

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## Evolving Gold Corp. (TSXV: EVG FSE: EV7) - Initiating Coverage – Gold Exploration in Wyoming, USA; Strong Cash Position

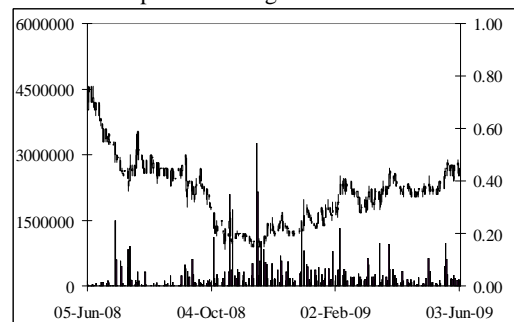
Sector/Industry: Junior Exploration/Mining

[www.evolvinggold.com](http://www.evolvinggold.com)

### Market Data (as of June 4, 2009)

Current Price	\$0.45
Fair Value	\$0.70
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.14 - \$0.76
Shares O/S	83.77 mm
Market Cap	\$37.70 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.13
YoY Return	-40.0%
YTD TSXV	-57.1%

\*see back of report for rating and risk definitions



### Investment Highlights

- Evolving Gold Corp. (“Evolving Gold”, “EVG”, “the company”) is a Vancouver, British Columbia based exploration company focused on acquiring and developing gold projects in the western United States.
- The company’s current focus is the Rattlesnake Hills project in Wyoming. Phase I drilling highlights include key intervals of 146.3 meters grading 2.92 g/t Au (Hole RSC-003), and 131.0 meters grading 2.84 g/t Au (Hole RSC-007)
- Phase II drilling is underway at Rattlesnake Hills with 3 rigs operating and a planned target of completing 15,000 meters in up to 35 holes.
- The company is in a strong cash position. Current cash, we believe, is sufficient to fund working capital and exploration for another 24 months.

### Risks

- The value of the company is dependent on the success of drilling, expansion, and determination of favorable resource estimates
- EVG has not defined any NI 43-101 compliant resource estimates on its properties.

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

(C \$)	2008	2009 9 mo
Cash	24,959,327	17,937,997
Working Capital	24,391,360	17,888,301
Mineral Assets	8,824,242	15,235,898
Total Assets	34,216,744	33,482,870
Net Profits	(8,742,364)	(3,661,681)
EPS	(0.21)	(0.05)

Evolving Gold is currently exploring its 100% owned Rattlesnake Hills gold project in central Wyoming. Phase II drilling is aimed at completing 15,000 meters and providing sufficient data to calculate an inferred resource estimation. The company currently has \$17.9 million in working capital.

## Company Overview

Evolving Gold Corp. is a TSX Venture-listed Canadian junior exploration company based in Vancouver, British Columbia with a focus on gold and gold-silver properties in the western United States. The company's flagship property, the Rattlesnake Hills Project is located in central Wyoming within the Rattlesnake Hills Diatreme Complex. The project lies within the Rocky Mountain alkalic gold province, a near linear north south gold trend and shares numerous geological characteristics with the Cripple Creek deposit in Colorado. Several areas of gold mineralization were intersected in Phase I drilling in 2008, and a 15,000 meter Phase II drill program is underway.

