

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA  
Analyst

Vincent Weber, B.Sc  
Research Associate-Mining

Stephen Chan, B.ASc, MEng  
Research Associate

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## Rye Patch Gold Corp. (TSXV: RPM) – Initial Resource Estimate Release for Lincoln Hill Deposit - FINAL REPORT

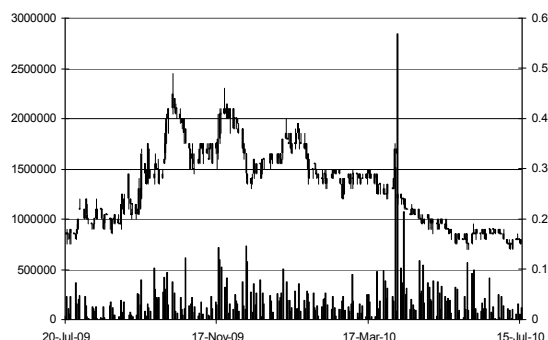
Sector/Industry: Junior Exploration/Mining

www.ryepatchgold.com

### Market Data (as of July 19, 2010)

Current Price	C\$0.14
Fair Value	C\$0.46 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.14 - C\$0.49
Shares O/S	91.31 mm
Market Cap	\$12.78 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.28
YoY Return	-17.6%
YoY TSXV	24.3%

\*see back of report for rating and risk definitions



### Investment Highlights

- An initial resource for the Lincoln Hill deposit has been released stating 0.38 Moz gold and 9.488 Moz silver at a gold equivalent cut off of 0.383 g/t (0.1 opt).
- Drill results at Lincoln Hill also show high grade mineralization. Core hole LRC-002 returned 21.19 g/t gold over 7.0 meters starting at 25.3 meters.
- Drill results at the North Basin deposit from the Wilco project demonstrate a potential expansion on the sought after high grade feeder structures.
- The company has a gold equivalent resource portfolio in Nevada of 1.18 Moz measured and indicated, and 2.73 Moz inferred.
- The company is in a sound financial position. At the end of March 2010, the company had \$6.68 million in cash and cash equivalents, or \$0.07 per share.
- On February 10, 2010, the company entered into a definitive agreement to acquire 63.96% of the REN property from Centerra Gold Inc., but was unable to complete the transaction due to the exercise of a pre-emptive right by Homestake Mining Company to acquire Centerra's interest.

Key Financial Data (FYE - December 31)	2009	2010
(C \$)		3 mo
Cash	6,778,692	6,675,369
Working Capital	6,383,839	6,918,338
Mineral Assets	2,880,981	2,945,551
Total Assets	9,883,901	10,094,434
Net Loss	(2,383,781)	(300,462)
EPS	(0.05)	(0.00)

Sensitivity of FV (average of DCF, Real Options and Comparables)	Discount Rate			
	8.0%	10.0%	11.5%	15.0%
Gold Price (US\$/oz)				
\$600	\$0.21	\$0.21	\$0.21	\$0.21
\$700	\$0.33	\$0.30	\$0.28	\$0.25
\$800	\$0.47	\$0.40	\$0.37	\$0.31
\$900	\$0.61	\$0.52	<b>\$0.46</b>	\$0.37
\$1,000	\$0.75	\$0.63	\$0.56	\$0.43
\$1,100	\$0.90	\$0.74	\$0.65	\$0.50
\$1,200	\$1.04	\$0.86	\$0.75	\$0.57

Rye Patch Gold Corp. is a junior exploration company focusing its exploration and development in the prolific gold belts of Nevada, USA. The company currently has a gold equivalent mineral resource portfolio in Nevada that totals 1.18 Moz measured and indicated and 2.73 Moz inferred.

## REN Acquisition

On February 10, 2010, the company entered into a definitive agreement to acquire 63.96% of the REN property from Centerra Gold Inc. (“Centerra” TSX: CG). The 63.96% represented Centerra’s partial interest, the remaining interest was held by Homestake Mining Company of California Inc. (“Homestake” is a subsidiary of Barrick Gold Corporation, TSX: ABX). A pre-emptive right held by Homestake to acquire Centerra’s interest was exercised prior to the termination date of April 8, 2010. The definitive agreement signed by Rye Patch was subsequently nullified and the company has been paid a US\$0.25 million break fee by Centerra.

