

# RNC Minerals (RNX-T)

## Toll Milling and Purchase Option Agreement in Place

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- Lower Cost Toll Milling Agreement**

The new toll milling agreement will commence on July 1, 2017. The agreement is for 600,000 tonnes of processing capacity over a 12-month period, Beta hunt ore will be processed on a three week on / three week off basis and RNC will pay West gold toll processing fees on a fixed plus variable arrangement on commercial terms. The new agreement could potentially lower the company's toll milling costs by \$7 million per annum, before any costs to secure the tolling rights.

- Potential Long Life 100,000 oz. Producer**

The option to purchase Westgold's SKO operations, if exercised, would transform RNC into a plus 100,000 oz. per annum gold producer with multiple assets. RNC would have a 4MM oz. Au resource base with significant exploration upside at its Beta Hunt Mine and the Westgold's South Kalgoorlie Operations.

- Purchase Option**

RNC will issue 23.4 million shares (approximately \$8 million) to secure the toll milling and option to acquire Westgold's SKO business. Should the company elect to exercise the option, the remaining purchase price of A\$76 million (A\$80 million less A\$4 million option payment), would be satisfied via a combination of cash and common shares of RNC (Westgold to a maximum of 19.9%). In the event Westgold receives a takeover offer and RNC elects not to exercise the option, Westgold would be required to refund the option fees to RNC.

### Update

**BUY (unch.) C\$1.00 (was \$0.90)**

Previous Close	0.39
12-month Target Price	1.10
Potential Return	186%
52 Week Price Range	\$0.175 - \$0.63

All prices in CDN unless indicated

### Estimates

YE:Dec 31	FY16A	FY17E	FY18E
Au Price (US\$/oz.)	\$1,250	\$1,180	\$1,300
Ni Price (US\$/lb.)	\$4.38	\$5.00	\$4.50
Cu Price (US\$/lb.)	\$2.21	\$2.50	\$2.50

### Production

Au (000 oz.)	31	82	102
Ni (mm lbs.)	3.8	2.6	2.6
Cu (mm lbs.)	11	12	12

### Revenue (\$MM)

EPS	-\$0.02	\$0.14	\$0.18
CFPS	\$0.02	\$0.18	\$0.21

### Valuation

P/E	-19.11x	2.75x	2.16x
P/CF	25.05x	2.18x	1.80x

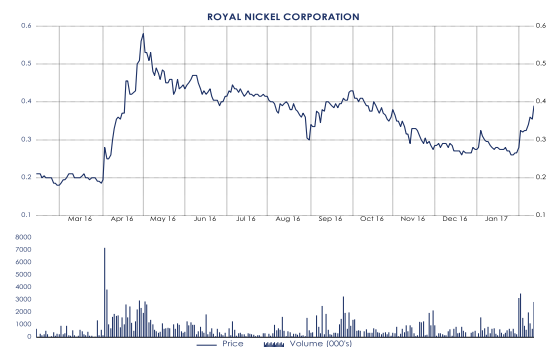
### Stock Data (MM)

Shares Outstanding	
Basic	299
FD	358
Market Cap	
Basic	115
FD	138
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



## Cheaper Ounces

RNC expects to realize approximately \$7 million (excluding issuance of stock to Westgold) in cost savings over the term of the processing agreement, reducing Beta Hunt AISC by US\$80/oz. during the tolling period. Should RNC elect to exercise the option to purchase the South Kalgoorlie Operations, management expects to realize between \$10 -\$12 million in annual savings of processing costs.

### Exhibit 1: SKO Jubilee Mill



Source: Company Reports

## Lower Risk Processing

We view the toll processing agreement as relatively low risk. The Jubilee Mill previously processed Beta Hunt ore with recoveries in the low 90's. Management believes with minimal investment to the front end grinding circuit could see recoveries improve to the mid 90's, further reducing processing costs and increasing production growth. The Jubilee Mill is the closest (30km from Beta Hunt) operating mill to Beta Hunt and opportunities to significantly increase processing capacity (currently 1.2MT per annum) at the mill exist and will be studied over the next six months.

## Purchase Option

The option to Acquire Westgold's SKO operations, if exercised, will provide immediate access to 1.2 MT in annual processing capacity, over 4 million ounces of gold in resource and visibility on plus 100,000 ounces of annual production. RNC has a six month period to purchase the SKO operations, including all existing mining and milling infrastructure for A\$80 million less the A\$4million option fee. This provides RNC ample time to continue ramping Beta Hunt to commercial production and complete due diligence on the SKO operations prior to executing the option.