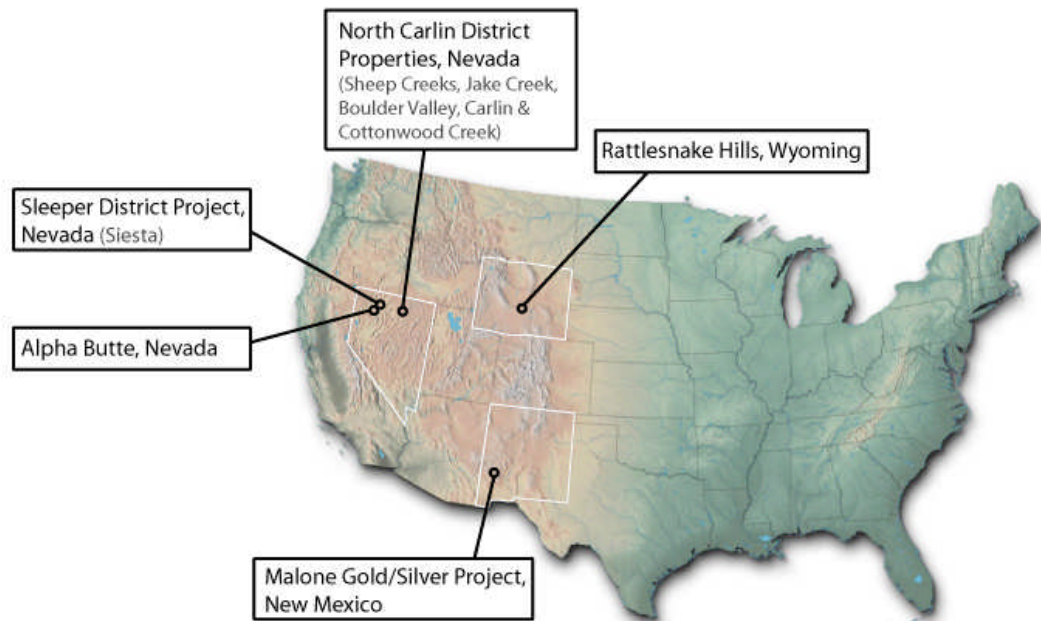


Figure 1: Evolving Gold Corp. project locations (Source: Evolving Gold Corp.)

## Corporate History

The company was incorporated under the Canada Business Corporation Act on June 19, 2003, changing its name to Evolving Gold Corp. on September 30 of that year. The company began trading on the TSX Venture exchange under the symbol EVG on June 13, 2007 and began trading on the FSE stock exchange under the symbol EV7 on August 13, 2007.

## Rattlesnake Hills

**Property Overview:** The Rattlesnake Hills project is composed of 162 unpatented lode mining claims totaling approximately 1,600 hectares. The property lies within an alkalic volcanic center that hosts upwards of 50 intrusions and diatremes in Archean pelitic and greenstone schists. The Rattlesnake Hills alkalic volcanic center lies within the Rocky Mountain alkalic gold province, a near linear north south gold trend that hosts prolific gold deposits such as Cripple Creek (over 25 million ounces of gold mined). Phase I highlight intersections include key intervals of 146.3 meters grading 2.92 g/t Au (Hole RSC-003) and

131.0 meters grading 2.84 g/t Au (Hole RSC-007). The company recently commenced a Phase II drill program employing 3 diamond drill rigs with a target of completing approximately 15,000 meter in 30 to 35 holes.

**Ownership:** On January 16, 2008, the company signed a property option agreement with Golden Predator Royalty & Development Corp. (TSXV: GPD; note: formerly Golden Predator Mines Inc.) whereby Evolving can acquire 100% interest in exchange for the issue of 3 million shares to be issued before February 20, 2010. To date, 2 million shares have been issued, and US\$2.99 million in exploration expenditures have been incurred on the property.

GPRD holds a 0.5% NSR on any future production from the property. Evolving can purchase 0.25% of the NSR for US\$0.375 million at the exclusive option of GPRD. The Rattlesnake property is currently subject to a 4% NSR payable to the underlying owners. In addition, Evolving will act as the operator with respect to this property.

Following the acquisition of the claims from GPRD, the company staked an additional 35 claims totaling 283 hectares.

**Location/Accessibility:** The property is located in central Wyoming, approximately 80 kilometers from Casper, a city of approximately 50,000. Casper hosts an international airport and would suffice as a source for supplies and possibly, skilled labour. The property itself is accessed via 26 kilometers of gravel road from the paved state highway 220.

The topography of the area is largely rolling terrain that does not pose any particular challenge to access. Existing gravel, cattle and drill roads throughout the property can be easily upgraded. Nearby ranches are serviced by electrical power lines indicating a proximal power source and subsurface water is likely to be sufficient for an operation.

Permits for road building, drilling and water usage are obtained from the Bureau of Land Management.

Figure 2 shows the representative project terrain as well as the topographic highs of the North Stock and Northeast Stock.

