

## RNC Minerals (RNX-T)

### RNC Poised for a Solid 2017, Reed Mine Cash Flow in Sight

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- RNC Signs Copper Pre-payment Agreement**

RNC Minerals has signed a US\$6.5 million Secured Copper Prepayment Agreement and US\$5.0 million Copper Purchase and Working Capital Facility with Auramet International LLC with respect to the company's 30% share of the Reed Mine located in Manitoba.

- Transaction Details**

The US\$6.5 million copper prepay will be repaid by the delivery of 2.8 million pounds of copper over a 12-month period commencing January 31, 2017. RNC has also granted call options to Auramet on 2 million pounds of copper with a strike price of US\$3.30 per pound and expiration dates from September through December 2017 (0.5 million pounds per month). The US\$5.0 million working capital facility bears interest at LIBOR + 4.5% per annum on amounts drawn.

- Earlier Access to Reed Cash Flow**

RNC will use the proceeds from the agreement will be used to repay the Hudbay Contribution and Bridge loans that were \$10 million and \$3.3 million respectively as at September 30, 2016. Due to the approximate 100 day delay in finalization of concentrate sales it was anticipated that Reed cash flow would not start hitting the RNC balance sheet until late Q2 or early Q3 2017. Under the new agreement, Auramet will purchase the company's share of metal content from the Reed Mine in the prior month and will advance RNC 95% of the purchase amount.

- Locking in Higher Prices**

We believe this agreement is a prudent step for RNC and provides Reed with copper price visibility (\$3.30 per pound) moving forward, given the recent increases to bonded warehouse copper inventories (LME inventories are up roughly 62% in the last month, in-line with September 2016 when copper was closer to \$2.15 per pound). Recall, the company has also hedged roughly 25% of its 2017 Beta Hunt gold production at US\$1,320 per ounce or AUS\$1,820 per ounce at current rates. These recent transactions help to de-risk both operating assets and we believe the company will exit 2017 with over \$20 million in cash and only 11,200 ounces of gold remaining under the Senior Secured Gold Loan.

#### Update

<b>BUY (unch.)</b>	<b>C\$0.85 (unch.)</b>
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Previous Close	0.27
12-month Target Price	0.85
Potential Return	215%
52 Week Price Range	\$0.115 - \$0.63
<i>All prices in CDN unless indicated</i>	

	Estimates		
YE:Dec 31	FY16E	FY17E	FY18E
Au Price (US\$/oz.)	\$1,250	\$1,180	\$1,300
Ni Price (US\$/lb.)	\$4.25	\$5.00	\$4.50
Cu Price (US\$/lb.)	\$2.30	\$2.35	\$2.35

#### Production

Au (000 oz.)	31	53	55
Ni (mm lbs.)	3.8	2.6	2.6
Cu (mm lbs.)	11	12	12

#### Revenue (\$MM)

EPS	-\$0.03	\$0.12	\$0.13
CFPS	\$0.02	\$0.18	\$0.19

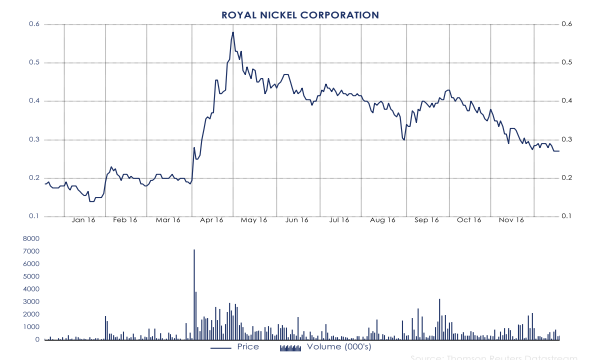
	Valuation		
P/E	-10.02x	2.19x	2.10x
P/CF	10.96x	1.51x	1.43x

Stock Data (MM)	
Shares Outstanding	
Basic	275
FD	275
Market Cap	
Basic	74
FD	74
Net Debt	\$27.5
Enterprise Value	113

#### About the Company

Royal Nickel is a Canadian based mining Company with operational and advanced stage asset in mining friendly jurisdictions. The company is currently ramping up production at its Beta Hunt gold mine in Western Australia and continues to generate strong cash flow at its 30% owned Reed polymetallic mine in Manitoba.

#### Stock Performance



## Investment Thesis – Refinanced, Ramping to 60,000 oz. with Reed Cash Flow in Sight

RNC provides investors with exposure to the high grade Reed Mine (30%) in Manitoba, growing gold production from the Beta Hunt gold mine in Western Australia and leverage to the nickel price via its 100% Dumont Nickel project in Quebec, Canada.

The company is in the process of ramping up gold production at Beta Hunt and expects to exit Q1 2017 at a 60,000 ounce per year run rate. We expect the Beta Hunt Mine to reach commercial production and start generating cash Q1'17 (was Q4'16). In addition, the company will start to see cash flow from the Reed Mine starting in January 2017, ahead of our Q2 2017 estimate.

