CLARUS SECURITIES INC.

Jamie Spratt, CFA
416-343-4204 | jspratt@clarussecurities.com
Varun Arora, Associate | 416-343-2779
Bhargav Bandhala, Associate | 416-343-4203

Golden Reign Resource Ltd.

GRR-TSX: $0.27
Rating: Speculative Buy
Target: $0.80

Estimates (C$)

	2018E	2019E	2020E
Gold Price (US$/oz)	$ 1,328	$ 1,300	$ 1,300
AuEq Production (k oz)	-	7	19
Revenue (MM)	$ -	$ 7	$ 21
Operating Cash Flow (MM)	$ (2)	$ (3)	$ 1
Net Income (MM)	$ (2)	$ (4)	$ (0)
Total Cash Costs ($/oz)	-	$ 275	$ 291
AISC ($/oz)	-	$ 772	$ 514
EPS	$ (0.01)	$ (0.02)	$ (0.00)
CFPS	$ (0.01)	$ (0.01)	$ 0.01

Valuation

P/E	N/A	N/A	N/A
P/CF	N/A	N/A	N/A

Stock Data

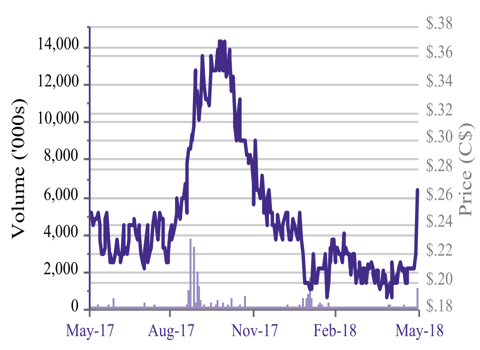
Previous Close (C$)	$ 0.27
Potential Return	NA
52-Week High-Low	$0.37 / $0.18
Avg. Daily Volume (3m)	227800
Basic SO (MM)	192
Fully Diluted SO (MM)	199
Float (MM)	185
Market Cap. (C$MM)	$ 51
Cash (C$MM)	$ 4
Debt (C$MM)	$ -
Enterprise Value (C$MM)	$ 47

Shareholders

Institutional Investors	20%
Management & Employees	15%

Company Information

Flagship Project	San Albino
Project Location	Nicaragua
Global Resources (MM oz AuEq.)	1.0
AMC/oz Valuation (US$)	$ 52



Source: FactSet

Golden Reign is exploring and developing the San Albino Murra property in Nicaragua.

Proposed Marlin Acquisition: Accretive Deal Paves Way to Advance San Albino

May 16, 2018

Under a proposed transaction outlined in a non-binding LOI, GRR plans to acquire all issued and outstanding shares of Marlin Gold (MLN-TSX.V; NOT RATED) through an all share transaction at a yet to be determined exchange ratio. We view the proposed transaction creating newco – Mako Mining – as positive as it would replace the current punitive Sailfish gold stream (40% of gold production initially) on the San Albino project with a 3% NSR. The transaction also adds potential cash generation from Marlin's La Trinidad mine which management expects could generate US$36MM in cumulative FCF before the end of 2019. The restructured gold stream would bolster our estimated margins for San Albino by >US$155/oz to an AISC of US$616/oz, strengthening the already robust project economics. After reflecting the post transaction capital structure we see a potential accretion to our NAV based target price of 10%-25%. We believe the transaction can pave the way for funding and development of the San Albino project which we continue to view as a low capex, high margin gold project with compelling exploration upside. Our model for GRR remains unchanged, pending a definitive agreement. We maintain our **SPECULATIVE BUY** rating and our target price of **$0.80** per share.

TRANSACTION HIGHLIGHTS: The transaction is expected to result in a pro-forma ownership of 55% in Mako for the existing GRR shareholders while the remaining 45% will be owned by MLN shareholders including MLN's controlling shareholder Wexford which will own 38% of Mako proforma. The current Sailfish gold stream on the San Albino is proposed to be restructured and replaced with a 3% NSR on the existing area of interest and a 2% NSR on the remaining 138 sq.km area and eliminating Sailfish's funding obligation of ~US$14 MM. MLN's Commonwealth property in Arizona will be divested with proceeds used to expunge existing debt, leaving Mako as debt free. We expect a definitive agreement before the end of Q2/18 and a targeted closing in Q3/18.

STRATEGIC RATIONALE: The proposed restructuring of the Sailfish gold stream significantly increases leverage and drives incremental value for GRR shareholders. The cash generation from MLN's producing La Trinidad heap leach mine in Sinaloa, Mexico (42k oz Au metal sales in 2017) has the potential to support funding of the San Albino build, reducing equity funding required for our estimated $25MM in initial capex. While production at La Trinidad has been variable with high costs to date, management's forecast sees a projected US$36MM in FCF generated before the end of the mine plan in 2019.

CONCLUSION: We view the transaction positively as it removes the key overhang on the stock. Under the restructured stream our proforma valuation for Mako would increase by a range of 10%-25% or a target price range of $0.85 – $1.00/share from our current $0.80/share. Overall, we believe the restructured stream and the addition of cash generation from a producing asset should pave the way for the advancement of the compelling San Albino project. Our model for GRR remains unchanged pending clarification on the final terms of the transaction.