**While the acquisition of the REN property would have fortified the companies project portfolio with significant additional resources, and further upside potential, we nevertheless believe current projects hold growth potential and remain undervalued.**

## Company Overview

Rye Patch Gold Corp. is a junior exploration company focusing its exploration and development in the prolific gold belts of Nevada, USA. The company’s flagship property is the Wilco project, located 160 km Northeast of Reno, Nevada. The company recently completed its work commitment regarding the Wilco property earning 100% interest. The company also holds 100% interest in the Jessup property, and retains exploration rights to two other Nevada gold properties: the Lincoln Hill/Gold Ridge Project and the Keystone South Project. A recently released initial NI 43-101 compliant resource estimate for the Lincoln Hill property further added to the company’s resource base.

The table below shows the existing mineral resource estimate for the company’s properties.

Rye Patch Gold's NI43-101 Resource Inventory <sup>(1)</sup>							
Property	Resource Category	Tonnes (X 1,000)	Gold Grade (g/t)	Silver Grade (g/t)	Contained Gold Ounces	Contained Silver Ounces	Contained Au & Au Equivalent
Wilco <sup>(2)</sup>	Measured	7,526	0.69	4.595	164,000	1,111,000	186,220
	Indicated	30,844	0.51	3.601	522,000	3,638,000	594,760
	Inferred	121,838	0.41	5.075	1,660,000	19,871,000	2,057,420
Jessup <sup>(2)</sup>	Measured	7,775	0.51	8.745	128,000	2,184,000	171,680
	Indicated	12,642	0.41	7.167	172,000	2,906,000	230,120
	Inferred	4,494	0.55	7.922	77,000	1,146,000	99,920
Lincoln Hill <sup>(3)</sup>	Measured	-	-	-	-	-	-
	Indicated	-	-	-	-	-	-
	Inferred	17,215	0.69	17.143	380,000	9,488,000	569,760
<b>Total Measured &amp; Indicated Resources</b>					<b>986,000</b>	<b>9,839,000</b>	<b>1,182,780</b>
<b>Total Inferred Resources</b>					<b>2,117,000</b>	<b>30,505,000</b>	<b>2,727,100</b>
<p>(1) All resources on 100% basis. Metallurgical recoveries and net smelter returns are assumed to be 100%. Conforms to 43-101 resource definitions;</p> <p>(2) Cutoff grade for Wilco Measured and Indicated resource is reported at 0.2 g/t Au for oxide mineralisation and 1.45 g/t Au for sulphide mineralisation. The Inferred resource is reported at 0.2 g/t Au for oxide, sulphide and carbonaceous ore types; however, a higher opt Au cut-off grade may be required to upgrade the inferred resource to the measured and indicated resource category. Cut-off grade for Jessup is reported at 0.2 g/t Au for oxide mineralisation and 0.34 g/t Au for transition and sulphide mineralisation; and</p> <p>(3) The Inferred resource is reported at a cut-off grade of 0.343 g/t (0.01 opt) Aueq for oxide and transitional ore types;</p> <p>(4) Wilco and Jessup Resource includes Au equivalent ounces (Aueq.); where Aueq. = (Au ozs) + (Ag ozs X \$Ag/oz)/\$Au/oz, for Au/oz = \$900, and Ag/oz = \$18.</p>							

Figure 1: Current NI 43-101 resources at RPM projects. (Source: Company)

**Lincoln Hill**

RPM recently released an initial NI 43-101 resource estimate for the Lincoln Hill deposit located just six kilometers east of the Wilco deposit. The estimate is largely based on 43 reverse circulation holes and four core holes completed by the company in 2008/2009.