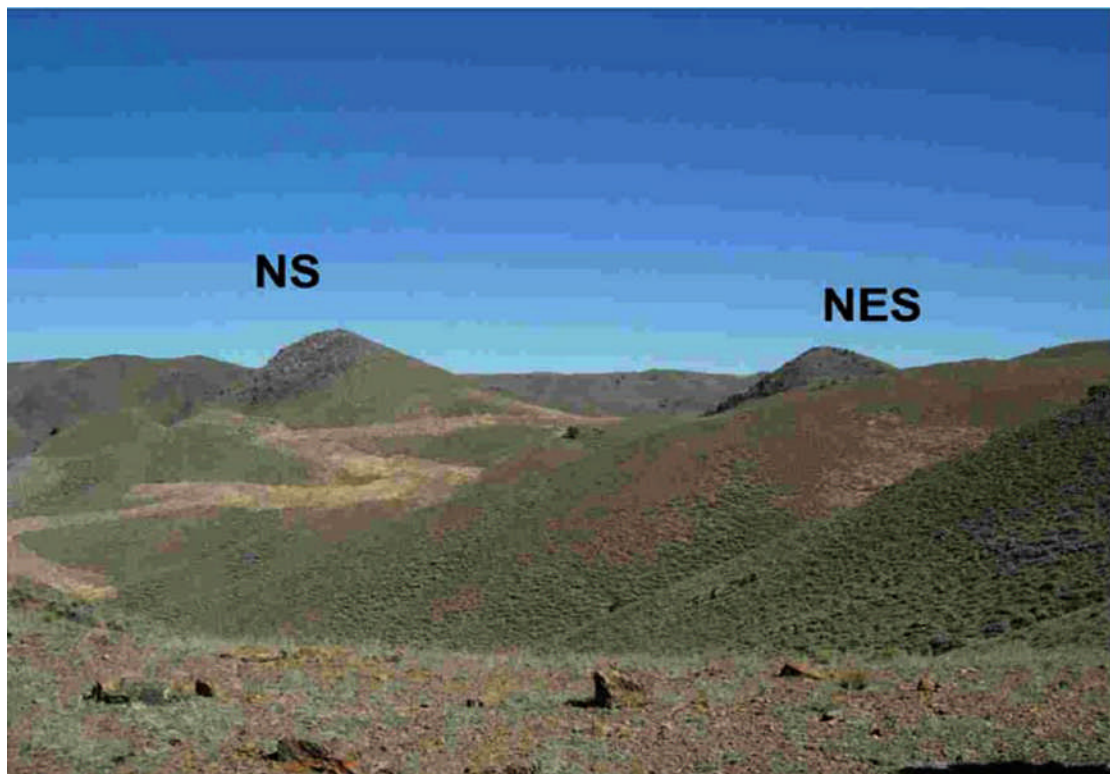


Figure 2: View of North Stock (NS) and Northeast Stock at Rattlesnake Hills (Source: Evolving Gold Corp.)

**Historic Exploration/Production:** Minor historic exploration has occurred on the property in the form of small prospect pits. Documented exploration did not occur until the latter half of the 20th century.

Data on drilling completed by America Copper and Nickel Company (“ACNC”) (32 RC holes) in the 1980’s, and by Newmont Exploration Ltd.; (TSX: NEM) (14 short holes) in the 1990’s is also minimal. While Newmont was able to identify gold mineralization, it appears drilling did not target prospective formations to sufficient depth.

**Evolving is exploring the site as an alkalic gold system based on geological similarities to the Cripple Creek, Colorado deposit. This is the first time an alkalic model has been applied to the property.**

**Evolving Gold Exploration:** The company began exploration on the property by going directly into Phase I drilling. The program completed 15 diamond core holes totaling 6,524 meters with the following results:

- Identification of two types of mineralization:
  - High grade veinlet mineralization associated with an overprinting of earlier porphyry-like mineralization (intersected at the margin of the North Stock).
  - Low grade halo mineralization surrounding high grade mineralization.
- Intersection of key intervals of 146.3 meters grading 2.92 g/t Au (Hole RSC-003) and 131.0 meters grading 2.84 g/t Au (Hole RSC-007).

- Confirmation of the Alkalic model.

As noted above, this is the first time the property has been explored using an alkalic system model **which Phase I essentially confirmed**. Application of the correct geological model, which maximizes an exploration company's chances of making a discovery, can be attributed to the highly experienced management team.

