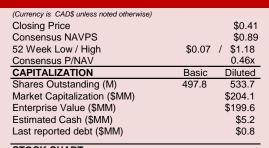


May 2, 2019

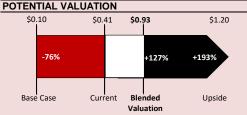
# RNC Minerals. (TSX:RNX) Resource Update Q2/19, Exploration Ongoing

## **Exploration Update**









| RELATIVE VALUATION       | US\$EV/oz AuEq | P/NAV |
|--------------------------|----------------|-------|
| Peer Group Average*      | \$19           | 0.33x |
| Royal Nickel Corporation | \$8            | 0.46x |
| *Capital IQ Consensus    |                |       |

## MAJOR SHAREHOLDERS

Management (12.01%), Marquest Asset Management Inc. (0.54%)

**DISCLOSURE CODE:** 1,2,3,4

(Please refer to the disclosures listed on the back page) Source: RCKS, Company Information, Capital IQ

### **Company Description**

RNC Minerals is a multi-asset mineral resource company with a portfolio of nickel, cobalt, and gold production and exploration properties. RNC has a 28% interest in a nickel joint venture with Waterton that owns the Dumont Nickel-Cobalt Project located in the Abitibi region of Quebec which contains the second largest nickel reserve and eighth largest cobalt reserve. RNC has a 100% interest in the producing Beta Hunt mine where the company has discovered a high-grade coarse gold structure from a new development area.

## **Impact: Mildly Positive**

RNC has released another set of results from its resource drilling program which continues to demonstrate strong grades and could be accretive in the coming resource update. This news provides positive resource momentum for the company as it readies to resume production in H2/19. We note that the next phase of drilling could provide exciting catalysts for the stock; however, the market remains fixated on the acquisition funding gap in the short-term.

## **Highlights:**

- Further high-grades at Western Flanks and A Zone. Step out holes from Western Flanks extended the mineralization by 150m to the north. In the A Zone, drilling continues to define zones with higher-grades and widths than the current resource. Results from both areas are expected help expand the resource (447koz at ~3 g/t Au resource) by roughly 30-40% and could improve costs as grades continue to come in above historic mining grades of ~2.5-3 g/t.
- Resource update to be followed by exploration drilling. Today's
  results are the second last batch of resource drilling to be completed
  at Beta Hunt before the company issues an updated resource
  (Q2/19). A next phase of drilling will focus on exploration as the
  company tests targets along the 4 shear zones with +4km of strike.
- Higginsville acquisition progressing. RNC announced an LOI to acquire of the Higginsville mill and associated Mine on March 26 and is currently completing due diligence and looking at funding options. RNC has completed an initial option payment of A\$4M in shares with a further A\$21M in shares and A\$25M in cash expected in Q2/19. The acquisition would generate synergies with Beta Hunt as the company estimates a ~35% per tonne decrease in costs, plus a second mining operation (1.7Moz Au). We currently do not include Higginsville in our fair value estimate for RNC but plan to re-evaluate as the likelihood of completion increases.

## Valuation:

Ongoing drilling success continues to support our base case (C\$0.93/sh, was C\$0.97/sh) and provides early indications that our upside case (C\$1.20/sh, was C\$1.32/sh) could be achievable. We expect ongoing drill results and progress on the Higginsville mill acquisition to be important catalysts for the company going forward and should drive the share price towards our fair value estimate. We note that the recent financing and share issue for the mill acquisition has modestly decreased our fair value estimate. Upcoming Catalysts include 1) Ongoing drill results 2) Resource update (Q2/19) 3) Completion (including funding of Higginsville acquisition (Q2/19) 4) Restart mining (H2/19)