Cutoff Grade (Gm/Tonne)	Tonnes (1000's)	Au (Gm/Tonne)	Gold Ozs	Ag (Gm/Tonne)	Silver Ozs
0.343	17,215	0.686	380,000	17.143	9,488,000

Figure 2: Lincoln Hill Inferred resources. (Source: Company)

The 2009 drill program leading up to the resource estimate also produced individual highlight assays including core hole LRC-002 which returned 21.19 g/t gold over 7.0 meters starting at 25.3 meters. Historic reports on the Lincoln Hill area suggest historic underground mining produced an average grade of 7.5 g/t Au. The results from the 2009 drill program did return some assays of 7.5 g/t Au and higher suggesting some high grade zones do exist. However, at this time, the company is looking to build an open pitable resource at Lincoln Hill, and incidentally, the grade of the recent resource estimate is a much lower 0.686 g/t.

We feel the resource estimate also builds on the overall potential of the Oreana trend where the company holds a significant land position including the company’s flagship Wilco property (Willard and Colado deposits). The Oreana trend, which also includes Midway Gold Corp.’s (TSXV: MDW – BUY rating, Risk 5) Spring Valley deposit (inferred resource of 1.8 Moz), continues to show significant potential and scale.

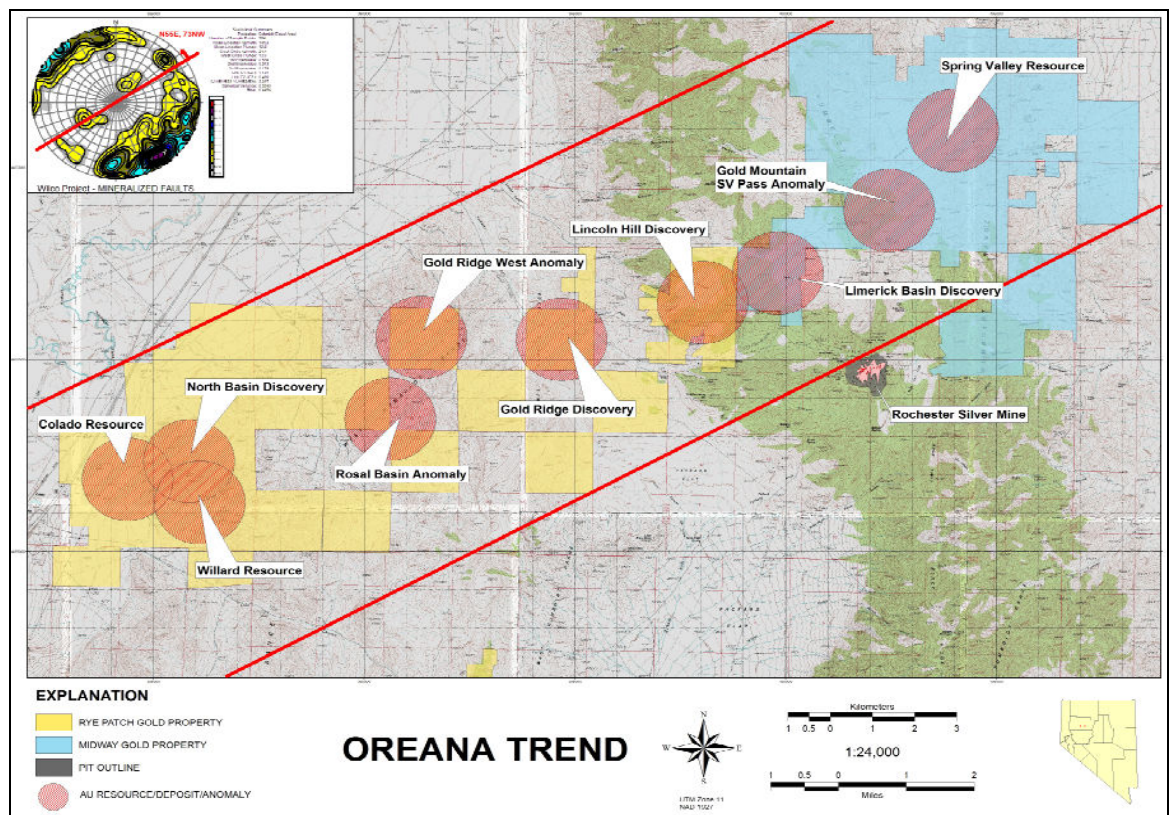


Figure 3: The Oreana Trend and RPM’s associated projects. (Source: Company)

**Wilco**

Through completion of its work commitment, the company has earned a 100% interest in the Wilco property. Total spending to date on the project is over US\$3 million. The company's interest in the property is subject to the back-in rights of a Newmont Mining Corporation subsidiary ("Newmont" TSX: NMC) as discussed in our initiating report.

