

October 3, 2018

RNC Minerals Corp. - TSX:RNX

Erratum: We note that there was an error in this report, it should have read the market is pricing in a ~3M oz discovery at Beta Hunt not ~5.8M oz. The error below (highlighted in blue) has since been corrected. This still implies that the stock could more than double if they are able to demonstrate continuity of grade and tonnage.

How Big Could it Be? RNC has the Balance Sheet to Find Out; Here is our Best Guess

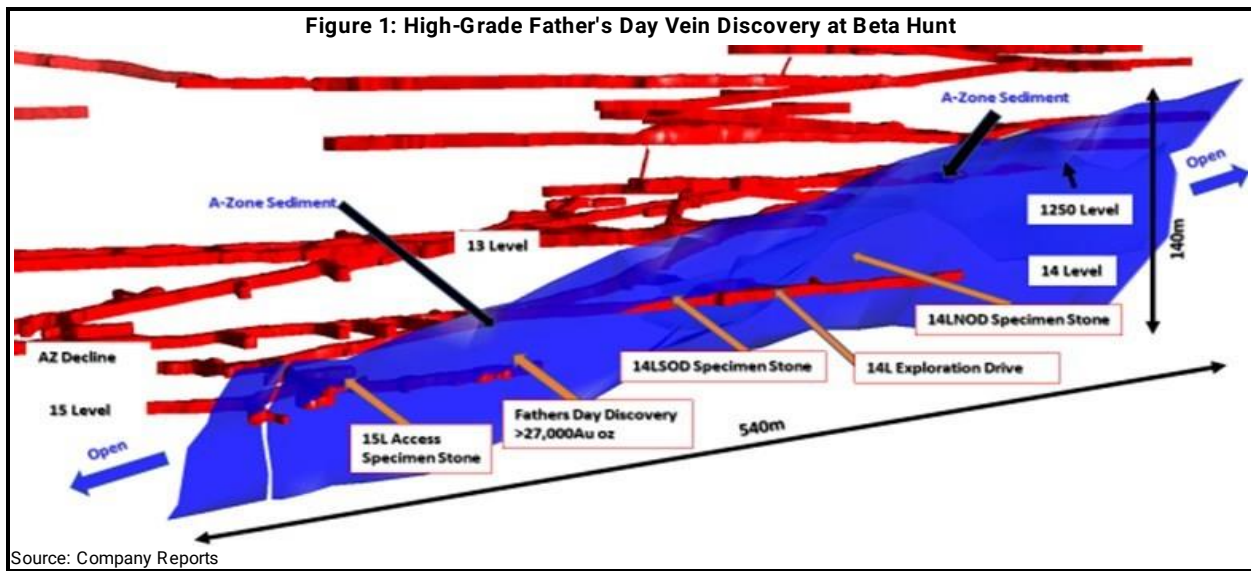
Impact: Positive

Following the initial announcement of a 9,000oz Au discovery at RNC Minerals Beta Hunt Mine in Australia, the company expects the original discovery area to yield 30-35koz Au and has continued to extend the high-grade coarse gold structures of the "Father's Day Vein" to a total of 540m (Figure 1). RNC is gaining a better understanding of the controls in place and as such, we believe that there is a distinct potential for the controls to repeat and extend. **In this note, we examine the impact on exploration, the potential size of the deposit and ultimately the impact on RNC's valuation.**