**Geology and Mineralization:** The Rattlesnake Hills area hosts an alkalic volcanic center of over 50 intrusions, and diatremes, in Precambrian-archean pelitic and greenstone schists. The Rattlesnake Hills alkalic volcanic center lies within the Rocky Mountain alkalic gold province, a near linear north south gold trend that hosts prolific gold deposits such as Cripple Creek (over 25 million ounces of gold mined). The property itself hosts upwards of 15 Eocene aged plugs, domes, diatremes and stocks, associated with a north-south trending structural corridor cross-cut by a northeast-southwest structural zone.

Management is comparing the Rattlesnake Hills project to the Cripple Creek deposit in Colorado. While the high grade mineralization at Cripple Creek has largely been exhausted, Anglo Ashanti Gold is currently mining low grade halo mineralization similar to what has been encountered at Rattlesnake Hills surrounding the higher grade intersections. The following table summarizes the geological similarities between the Cripple Creek deposit and Rattlesnake Hills.

<b>Cripple Creek</b>	<b>Rattlesnake Hills</b>
Breccia is the most common and widespread rock type in the Cripple Creek volcanic complex	Significant breccia has been encountered throughout the project area
Phonolite occurs throughout the volcanic complex and as domes around its margin	Phonolite is present on the property as domes and plugs
Significant adularia alteration present	Significant adularia alteration present in core
Diatreme occupies the site of regional scale structural intersections	Diatremes and stocks are associated with a north-south trending structural corridor cross-cut by a northeast-southwest trending structural zone
Two styles of mineralization present: <ol style="list-style-type: none"> <li>1. Broad zones of low grade disseminated mineralization</li> <li>2. high grade mineralization associated with fracture zones</li> </ol>	Two styles of mineralization present: <ol style="list-style-type: none"> <li>1. Broad zones of low grade disseminated mineralization</li> <li>2. High grade veinlet mineralization</li> </ol>

*[Source: Anglogold (USA) Exploration, Inc. (NYSE: AU), Evolving Gold Corp.]*

**We believe significant similarities exist between the two deposits and such similarities are likely to positively influence the company's exploration efforts.**

Primary mineralized targets on the property are the North Stock, South Stock and Antelope Basin (depicted in Figure 3).

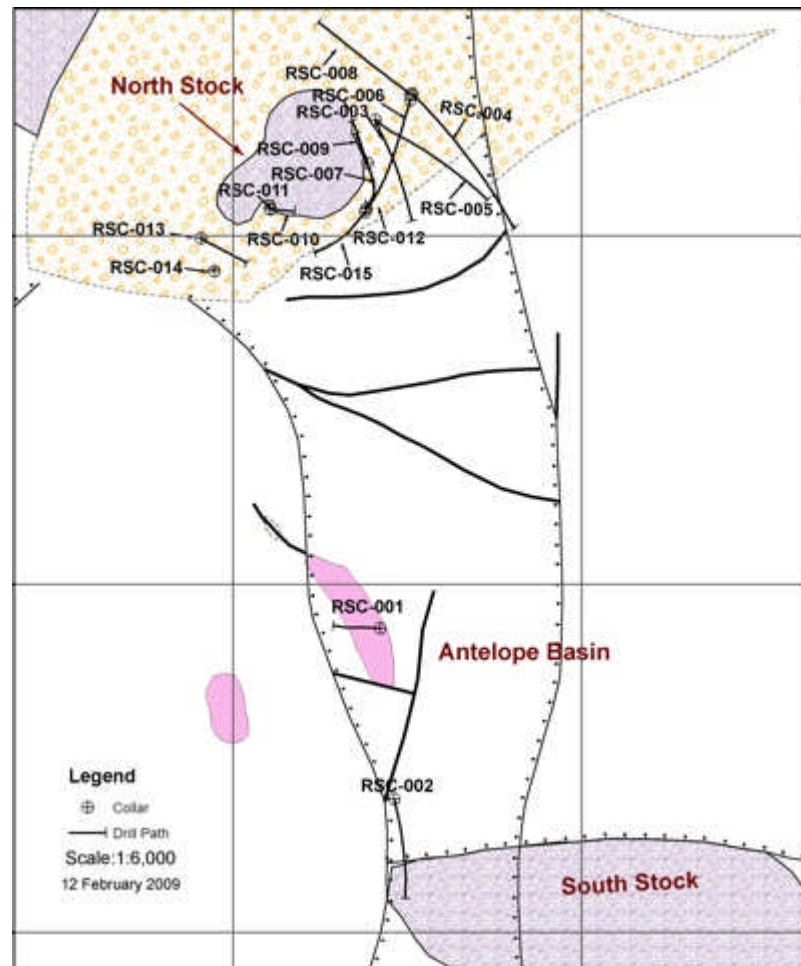


Figure 3: Primary targets at Rattlesnake Hills and location of Phase I drill collars (Source: Evolving Gold Corp.)