The company has released assay results from the 2009 and early 2010 drill programs at the North Basin target. Highlights of the program include a 1.5 meter intercept of 44.53 g/t gold and 36.3 g/t silver in hole WR-099. While this is a relatively short interval, the result is positive as it demonstrates a potential expansion to the high-grade feeder zone originally identified in hole WR-087. Additionally, Hole WR-095 intersected 6.1 meters of 3.24 g/t gold and 5.3 g/t silver at a down hole depth of 118.9 meters as well as 15.2 meters of 2.08 g/t gold and 12.7 g/t silver further down hole at a depth of 301.8 meters.

**The company is continuing to move towards meeting its corporate goal which is now stated to be 10 million ounces of gold equivalent resources.**

**Financials**

At the end of Q1-2010 (3 months ended March 2010), RPM had \$6.68 million in cash and cash equivalents. Working capital and the current ratio were \$6.92 million and 83.91x, respectively. The net loss for Q1-2010 was \$0.30 million (EPS: -\$0.00). We estimate the company had a burn rate of \$0.21 million per month in Q1-2010. The following table shows the company's current liquidity position.

(C\$)	2008	2009	2010 (3m)
Working Capital	116,024	6,383,839	6,918,338
Current Ratio	1.36	14.64	83.91
LT Debts/ Assets	-	-	-
Burn Rate/Month (incl exploration costs)	(323,620)	(216,868)	(206,442)
Cash from financing activities	1,666,990	9,210,622	516,004

**Stock options and warrants:** At the end of March 2010, there were 4.81 million options outstanding with a weighted average exercise price of \$0.23. The company also had 43.26 million warrants outstanding with a weighted average exercise price of \$0.23, and a weighted average contractual life of 1.12 years. None of the options and warrants are currently in the money. About 9.53 million warrants are currently at the money.

**Conclusion:** The company is in a very strong cash position with no long-term debt. Based on its current burn rate of \$0.21 million per month, we believe, it has sufficient cash for at least a year.

**Valuation**

We revised our valuation to include the initial resource estimate at Lincoln Hill. Our valuation is now based on the resource estimates on the Wilco, Jessup and Lincoln Hill projects. We continue to assume that - a) Newmont will spend \$20 million in development work to regain 70% interest in the Wilco project, and b) all the projects will use the same processing facility due to proximity

Despite our higher long-term gold price forecast of US\$900 per oz (compared to our previous estimate of US\$600/oz at the time our previous report in June 2009), our DCF and

real options valuation on the company dropped to \$0.42 and \$0.34 per share, down from \$0.60, and \$0.58 per share, respectively. The valuation dropped primarily because we used: 1) higher operating cost estimates of US\$525 per oz (up from US\$290 per oz); 2) a higher capital cost estimate of US\$110 million (up from US\$75 million); and 3) a significant increase in the number of shares outstanding (from 44 million to 91 million).

A summary of our DCF and real options valuation models are shown below:

<b>DCF Valuation Summary</b>	
Resource (in tonnes) - M+I+50%Inferred	131,159,344
Average Au Grade (opt) - Wilco	0.015
Average Ag Grade (opt) - Wilco	0.147
Average Au Grade (opt) - Lincoln Hill	0.022
Average Ag Grade (opt) - Lincoln Hill	0.551
Average Au Grade (opt) - Jessup	0.015
Average Ag Grade (opt) - Jessup	0.250
Contained Gold (in troy oz) - Wilco	1,516,000
Contained Silver (in troy oz) - Wilco	14,684,500
Contained Gold (in troy oz) - Lincoln Hill	190,000
Contained Silver (in troy oz) - Lincoln Hill	4,744,000
Contained Gold (in troy oz) - Jessup	338,500
Contained Silver (in troy oz) - Jessup	5,663,000
Gold Recovered	1,302,325
Silver Recovered	11,861,800
Production Commencement	2014
Mill Processing (tpy)	10,000,000
Mine Life (in years)	13
Gold Price (in US\$/oz)	\$900
Silver Price (in US\$/oz)	\$16.5
Average Operating Costs (US\$/oz)	\$525
Total Capital Costs to RPM (in US\$)	43,500,000
Discount Rate	11.49%
<b>Net Present Value (30% Wilco, 100% Jessup and Lincoln Hill)</b>	<b>\$32,089,551</b>
Working Capital	\$6,367,137
Debt	-
<b>Fair Value</b>	<b>\$38,456,688</b>
No. of shares	91,311,000
<b>Value per share</b>	<b>\$0.42</b>