Junior gold producers are currently trading at 5.0x 2017 cash flow estimates; RNC is currently trading at 1.5x our 2017 cash flow estimates. The company is turning the corner at Beta Hunt and continues to outperform at Reed. We believe RNC offers shareholders significant upside from current levels.

### Valuation

Our valuation is based on a price-to-net-asset-value (P/NAV) multiple based on a discounted cash flow (DCF) model using our estimates of existing or potential mining operations. Our gold price forecast assumes a long-term gold price of US\$1,300/oz. commencing in 2017. Future year cash flows are discounted using a base rate of 5% for Beta Hunt and 8% for Reed. Using a target P/NAV multiple of 1.0x on our NAV estimates a fair value of \$0.75/sh. for RNC.

On a forward looking P/CF multiple basis we estimate CFPS of \$0.18 in fiscal 2017. Applying a target multiple of 5x P/CF (was 7x) to our estimate suggests a fair value of \$0.90/sh. **Using a 50/50 blend of values generated by our NAV and CF estimates generates a 12-month target price of \$0.85 per share.**

**Exhibit 1: RNC NAV Summary**

<b>RNC (RNX-TSX)</b>											
<b>Previous Close C\$</b>	<b>\$0.27</b>				<b>12-Month Return</b>	<b>215%</b>					
<b>Target Price C\$</b>	<b>\$0.85</b>				<b>Rating</b>	<b>BUY</b>					
<i>All figures in C\$, unless otherwise stated</i>											
<b>CAPITAL STRUCTURE</b>						<b>FINANCIAL SUMMARY</b>					
Shares Outstanding	275				Fiscal Year (Dec 31st)	2016E	2017E	2018E	2019E		
Options	-				<b>Production</b>						
Warrants	-				Au (000 oz.)	31	53	55	55		
Fully Diluted Shares	275				Ni (mm lbs.)	3.8	2.6	2.6	2.6		
<b>BEACON PRICE DECK</b>						Cu (mm lbs.)					
						11	12	12	12		
Calendar Year	2016	2017	2018	2019	LT	<b>Income Statement</b>				<b>C\$MM</b>	
Gold (US\$/oz.)	1,250	1,180	1,300	1,300	1,300	Revenue	52	116	119	121	
Nickel (US\$/lb.)	4.25	5.00	4.50	4.50	4.50	Operating Expenses	(43)	(57)	(56)	(63)	
Foreign Exchange (C\$/US)	1.33	1.30	1.27	1.25	1.25	EBITDA	9	59	62	59	
NET ASSET VALUE	Discount rate		C\$M	C\$/share		Net Income	(7)	34	35	30	
Beta Hunt Ni	8%		10.6	\$0.04		Basic Shares Outstanding (M)	275.4	275.4	275.4	275.4	
Beta Hunt Au	5%		134.2	\$0.49		EPS	-\$0.03	\$0.12	\$0.13	\$0.11	
Reed Lake	8%		36.7	\$0.13		P/EPS	-10.0x	2.2x	2.1x	2.5x	
Dumont	15%		46.6	\$0.17		<b>Target/EPS</b>	<b>-31.5x</b>	<b>6.9x</b>	<b>6.6x</b>	<b>7.9x</b>	
Working Capital			(12.1)	-\$0.04		CFPS	\$0.02	\$0.18	\$0.19	\$0.17	
<b>Total Assets</b>			220.7	<b>\$0.80</b>		P/CFPS	11.0x	1.5x	1.4x	1.6x	
Reclamation			1.2	\$0.00		<b>Target/CFPS</b>	<b>34.5x</b>	<b>4.8x</b>	<b>4.5x</b>	<b>4.9x</b>	
Debt			17.1	\$0.06							
<b>Total Liabilities</b>			18.3	<b>\$0.07</b>							
<b>Net Asset Value</b>										<b>202</b>	<b>\$0.74</b>
<b>Management &amp; Directors</b>											
Mark Selby, President & CEO						Scott Hand, Chairman					
Tim Hollaar, CFO						Peter Goudie, Director					
Alger S1-Jean, VP Exploration						Peter Jones, Director					
Jahna Muinonen, VP Operations						Frank Marzoli, Director					
Christian Brousseau, Project Director						Gilles Masson, Director					
Kevin Small, Director, Mining Operations						Donald McInnes, Director					
Pierre-Philippe Dupont, Manager - Sustainable Development											

Source: Beacon Securities Ltd.

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As at November 30, 2016	#Stocks	Distribution
Buy	62	71%
Speculative Buy	14	16%
Hold	3	3%
Sell	0	0%
Under Review	6	7%
Tender	2	2%
<b>Total</b>	<b>87</b>	<b>100%</b>

Buy	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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