### North Stock

The North Stock is a diatreme breccia approximately 700 meters in diameter with central a phonolite plug. High grade mineralization has been intersected along the margin of the diatreme, and is surrounded by a large halo of lower grade gold mineralization. The low grade zone has been defined as approximately 450 meters long, 200 meters wide and extending from surface to at least 550 meters depth and remains open to the west, east, south and depth. Mineralization is more prevalent on the margin and around the diatreme rather than within it, and may also be present as it wraps around it to the north.

High grade mineralization encountered at the North Stock includes visible gold.

### Antelope Basin

Antelope Basin is a graben – an elongate, relatively depressed crustal block that is bounded by faults on its long sides – extending from the North Stock to the South stock. Phase I drilling intersected highly anomalous gold mineralization (36.5 meters at 1.48 g/t) approximately 750 meters south of the North Stock.

South Stock

The South Stock is another diatreme breccia that was drill tested by one hole in Phase I. Hole RSC-002 deviated significantly and passed through the western fault before testing its intended target. Regardless, low grade gold mineralization was still encountered and significant gold is present at surface.

**Intense alteration is apparent throughout the graben as is the gold pathfinder element As (Arsenic). The implication of these findings is the potential for an extensive mineralized system extending from the North Stock to the South Stock, through the Antelope Basin graben, which is also supported by recent geophysical results.**

**The brecciated diatremes are an integral part of the deposit as their structure encourages fluid flow in hydrothermal systems, and influences the mobilization and localization of gold deposition.**

**Metallurgy:** Initial bottle roll cyanide leach tests are underway which will be followed by additional test work on gravity and flotation concentration characteristics.

**Resource Estimate:** The property does not currently have a resource estimate, historic or NI 43-101 compliant.

The company has defined mineralization with the dimensions of 450 meters in length, 200 meters in width and depth of 550 meters at the North Stock. Due to the exploratory nature of Phase I, drilling was utilized to test the most prospective targets rather than to drill in a grid pattern. As such, we believe Phase I drilling has proven mineralization over an area of approximately 45,000 m<sup>2</sup>. We have applied this number along with the known depth of 550 meters, and average grade of 0.96 g/t, to calculate a rough resource estimate. We applied a specific gravity of 2.5 t/m<sup>3</sup> and have discounted the final resource by 50% due to the early stage of exploration:

$$45,000 \text{ m}^2 \times 550 \text{ m} = 24,750,000 \text{ m}^3$$

$$24,750,000 \text{ m}^3 \times 2.5 \text{ (specific gravity)} = 61,875,000 \text{ tonnes}$$

$$61,875,000 \times 0.96 \text{ g/t} \times 0.5 = 954,855 \text{ ounces}$$

**We feel this is a substantial resource based the initial drilling program, and believe it indicates the potential for a very large gold system.**

**Current Status:**

Phase II drilling commenced mid May with three diamond core drill rigs that will complete 30 to 35 holes for a total of approximately 15,000 meters. According to management, the program has the following objectives:

- Provide sufficient data to allow for the calculation of an inferred resource
- Test the extensions of the high grade mineralization, particularly on the south and west sides of the North Stock
- Most importantly, allow the EVG to conceptualize the size and potential of the project.

**Development Timeline:** Generating a definitive timeline on an early stage project with such a large size potential is difficult as the company must assess the scale of the project prior to developing their method of approach. The current drill program is aimed at estimating an inferred resource and we expect that should a sufficient resource be defined, exploration in 2010 will focus on both upgrading the confidence in the resource, as well as constraining the limits of mineralization.

