positions of Executive Vice President and Chief Administrative Officer. Following his retirement, Mr. Kaiser formed Whippoorwill Consulting, LLC. which provides financial advisory services to the natural resources industry. He presently serves as a director of several publicly traded mining/exploration companies as well as The Southern Illinois University Foundation.

Lisanna Lewis – Corporate Controller, Treasurer
From 1994 to 2005 Ms. Lewis served as Administration and Operations Manager for Danka Canada Inc. Ms. Lewis is a student in the Certified General Accountants program of British Columbia.

Management Rating

We believe that the most important aspect of a junior mining company is its management. Our management rating system is 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 GGN is 3.5 out of 5.0, which we have rated above average.** The company's small management team has a strong technical background and can be bolstered by specialists in raising funds in the public forum.



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. We verified the company's "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.

Gryphon Gold's Board of Directors is made up of 4 individuals: John Key, Jerry Baughman, Donald Gentry, and Marvin Kaiser. None of the directors have filed for personal bankruptcy. All of the directors hold shares in the company. The related/non-independent directors are John Key and Jerry Baughman, as they are executive officers of the company and receive compensation. The Audit Committee is made up of Marvin Kaiser, Jerry Baughman and Donald Gentry. The Corporate Governance and Nominating Committee is comprised of Marvin Kaiser and Donald Gentry. The Project Development, Environmental

& Sustainability Committee is comprised of Donald Gentry and John Key.

Outlook for Gold

In 2008, global demand for gold increased by 4%YOY, primarily due to a 64%YOY increase in identifiable investment demand, offset by an 11%YOY drop in demand for jewelry, and a 7%YOY drop in demand for industrial and dental applications (as shown below).

Global Demand (tonnes)	**2006**	**2007**	**2008**	**% ch 2008 vs 2007**
Jewellery	2,285	2,401	2,138	-11%
	67%	*68%*	*58%*	
Industrial and Dental	459	461	430	-7%
	13%	*13%*	*12%*	
Indentifiable Investment	665	664	1,091	64%
	19%	*19%*	*30%*	
Total Identifiable demand	**3,409**	**3,526**	**3,659**	4%
Supply (tonnes)				
Mine Supply	2,076	2,026	2,044	1%
Old Gold Scrap and Official Sector Sales	1,499	1,462	1,425	-3%
Total Supply	**3,574**	**3,488**	**3,468**	-1%
Surplus (Deficit)	165	(38)	(191)	

Source: GFMS and FRC

In 2008, investment demand accounted for 30% of the total demand; up from 19% in the previous two years. Investment demand increased significantly in the second half of 2008, when it accounted for 36% of total demand versus only 20% in the first half. These figures clearly indicate investors’ tendency to move towards capital preservation assets (such as gold) during periods of high uncertainties and expectations of a devaluation of the global reserve currency – the US$. The strong investment demand growth, supported by a 1%YOY drop in supply, led to an increase in the global supply deficit to 191 tonnes (up from 38 tonnes) in 2008.

We have maintained our positive near-term outlook on gold prices, and believe prices will stay strong primarily because we expect investment demand to continue to stay strong (amidst softening demand for other applications), with no major increase in supply. The reason why we believe investment demand will stay strong is because we expect the US$ to depreciate with respect to the other major global currencies due to the recession and negative real interest rates in the U.S., and as we believe inflationary pressures in the U.S. will be instigated by the recently announced large stimulus package, and low interest rates.

Long-term price forecast - As Gryphon is not expecting to commence Au production in the near-term, our valuation on the company depends on our long-term gold price forecasts. Our long-term price forecast, is based on the relationship between the price of gold (during 1980 –2008) and several other independent variables, including the US$, inflation, the global annual mine production growth, oil prices, etc. Based on the relevant factors, we arrived at a long-term gold price forecast of US$600/oz. We expect prices to converge to our long-term forecast, as the US economy recovers and investor confidence improves. Both these factors will result in a drop in the investment demand for gold as investors move their capital from 'capital preservation' assets to investments with higher expected returns.

Financials

At the end Q3 2009 (ended December 2008), the company had cash and working capital of $1.01 million and $0.64 million, respectively. GGN posted a net loss of $9.17 million (EPS: -$0.15) in the first 9 months of FY2009, compared with a net loss of $6.46 million in the same period in FY2008 (EPS: -$0.13).

We estimate the company had a burn rate (including exploration expenses) of $0.49 million per month in the first 6 months of FY2009 (the 9 month burn rate is not available due to lack of information in the company's Q3 financial statements), versus $0.84 million per month in FY2008 (12 month period). Our discussion with management indicated that the company has significantly lowered its burn rate. The following table shows the company's cash position and liquidity ratios.