## South Kalgoorlie Operations

The SKO operations consist of the HBJ underground mine, several open pits and the Jubilee Mill. Westgold re-opened the HBJ underground mine in 2015, according to Westgold, the SKO assets are expected to produce approximately 60,000 ounces gold per year at steady state and AISC of approximately US\$ 950 per ounce.

## South Kalgoorlie Gold Ounces

On August 18, 2016 Westgold published a JORC compliant resource estimate at SKO as of June 30, 2016. The HBJ Proven & Probable reserves consist of 667,939 tonnes grading 4.67 g/t Au (100,315 ounces) and the Measured & Indicated Resource totals 7.7 MT grading 3.45 g/t Au (857,658 ounces). In total, The SKO properties contain 50.9 Mt of ore grading 2.27 g/t Au containing 3.7MM oz. gold, and Proven and Probable Reserves of 2.3MT of ore grading 2.60g/t Au containing 192,000 oz. gold.

### Exhibit 2: HBJ Reserves (2.0 g/t cut-off)

Ore Body	Category	Tonnes	Grade (g/t Au)	Ounces Au
HBJ	Proven	135,731	4.40	19,214
HBJ	Probable	532,208	4.74	81,102
HBJ ROM Stocks	Proven	4,138	2.73	363
	P&P	672,077	4.66	100,679

Source: Company Reports

### Exhibit 3: HBJ Resources (2.0 g/t cut-off)

Ore Body	Category	Tonnes	Grade (g/t Au)	Ounces Au
HBJ	Measured	422,405	4.26	57,853
HBJ	Indicated	2,815,401	3.41	493,857
HBJ ROM Stocks	Measured	4,138	2.73	363
	M&I	3,241,944	3.52	552,073

Source: Company Reports

## Investment Thesis – Toll Milling Secured, Option to Boost Production Over 100,000 oz. per Annum

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 an option to purchase Westgold's South Kalgoorlie Operations for A\$80 million.

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, RNC has a six month option to purchase 60,000 ounces of annual gold production with AISC of US\$950 per ounce from Westgold.

Junior gold producers are currently trading at 6.2x 2017 cash flow estimates; RNC is currently trading at 1.8x 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 \$1.10/sh. for RNC. Our NAV calculation assumes RNC will issue 100 million shares at \$0.55 and secure \$20 million in project debt for Westgold's SKO operations.

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 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 \$1.00 per share (was \$0.90).**

**Exhibit 4: RNC NAV Summary**

<b>RNC (RNX-TSX)</b>					
Previous Close C\$	\$0.39				
Target Price C\$	\$1.00				
<i>All figures in C\$, unless otherwise stated</i>					
<b>CAPITAL STRUCTURE</b>			<b>FINANCIAL SUMMARY</b>		
Shares Outstanding		400	Fiscal Year (Dec 31st)		
Options		-	2016E	2017E	2018E
Warrants		-			2019E
Fully Diluted Shares		400	<b>Production</b>		
<b>BEACON PRICE DECK</b>					
<b>Calendar Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>1T</b>
Gold (US\$/oz.)	1,249	1,180	1,300	1,300	1,300
Nickel (US\$/lb.)	4.38	5.00	4.50	4.50	4.50
Foreign Exchange (C\$/US)	1.33	1.30	1.27	1.25	1.25
<b>NET ASSET VALUE</b>		<b>Discount rate</b>	<b>C\$M</b>	<b>C\$/share</b>	
Beta Hunt Ni		8%	10.4	\$0.03	
Beta Hunt Au		5%	392.6	\$0.98	
Reed Lake		8%	40.1	\$0.10	
Dumont		15%	45.5	\$0.11	
Working Capital			(12.1)	-\$0.03	
<b>Total Assets</b>			481.1	<b>\$1.20</b>	
Reclamation			1.2	\$0.00	
Debt			37.1	\$0.09	
<b>Total Liabilities</b>			38.3	<b>\$0.10</b>	
<b>Net Asset Value</b>			443	<b>\$1.11</b>	
<b>Management &amp; Directors</b>					
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 January 31, 2017	#Stocks	Distribution
Buy	70	81.4%
Speculative Buy	8	9.3%
Hold	3	3.5%
Sell	0	0.0%
Under Review	5	5.8%
Tender	0	0.0%
<b>Total</b>	<b>86</b>	<b>100.0%</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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