### ***Other Properties***

Additional projects held by the company are located in Northern Nevada and New Mexico. The company has completed exploration programs on these properties including drilling programs but is currently minimizing expenditures on them while Rattlesnake Hills is focused on. A quick summary of the North Carlin District and Malone properties is provided below:

#### North Carlin District

- 5 gold properties totaling 32,375 hectares
  - Jake Creek – 100% ownership
  - Sheep Creeks, Boulder Valley, Carlin, Cottonwood Creek – minerals lease, sublease and agreement with Newmont
- Phase I drilling completed in 2008
  - Gold intercepts ranging from 0.1-0.7 g/t over lengthy intervals

#### Malone

- Gold/silver property totaling 665 hectares in New Mexico
- 100% ownership
- Phase I core drilling completed in 2008
  - Highlight intercepts include 24.69 meters (starting at a depth of 6 meters) grading 0.6 g/t Au and 56.15 g/t silver including 0.91 meters grading 6.62 g/t Au and 833 g/t gold

### ***Management***

Management biographies as provided by the company are found below:

#### **Quinton Hennigh, M.Sc., Ph.D – President, Director**

Prior to joining Evolving Gold, Quinton served as Senior Research Geologist with Newmont Mining. He has worked throughout North America, in Europe, Australia, Asia and South America with Newmont Mining, Newcrest Mining and Homestake Mining. He has spent years developing regional concepts for the exploration for buried gold deposits, particularly in Nevada. Quinton comes from a long tradition of gold seekers - his great-great-grandfather followed the gold rush to Colorado in 1859. Dr. Hennigh has a Ph.D. from the Colorado School of Mines.

#### **Robert Barker, Ph.D – Chief Executive Officer, Director**

Dr Barker has spent 44 years in successful multi-commodity mining exploration, with 27 years in exploration and acquisition leadership. He has led exploration and acquisition

programs in the USA, Canada, Australia and South America. Dr. Barker spent the last 20 years in senior management positions, 14 years with Newcrest Resources, Inc. as General Manager, American Exploration. He has also held exploration leadership positions with Homestake Mining Co. and Amax, Inc. Dr Barker's long experience in evaluations of advanced and developmental projects, review of resource estimates and mine development plans is critical to Evolving Gold at this stage of its growth. Dr Barker has a Ph.D in Economic Geology from the University of California, Berkeley and is a Certified Professional Geologist, AIPG.

**Vitaly Melnikov, MBA, CPA – Chief Financial Officer**

Vitaly Melnikov has held senior management positions with international resource companies operating in North America, Europe, Russia and Central Asia. He recently served as Vice President, Finance and Administration of UrAsia Energy Ltd. Vitaly has also held financial management positions with PetroKazakhstan, a vertically integrated oil & gas company and Kumtor Operating Company with exploration activities and a large operating gold mine in Central Asia. Vitaly is a Certified Public Accountant (USA) and holds an MBA and a M.Sc. (Economics) degrees.

**Robert Bick, MBac – Executive Chairman**

Robert Bick has wide-ranging experience as an entrepreneur, a management consultant and is an integral part of Canadian business legend - Bick's Pickles. Mr. Bick served as CEO of Evolving Gold from February 2007 – November 2008 leading EVG from an unknown exploration company with minimal capital to a well capitalized, highly respected explorer with an enviable geological team and a significant discovery. In addition to his business activities, Robert spent 10 years as a classical flautist performing and recording throughout Europe and North America with the Galliard Ensemble.

**William Majcher, BComm - Director**

William ("Bill") Majcher is Managing Director, International Business, Europe and Middle East for Baron International Limited, a Hong Kong based merchant bank. His background includes management, structured finance, emerging markets, strategic planning, and risk management. In his 20 year career with the Royal Canadian Mounted Police (RCMP) Mr. Majcher achieved remarkable success in covert and public market investigations working with law enforcement and securities regulators from around the globe.

**Gilles J. Arseneau, Ph.D., P.Geo – Director**

Gilles is a respected geologist with 25 years in mineral exploration working as a consultant and senior geologist. Most recently he was Manager - Geologist with the TSX Venture Exchange where he was responsible for the review of NI 43-101 technical reports. He is presently Manager of Geology at Wardrop Engineering Inc. Dr. Arseneau has a Ph.D. from the Colorado School of Mines.