(US$)	2006	2007	2008	9 mo 2009
Cash & Cash Equivalents	9,390,925	7,150,154	4,347,937	1,014,678
Working Capital	$8,374,384	$6,525,160	3,937,611	638,587
Current Ratio	7.93	8.96	7.11	2.31
LT Debts/ Assets	-	-	25.8%	54.8%
Burn Rate/Month (incl exploration costs)	($518,412)	($639,426)	(840,039)	n/a
Cash from financing activities	12,574,836	5,503,354	6,939,462	n/a

$5 million convertible promissory note: In August 2007, the company issued a convertible promissory note to a former owner of Nevada Eagle with a face amount of $5 million. This note is due March 30, 2010, bearing interest at 5% per annum. In August 2008, the company entered into an 18 month option agreement with the principal shareholder to restructure the $5 million debt. Upon the exercise of the option, the notes payable will be reduced to $2.5 million by a payment of $0.50 million in cash and 4 million shares. The remaining $2.5 million note payable will have a conversion rate of $0.70 per share for the first year (from the exercise date of the option) and escalating by $0.10/share per year until maturity in March 30, 2012. On November 10, 2008, the convertible promissory note was amended so that cash interest payments shall reduce to one half of the previous amounts.

Stock Options and Warrants: At the end of September 2008, the company had 5.34 million stock options outstanding with exercise prices ranging from of $0.07 to $1.60, and maturity periods between 1.2 and 4.9 years (0.43 million stock options are currently in the money). The company also had about 14.49 million warrants outstanding with a weighted average exercise price of $1.06, and a weighted average time to maturity of 0.7 years. None of the warrants are currently in the money.

Conclusion: Based on the company's reduced burn rate, we estimate cash will last for the next 12 months. Management has indicated that capital expenditures on exploration will be based on the company's ability to raise further capital in light of the current market conditions.

We have valued the company's Borealis project based on our discounted cash flow (DCF) and comparables valuation models.

Valuation

DCF valuation: Our DCF model gave a fair value of $0.22 per share.

DCF Valuation Summary - Borealis Gold Project	
Resource - Oxide (in tons)	29,000,000
Resource - Oxide (in tons)	32,250,000
Grade - Oxide (opt)	0.02
Grade - Sulfide (opt)	0.04
Recovery - Oxide (%)	75.0%
Recovery - Sulfide (%)	90.0%
Recovered Metal (in troy oz)	1,644,450
Production Commencement	2012
Average Annual Gold Production (000' oz per year)	46 (oxide); 100 (sulfide)
Mine Life (in years)	15
Long-Term Au Price (US$/oz)	$600
Average Operating Costs ($/oz)	$400
Capital Costs (in $, millions)	$107
Discount Rate	11.49%
Net Present Value	**$15,676,023**
No. of Shares (diluted)	69,946,722
Value per Share	**$0.22**

- We have assumed capital costs of $80 million for processing the sulfide material through flotation (in addition to capital costs of US$19 million for the oxide material).
- Our model assumes that the company will exercise its option to fix the NSR at 5%; the requisite payments are reflected in our capital cost and the number of diluted shares.
- For conservatism, we have included only 50% of inferred resources.

The following table shows the sensitivity of our DCF valuation to our long term gold price forecast.

Gold Price (US$/oz)	Valuation
500	-$0.28
600	**$0.22**
700	$0.73
800	$1.23
900	$1.74
1000	$2.24

Comparable analysis: Based on an average Enterprise Value (EV)/Resources ratio of $33.51/oz gold, we have valued the Borealis project at $0.92 per share based on 1.92 million oz of gold (note that we have used only half of the inferred resource).

Comparables Valuation Model - Borealis

	Company	SYM	Resources (oz.)	EV/Resources
1	Lake Shore Gold Corp.	TSX: LSG	1,890,102	71.76
2	Harvest Gold Corp.	TSXV: HVG	140,954	37.42
3	Golden Band Resources Inc.	TSXV: GBN	942,491	34.70
4	Coral Gold Resources Ltd.	TSXV: CLH	1,141,060	12.24
5	Rye Patch Gold Corp.	TSXV: RPM	516,265	11.45
6	Staccato Gold Resources Ltd.	TSXV: CAT	885,920	2.34
			Average	**33.51**
	Gryphon Gold Borealis Project		**1,915,100**	**$0.92**

Note: Share prices are 1 year averages;
Resource estimate includes 100% of indicated and measrued resources, and 50% of inferred and historical resources;
Average does not include 6 as it is an outlier.

Our average valuation of the Borealis project is $0.57 per share.

Valuation of the Nevada Eagle properties: Although these properties have a historical resource totaling 900,000 oz of gold, we have applied a 75% discount in light of the fact that it is not NI 43-101 compliant, and that the company utilizes a joint venture model to advance these projects. Based on an (EV)/Resources ratio of $33.51/oz gold, we have valued these properties at $0.11 per share based on 0.23 million oz of gold.

Valuation Summary: Adding working capital net of debt, our valuation of the company is $0.62 per share.

Valuation Summary	
Borealis	$0.57
Nevada Eagle Properties	$0.11
Working Capital net Debt	($0.06)
Fair Value	**$0.62**

Conclusions & Rating

Based on our valuation models and review of the company's projects, we initiate coverage of Gryphon Gold with a BUY rating and fair value estimate of $0.62 per share.

Risks

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 co-defendant 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.
- There is a growing call for increasing taxes, albeit from a very low base, on mining in Nevada.

We rate the company's Share 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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