

RNC Minerals (RNX-T)

Guidance Calls for 130%-150% Increase in Gold Production at Beta Hunt for 2017

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- **A Zone Strike Length Extended 40%**

RNC Minerals has significantly extended the strike length of the A Zone from 1.2 kilometers to approximately 1.7 kilometers and it still remains open for additional growth. This new discovery presents a near-term production opportunity as it lies within 35 meters from existing infrastructure. Assays from these six drill holes suggest an opportunity for higher grade mill feed that could be accessed as early as H2 2018.

- **Production On the Rise**

Bulk mining at the Western Flanks is expected to begin next week, enabling the company to reach a run rate of 60,000 oz. during the quarter. Given the near-term production from the Western Flanks the company has set its 2017 production guidance at between 65,000-70,000 ounces of gold at Beta Hunt at all-in-sustaining-costs of between US\$900-US\$1,000 per ounce.

- **Reed Set for Another Strong Year**

2016 production from the Reed Mine (30% basis) was 5.0 kt of copper and 1.4 koz of gold. Hudbay Minerals (the Reed Mine operator) has not provided 2017 guidance for the Reed Mine, however, RNC expects another strong year and anticipates production of between 4-5 kt of copper and 0.8-1.1 koz of gold.

- **Near-term Cash Flow**

Given the near-term production lift and Auramet working capital facility we expect RNC to realize a significant increase to Beta Hunt cash flow by months end. Recall, the Auramet facility has 25% of Beta Hunt production hedged at US\$1,320 per ounce and the transaction also calls for 80% payment of gold ounces when the ore is delivered to the mill, which we expect before the end of January 2017.

Update

BUY (unch.) C\$0.90 (was \$0.85)

Previous Close	0.28
12-month Target Price	0.90
Potential Return	221%
52 Week Price Range	\$0.115 - \$0.63

All prices in CDN unless indicated

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	61	61
Ni (mm lbs.)	3.8	2.6	2.6
Cu (mm lbs.)	11	12	12

Revenue (\$MM)	\$52.2	\$129.5	\$129.9
EPS	-\$0.03	\$0.14	\$0.14
CFPS	\$0.02	\$0.19	\$0.20

Valuation

P/E	-10.38x	2.02x	1.93x
P/CF	11.38x	1.47x	1.40x

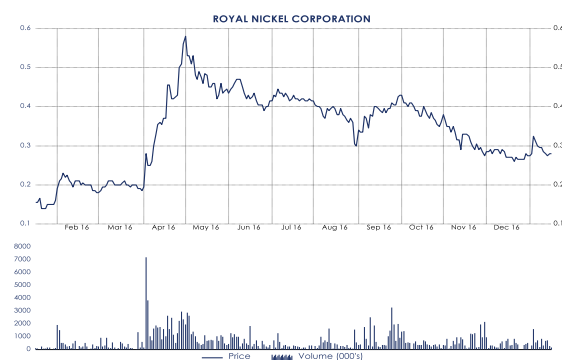
Stock Data (MM)

Shares Outstanding	
Basic	275
FD	275
Market Cap	
Basic	77
FD	77
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



A Zone Drilling

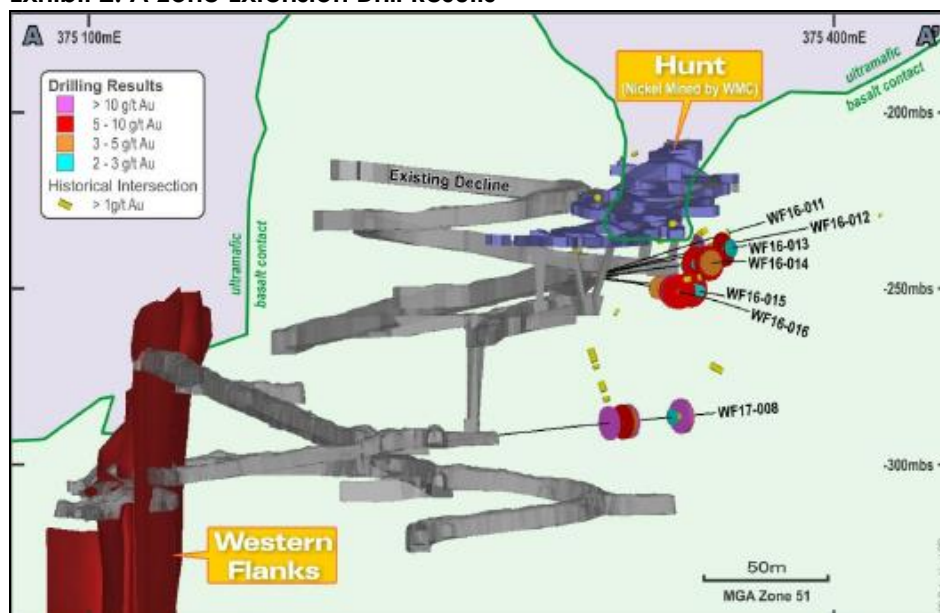
A Zone drilling has identified a new zone located within 35 meters of existing infrastructure. While grades are undiluted we highlight the gold grades as they are significantly higher than the current A Zone resource of 3.5 g/t Au. Further drilling is required to delineate a resource, however, this is a great start and there is potential to add ounces to the mine plan within the next 24 months.