Figure 1: Beta Hunt Layout

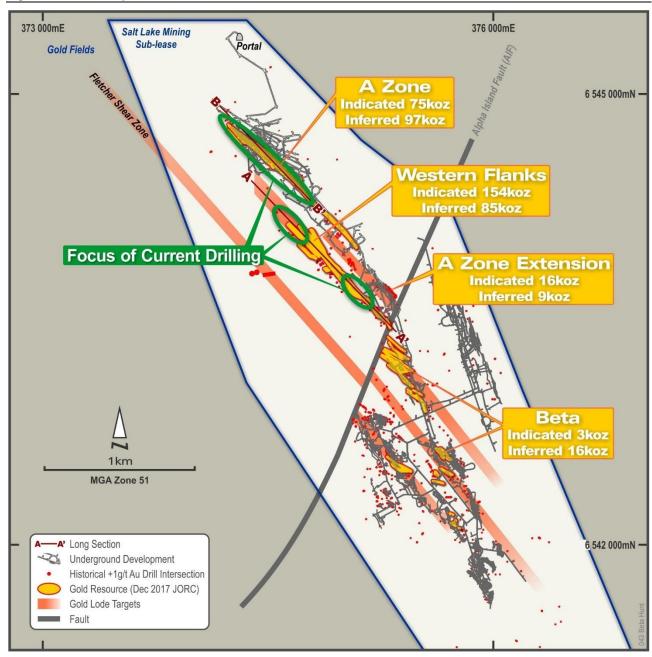




Figure 2: Western Flanks Shear Zone

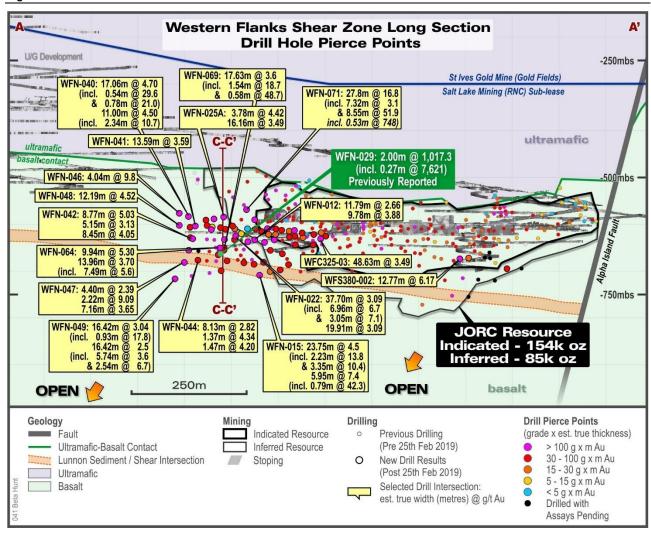




Figure 3: Western Flanks Cross Section

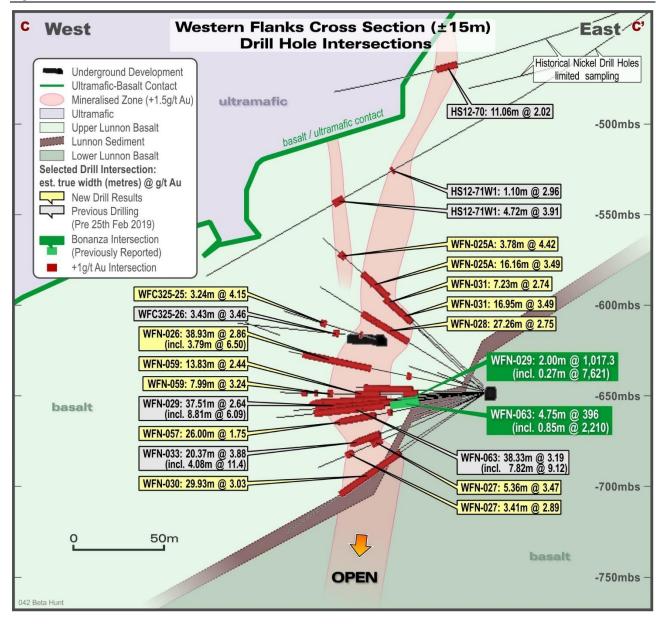




Figure 4: A Zone Long Section

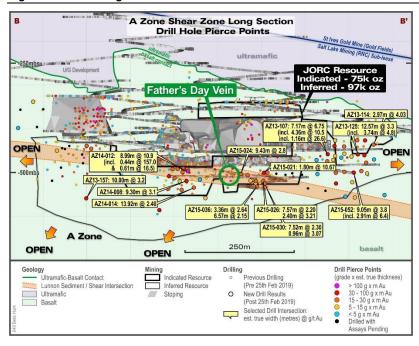


Figure 5: Blended Valuation Estimate

| Scenario    | Description                               | Potential<br>Value (\$M)       | Additional Capital<br>from Today to<br>Achieve (\$M) | Shares to be issued to achieve this case |       | Per Share<br>(C\$) | Time to<br>Achieve<br>(Years) | Time Adjusted<br>Per Share Value<br>(C\$) | Probability |
|-------------|---|--------------------------------|--|--|-------|--------------------|-------------------------------|---|-------------|
|             | Status Quo - Deposit remains at current   |                                |  |  |       |                    |                               |   |             |
| Base Case   | size and grade (500k oz @ <3 g/t Au) - at | \$49.9                         | \$0.0  | 0.0                                      | 497.8 | \$0.10             | 0.0                           | \$0.10                                    | 2.5%        |
|             | US\$75/oz                                 |                                |  |  |       |                    |                               |   |             |
| Medium Case | Increased Scale at Better Grades - 2Moz   | \$425.6                        | \$5.0  | 0.0                                      | 497.8 | \$0.85             | 1.0                           | \$0.81                                    | 57.5%       |
| wedium case | @ 4-5 g/t Au - at US\$160/oz              | <b>Φ425.6</b>                  |  |  |       |                    |                               |   |             |
|             | Increased Scale at Better Grade plus      |                                |  |  |       |                    |                               |   |             |
| Upside Case | Ability to Define Some Specimen Grade     | e Specimen Grade \$598.5 \$5.0 | \$5.0  | 0.0                                      | 497.8 | \$1.20             | 1.0                           | \$1.15                                    | 40.0%       |
|             | Areas - 2.5Moz @ 5-7 g/t Au - at          |                                |  |  |       |                    |                               |   |             |
|             |   |                                |  |  | Rlenc | lad Valuatio       | n Estimate                    | ¢n a:                                     | 1           |

## Notes:

Discount rate of 5%

To achieve downside case, shares issued at the current share price  $% \left( 1\right) =\left( 1\right) \left( 1\right)$ 

Medium case shares issued in 3 tranches at an average price of \$0.41