- **The gift that keeps on giving.** Since the initial "Father's Day Vein" discovery of an estimated 9,000oz Au, the company has recovered a total of 27,000oz from a 60 m³ cut (167 tonnes) on 15 Level at the Beta Hunt Mine, which has yielded an average grade of over 161 oz/tonne (5,000 g/tonne). The company expects further production from this small area should result in total recovered gold of 30-35koz Au.
- **How big could this be and is there more?** We believe that the confluence of conditions that are leading to the bonanza grades found to date at the Father's Day Vein are conducive to shallow plunging shear zones. The big question is how long do they extend, how many are there and is the grade going to be the same? We examine the potential deposit size per shear zone in Figure 2 and currently believe that if the company is successful in defining a plunge length of 500 m, we could be looking at a resource target of over 10 million ounces of gold per shear zone. There are four known shear zones so there could be more. It will likely take \$10-15 million to define each shear zone but would be well worth the effort.
- **We believe the market is pricing in approximately 3M oz discovery.** Based on an EV/oz valuation of C\$100/oz (producing high-grade deposits attract premium valuations), the market is pricing in a **3Moz Au** discovery at Beta Hunt.

The market is currently pricing in a deposit of 3M oz. RNC Minerals has excited the market with its discovery as the stock is up over 900% and now has a market cap of C\$344M. Based on last reported cash of C\$6.8M, debt of C\$22.8M, C\$38M revenue from Fathers Day Vein to date and C\$8.4M from warrant proceeds, we see an EV of C\$313 for RNC. Based on existing interests in Orford Mining (35% of equity), the Dumont Project (28% ownership) and the Reed Mine (27% ownership), we estimate the market is valuing

Beta Hunt at ~C\$287M. Based on an EV/oz valuation of C\$100/oz (producing high-grade deposits attract premium valuations), the market is pricing in a ~3Moz Au discovery at Beta Hunt. More sampling and drilling is required but if the grades found to date remain consistent over the dimensions being considered, we believe the market could be underestimating the deposits potential. We look to drilling and additional mining as key catalysts for investors to watch.



What we have so far points to something special. The company has continued to trace the metamorphosed pyritic sediment horizon over a strike length of 540m, when taking into account that this zone is 3 to 8 metres wide (plus extensional veins) and vertical height of ~140m, it could yield a significant gold deposit in this small area. If we were to extrapolate those dimensions with the grades found to date, we could be talking about a major gold discovery in a very small area (Figure 2). It is believed that this is one of four shear zones at Beta Hunt which each have ~4km strike length. Work has just begun on the next closest shear zone, Western Flanks.


Figure 2: Potential Size Per Ore Shoot (Moz of gold)

Plunge Length (m)	Grade (ounces/tonne)										
	2	5	10	25	50	100	125	160	165	170	175
250	1	1	3	7	14	28	35	45	47	48	50
500	1	3	6	14	28	57	71	91	94	96	99
540	1	3	6	15	31	61	77	98	101	104	107
750	2	4	9	21	43	85	106	136	140	145	149
1,000	2	6	11	28	57	113	142	181	187	193	198

Source: RCKS Estimates, Company Reports

Notes: Assumes a height of 140 m, width of 3 m and a specific gravity of 2.7 t/m³

Fixed balance sheet and funded for exploration. With production from the Father's Day Vein estimated to be worth C\$46-54M, plus C\$8.4M in warrant exercise proceeds, we expect that the company should be able to settle its various debt obligations (~C\$22.8M) and have a substantial net cash position. This should provide the funding for ongoing exploration along this prospective horizon.

Company Information: RNC Minerals Corp. (TSX: RNX)																																																																						
<p>RNC Minerals (TSX:RNX) 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 (the largest undeveloped nickel reserve and second largest undeveloped cobalt reserve in the world). RNC has a 100% interest in the producing Beta Hunt gold and nickel mine located in Western Australia and has recently announced the discovery of a high-grade coarse gold structure from a new development area.</p>																																																																						
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Derek Macpherson | VP Mining Analysis
Alex Pitcher | Associate, Mining Analysis
Beatrice Cigagna | Associate, Mining Analysis

Red Cloud Klondike Strike Inc.
 105 King Street East, 2nd Floor
 Toronto ON, M5C 1G6
RCKSTalk@RedCloudKS.com
www.redcloudks.com/rcks-talk

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Company Name	Ticker Symbol	Disclosures
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