**William F. Lindqvist, Ph.D – Director**

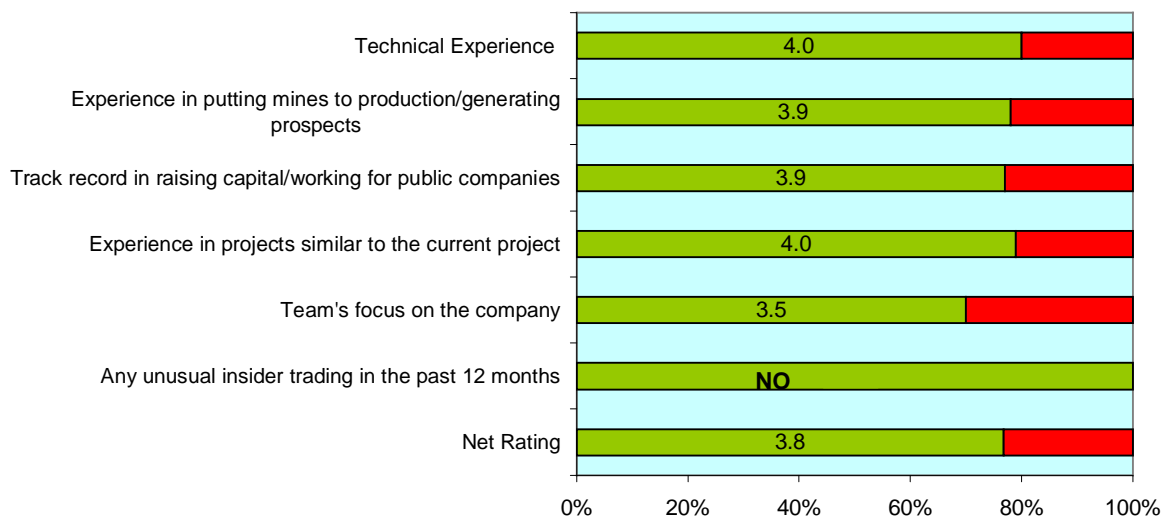
Dr. Lindqvist has extensive exploration experience and has participated in discoveries around the world. He has spent his long and distinguished career primarily with Gold Fields

Mining Corp. and Homestake Mining Company (acquired by Barrick Gold Corporation in 2000). He is presently a director of Gallant Minerals Ltd, Plutonic Power Corporation, Uruguay Minerals Exploration Inc., Solomon Resources Inc. and EcuGold Resources Inc. Dr. Lindqvist has a Ph.D in Applied Geology from the Royal School of Mines, London.

### **Management Rating**

We believe that one of the most important aspects 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 Evolving (see below) is 3.8 out of 5.0, which we have rated above average.**

**Management Rating**



### **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 section, we present our strength of board rating for Evolving Gold Corporation, 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.

Evolving Gold Corporation's Board of Directors is made up of 6 individuals: Quinton Hennigh, Robert Barker, Robert Bick, William Marjcher, Gilles J. Arseneau and William Lundqvist. The related/non-independent directors are Quinton Hennigh and Robert Barker, as they are executive officers of the company and receive compensation. The Audit and Compensation committee members could not be verified as management changes have occurred since the most recent Management Information Circular.

**Outlook on 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).

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

Source: GFMS and FRC

In 2008, investment demand accounted for 30% of 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 uncertainty 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 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 large stimulus packages, and low interest rates.

Our forecasts are US\$900/oz for 2009, US\$850/oz for 2010, and US\$725/oz for 2011.

**Long-term (2012+) price forecast** - 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, 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 of Q3-2009 (end of December 2008), the company had \$17.94 million in cash and \$17.89 million in working capital. In the first nine months of FY2009, EVG reported a net loss of \$3.66 million (EPS: -\$0.05), compared to \$4.95 million (EPS: -\$0.14) in the same period in FY2008. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.97 million per month in the first nine months of FY2009, compared to \$0.68 million per month in FY2008 (12-month period). The following table shows the cash and liquidity position at the end of Q3-2009.

(C \$)	2008	2009 (9 mo)
Cash	24,959,327	17,937,997
Working Capital	24,391,360	17,888,301
Current Ratio	30.7	95.5
Monthly Burn Rate	(675,308)	(971,948)
Cash From Financing Activities	32,987,401	1,726,199

**Recent Financing:** Subsequent to December 2008, the company raised \$0.93 million from exercising 2.72 million warrants.