Exhibit 1: A Zone Drill Results

Hole	Downhole From (m)	Downhole To (m)	Interval (m)	Au (g/t)
WF17-008	76.1	76.4	0.3	20.40
and	80.6	83.6	3.0	5.97
including	80.6	81.4	0.8	9.13
and	83.3	83.6	0.3	14.60
and	98.5	102.9	4.5	4.77
including	101.0	102.5	1.5	11.38
WF16-016	81.0	85.5	4.5	7.31
including	83.4	85.5	2.1	10.15
WF16-015	61.8	64.6	2.8	6.71
including	62.6	63.6	1.0	8.74
WF16-014	55.0	57.8	2.8	4.24
including	56.0	57.0	1.0	7.99
WF16-013	40.8	44.0	3.2	2.69
including	43.3	44.0	0.8	9.34
WF16-011	31.8	33.3	1.5	4.05
including	32.1	32.5	0.4	10.60

Source: Company Reports

Exhibit 2: A Zone Extension Drill Results



Source: Company Reports

Investment Thesis – Refinanced, Ramping to 60,000 oz. and Beyond

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. 2017 Beta Hunt gold production guidance is estimated to be between 65,000 – 70,000 ounces at all-in-sustaining-costs of US\$900 – US\$1,000 per ounce. 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 6.4x 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.

Increasing Target Price

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 \$0.89/sh. for RNC.

On a forward looking P/CF multiple basis we estimate CFPS of \$0.19 in fiscal 2017. Applying a target multiple of 5x P/CF 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 \$0.90 per share (was \$0.85).**

Exhibit 3: RNC NAV Summary

RNC (RNX-TSX)											
Previous Close C\$	\$0.28				12-Month Return	221%					
Target Price C\$	\$0.90				Rating	BUY					
<i>All figures in C\$, unless otherwise stated</i>											
CAPITAL STRUCTURE					FINANCIAL SUMMARY						
Shares Outstanding	275				Fiscal Year (Dec 31st)	2016E	2017E	2018E	2019E		
Options	-				Production						
Warrants	-				Au (000 oz.)	31	61	61	61		
Fully Diluted Shares	275				Ni (mm lbs.)	3.8	2.6	2.6	2.6		
BEACON PRICE DECK					Cu (mm lbs.)						
						11	12	12	12		
Calendar Year	2016	2017	2018	2019	LT						
Gold (US\$/oz.)	1,250	1,180	1,300	1,300	1,300	Income Statement					
Nickel (US\$/lb.)	4.25	5.00	4.50	4.50	4.50	C\$MM					
Foreign Exchange (C\$/US)	1.33	1.30	1.27	1.25	1.25	Revenue	52	129	130	131	
NET ASSET VALUE					Discount rate	C\$M	C\$/share	Operating Expenses			
Beta Hunt Ni	8%				10.4	\$0.04	EBITDA	9	64	67	63
Beta Hunt Au	5%				179.7	\$0.65	Net Income	(7)	38	40	34
Reed Lake	8%				35.9	\$0.13	Basic Shares Outstanding (M)	275.4	275.4	275.4	275.4
Dumont	15%				45.5	\$0.17	EPS	-\$0.03	\$0.14	\$0.14	\$0.12
Working Capital					(12.1)	-\$0.04	P/EPs	-10.4x	2.0x	1.9x	2.3x
Total Assets					264.0	\$0.96	Target/EPs	-33.4x	6.5x	6.2x	7.3x
Reclamation					1.2	\$0.00	CFPS	\$0.02	\$0.19	\$0.20	\$0.18
Debt					17.1	\$0.06	P/CFPS	11.4x	1.5x	1.4x	1.5x
Total Liabilities					18.3	\$0.07	Target/CFPS	36.6x	4.7x	4.5x	4.9x
Net Asset Value					246	\$0.89					
Management & Directors											
Mark Selby, President & CEO					Scott Hand, Chairman						
Tim Hollaar, CFO					Peter Goudie, Director						
Alger St-Jean, VP Exploration					Peter Jones, Director						
Johnna 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 December 31, 2016	#Stocks	Distribution
Buy	67	77%
Speculative Buy	12	14%
Hold	3	3%
Sell	0	0%
Under Review	5	6%
Tender	0	0%
Total	87	100%

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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