Upside case shares issued in 3 tranches at an average price of \$0.83 Capital to be raised in subsequent cases, reduced by prior case

Assumed that any in the money warrants/options would reduce the required capital to be raised and would have a roughly neutral impact

Source: RCKS Estimates, S&P Global Market Intelligence



Figure 6: Comparable Companies

| Company                      | Ticker  | Price<br>(C\$/sh) | YTD<br>Perf. | Shares<br>(M) | Mkt. Cap<br>C\$M | Cash<br>C\$M | Debt<br>C\$M | EV<br>C\$M | US\$EV/oz<br>AuEq | Consensus<br>P/NAV |
|------------------------------|---------|-------------------|--------------|---------------|------------------|--------------|--------------|------------|-------------------|--------------------|
| Royal Nickel Corporation     | TSX:RNX | \$0.41            | -15%         | 498           | \$204            | \$5          | \$1          | \$200      | \$8               | 0.46x              |
| Eastmain Resources Inc.      | TSX:ER  | \$0.11            | -36%         | 223           | \$23             | \$3          | \$0          | \$20       | \$9               | 0.12x              |
| Argonaut Gold Inc.           | TSX:AR  | \$1.56            | 0%           | 179           | \$279            | \$38         | \$19         | \$260      | \$13              | 0.47x              |
| Premier Gold Mines Limited   | TSX:PG  | \$1.55            | -4%          | 210           | \$326            | \$60         | \$0          | \$266      | \$17              | 0.44x              |
| Anaconda Mining Inc.         | TSX:ANX | \$0.34            | 51%          | 122           | \$42             | \$11         | \$6          | \$37       | \$15              | 0.28x              |
| Golden Queen Mining Co. Ltd. | TSX:GQM | \$0.03            | -76%         | 300           | \$8              | \$8          | \$57         | \$57       | \$39              | NA                 |
|                              |         |                   |              |               |                  |              |              | Median     | \$15              | 0.36x              |
|                              |         |                   |              |               |                  |              |              | Average    | \$19              | 0.33x              |

<sup>\*</sup>Without the Dumont Ni-Co Project, we estimate RNC has an EV/oz of US\$63/oz AuEq

Source: RCKS Estimates, S&P Global Market Intelligence

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|-----------------------|--------------|---------------|-------------|--|--|--|--|--|
|                       | Company Name | Ticker Symbol | Disclosures |  |  |  |  |  |
|                       | RNC Minerals | TSX·RNX       | 1234        |  |  |  |  |  |

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