**Stock Options and Warrants:** The company currently has about 19 million warrants outstanding, at exercise prices ranging from \$0.60 to \$1.50 (none of the warrants are in the money). We also estimate the company currently has 5.66 million options 'in-the-money', which would raise \$1.67 million for the company if exercised.

**Conclusion:** At the end of December 2008, the company had \$17.94 million in cash, and raised about \$0.93 million subsequently. Based on our discussion with management, the company currently has about \$17.1 million in cash, which we estimate will be able to fund exploration and working capital for another 24 months.

### **Valuation**

**DCF Valuation:** We valued the Rattlesnake property based on our own resource estimate of 0.95 million oz of gold, and a possible production scenario. As shown in the following table, our Discounted Cash Flow model (DCF) gave a fair value on the Rattlesnake property at \$0.45 per share.

<b>DCF Valuation Summary</b>	
Resource (in tonne)	30,936,781
Average Au Grade (g/t)	0.960
Contained Gold (in troy oz)	954,855
Gold Recovery	65%
Production Commencement	2013
Mill Processing (tpy)	3,750,000
Mine Life (in years)	9
Gold Price (in US\$/oz)	\$600
Average Operating Costs (\$/oz)	\$250
Capital Costs (\$)	50,000,000
Discount Rate	11.49%
<b>Net Present Value</b>	<b>\$39,025,943</b>
No. of shares (diluted)	86,724,913
<b>Value per share</b>	<b>\$0.45</b>

The following table shows the sensitivity of our DCF model to our long term gold price forecast (our forecast is US\$600/oz).

<b>Sensitivity</b>						
<b>Gold Price (US\$/oz)</b>	<b>\$500</b>	<b>\$600</b>	<b>\$700</b>	<b>\$800</b>	<b>\$900</b>	<b>\$1,000</b>
<b>Fair Value</b>	\$0.22	<b>\$0.45</b>	\$0.68	\$0.91	\$1.14	\$1.37

**Real Options Valuation:** Our real options model valued the Rattlesnake property at \$0.36 per share.

<b>Real Options Valuation</b>			
<b>Inputs relating to the underlying asset</b>			
Estd. Value of Minerals if extracted today (\$)		\$65,538,719	
Annualized Standard Deviation of Mineral prices		19.0%	
Capital Investment (\$)		50,000,000	
Estd. Mine Life (years)		9	
Riskfree Rate		3.41%	
<b>Output</b>			
Stock Price	\$65,538,719	T. Bond rate	3.41%
Strike Price	\$50,000,000	Variance	0.04
Expiration (in years)	9	Annualized div yield	0%
d1 =	1.298		
N(d1) =	0.903	Value of Option (\$)	\$30,968,305
d2 =	0.728	No of shares (Dil.)	86,724,913
N(d2) =	0.767	<b>Value per share</b>	<b>\$0.36</b>

**Comparable Analysis:** In our comparables valuation model, we valued the Rattlesnake property based on the average ratio of enterprise value (EV) to resource estimate of its peers. Based on an average EV/resource ratio of \$30.7/oz gold equivalent, we valued the property at \$0.34 per share based on our resource estimate of 0.95 million oz.

Company	EV / Resources
Silverado Gold Mines Ltd.	104.2
US Gold Corporation	53.3
Golden Band Resources Inc.	29.6
Midway Gold Corp.	27.8
Harvest Gold Corp.	23.3
NioGold Mining Corporation	21.2
Sutter Gold Mining Inc	19.4
Garson Gold Corp.	19.2
J-Pacific Gold Inc.	6.6
Rye Patch Gold Corp.	2.7
<b>Average</b>	<b>30.7</b>
<b>Fair Value of Rattlesnake Property</b>	<b>\$0.34</b>

*\*Resources = Measured and Indicated + 50% Inferred and Historic Resource Estimates*

### **Conclusions & Rating**

**Based on our analysis of the company's projects and our valuation of Rattlesnake, book value of the company's other projects (\$0.10/sh), and current working capital (\$0.17/sh), we initiate coverage on Evolving Gold with a BUY rating, and fair value estimate of \$0.70 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 commodity prices.
- The company has not defined any NI 43-101 compliant resource estimates and does not currently have any operating mines.
- The success of drilling, project development and resource expansion are important long-term success factors for these early projects.

**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.

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