Real Options Valuation			
Inputs relating to the underlying asset			
Estd. Value of Minerals if extracted today (\$)		\$57,228,862	
Annualized Standard Deviation of Mineral prices		19.0%	
Capital Investment (\$)		50,025,000	
Estd. Mine Life (years)		13	
Riskfree Rate		3.35%	
Output			
Stock Price	\$57,228,862	T. Bond rate	3.35%
Strike Price	\$50,025,000	Variance	0.04
Expiration (in years)	10	Annualized div yield	0%
d1 =	1.082	Value of Option (\$)	\$24,732,743
N(d1) =	0.860	Working Capital net Debt (\$)	\$6,367,137
d2 =	0.481	No. of shares	91,311,000
N(d2) =	0.685	<b>Value per share</b>	<b>\$0.34</b>

Our revised comparables valuation model gave a fair value of \$0.62 per share (down from \$0.63 per share), based on an average peer EV/Resources ratio of \$40/oz Au equivalent. Note from the table below, that based on comparables, RPM is significantly undervalued compared to its peers.

Company	SYM	EV / Resources
1 Golden Band Resources Inc.	TSXV: GBN	\$64.4
2 Sona Resources Corporation	TSXV: SYS	\$60.4
3 Harvest Gold Corp.	TSXV: HVG	\$36.3
4 Silverado Gold Mines Ltd.	OTCBB: SLGLF	\$31.4
5 Sutter Gold Mining Inc	TSXV: SGM	\$27.0
6 NioGold Mining Corporation	TSXV: NOX	\$21.9
7 Rye Patch Gold Corp.	TSXV: RPM	\$4.9
<b>Average EV / Resources (\$/oz)</b>		<b>\$40.2</b>
<b>Fair Value of RPM (\$)</b>		<b>\$0.62</b>

\* Resources include all measured and indicated, and half of inferred and historical resources

\*RPM's EV/resource was removed from the average calculation as it is an outlier

**Our average valuation on the company, based on our three valuation models, is \$0.46 per share (down from \$0.60 per share).**

Valuation Summary	Valuation (\$/Share)
DCF	\$0.42
Real Options	\$0.34
Comparables	\$0.62
<b>Average</b>	<b>\$0.46</b>

The following table shows the sensitivity of our valuation to changes in long term gold price and discount rate assumptions.

**Sensitivity of FV (average of DCF, Real Options and Comparables)**

Gold Price (US\$/oz)	Discount Rate			
	8.0%	10.0%	11.5%	15.0%
\$600	\$0.21	\$0.21	\$0.21	\$0.21
\$700	\$0.33	\$0.30	\$0.28	\$0.25
\$800	\$0.47	\$0.40	\$0.37	\$0.31
\$900	\$0.61	\$0.52	<b>\$0.46</b>	\$0.37
\$1,000	\$0.75	\$0.63	\$0.56	\$0.43
\$1,100	\$0.90	\$0.74	\$0.65	\$0.50
\$1,200	\$1.04	\$0.86	\$0.75	\$0.57

**Rating** Based on our valuation models and review of the company's projects, we maintain our BUY rating, but lower our fair value estimate to \$0.46 per share (down from \$0.60 per share).

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

- The value of the company is dependent on gold and silver prices.
- The success of drilling, project development and resource expansion are important long term success factors for these early stage projects
- Historic work has shown poor recovery of silver from the Willard deposit which may affect future economics; however, the existing infrastructure, accessibility, and a positive mining attitude in Nevada will contribute to positively impact the company's long-term valuation
- Potential share dilution and access to capital

**We rate the company'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.**Disclaimers and Disclosure**

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