RECOMMENDATION: We see GRR as a unique combination of near-term, high margin production with ~35k oz/year at US$537/oz AISC profile and exciting exploration upside with the potential to define a +5.0MM oz of open-pittable resource. We believe the proposed Marlin transaction would provide immediate production and cash flow, and enable the advancement of San Albino which we continue to view as the driver of value. The stock trades at 0.36x NAV and C$52/oz, a ~25% and 6% discount to peers trading at an average of 0.48x and C$55/oz. We continue to see the potential to unlock value at a high grade, high free cash flowing asset with compelling exploration upside. We maintain our **SPECULATIVE BUY** rating and our target price of **$0.80** per share.

Figure 1: GRR Comparable Analysis

5/16/2018 Company (C$)	Ticker	Price	Market Cap (MM)	EV (MM)	Total oz MM	Avg Resource Grade (Au g/t)	EV / Gold Eq. oz P&P $ / oz	EV / Gold Eq. oz Global $ / oz	P/NAV
Belo Sun Mining Corp.	TSX:BSX	$0.26	$121	$59	6.1	1.00	NA	$10	0.29x
Continental Gold Inc	TSX:CNL	$3.69	$695	$726	9.0	9.8	$196	$81	0.47x
Dalradian Resources Inc.	TSX:DNA	$1.00	$355	$229	4.4	10.8	$159	$52	0.39x
Lundin Gold Inc.	TSX:LUG	$4.97	$1,059	$446	9.5	8.3	$93	$47	0.65x
Sabina Gold & Silver Corp.	TSX:SBB	$1.61	$405	$320	7.2	6.2	$128	$44	0.52x
TMAC Resources, Inc.	TSX:TMR	$6.28	$576	$682	6.6	3.0	$190	$103	0.56x
Equinox Gold Corp.	TSX:TREK	$1.02	$432	$413	7.9	0.7	$426	$52	0.48x
West African Resources Ltd	TSX: WAF	$0.35	$169	$148	2.7	1.4	$166	$54	0.45x
Mean			**$477**	**$378**	**6.7**	**5.1**	**$194**	**$55**	**0.48x**
Golden Reign Resources Ltd.	**TSX:GRR**	**$0.27**	**$51**	**$49**	**0.9**	**7.0**	**NA**	**$52**	**0.36x**

Source: Company Reports

Price Target Calculator: Our 12-month target price of $0.80/share is based on a 1.0x multiple to the project NAV (5% discount rate) for San Albino. We also account for in-situ valuation for 2.0MM oz at C$50/oz. In our corporate adjustments, we account for the Sailfish gold streaming agreement.

Key Risks to Target Price: Please refer to the risks disclosed in the initiating report dated 13/09/2017.

Golden Reign Resources

Rating	SPECULATIVE BUY	Target Price	$0.80	Shares O/S (MM)	192	Market Cap. C$MM	$51
Potential Return	202%	Previous Close	$0.27	Float (MM)	185		

All figures in US$, unless otherwise stated

CAPITAL STRUCTURE	Strike Price C$/share	Maturity Date	Shares MM
Shares Outstanding			191.7
Options (CAD)	$0.00	various	7.0
Warrants (CAD)	$0.00	various	0.0
Convertible Preferred			0.0
Fully Diluted Shares			**198.7**
Assumed Equity Raises			50.0
Fully Diluted Shares (incl. equity raise)			**248.7**

NET ASSET VALUE	% Int.	Discount Rate		US$M	US$ /share
Project NAV Gold Assets					
San Albino	100%	5%		$102	$ 0.41
Sub-Total Project NAV				**$102**	**$0.41**
Multiple to Development Assets		1.00x		$102	$0.41
Exploration Potential					
In-Situ Valuation		2.0 MM oz	@ C$50.00/oz	**$78**	**$0.31**
Total Project NAV				**180**	**$0.72**
Corporate Adjustments				US$M	US$/share
San Albino Gold Stream		3%		-$36	-$0.15
Total Corporate Adjustments				**-$36**	**-$0.15**
Total Corporate NAV		US$/share		**$143**	**$0.58**
Target Price		C$/share		**$ 189**	**$ 0.80**
Share Price / NAV					0.36x

PRODUCTION ESTIMATES					
Year-end December 31	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
San Albino	-	-	7	19	39
AuEq. Production (koz)	-	-	**7**	**19**	**39**

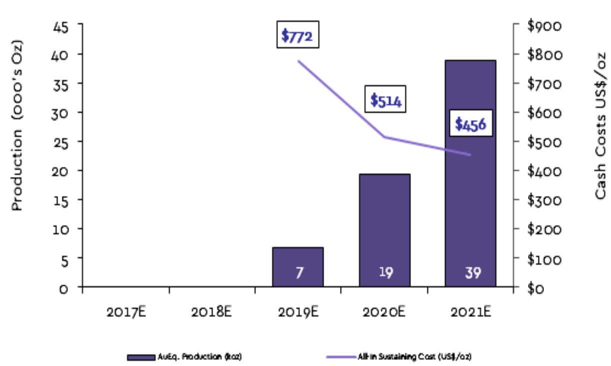
Costs	2017E	2018E	2019E	2020E	2021E
Operating Cash Cost	-	-	$259	$275	$292
Total Cash Cost (US$/oz)	-	-	**$275**	**$291**	**$307**
G&A	-	-	$75	$75	$75
Exploration	-	-	$74	$26	$13
Sustaining Capital	-	-	$349	$122	$61
All-In Sustaining Cost (US$/oz)			**$772**	**$514**	**$456**

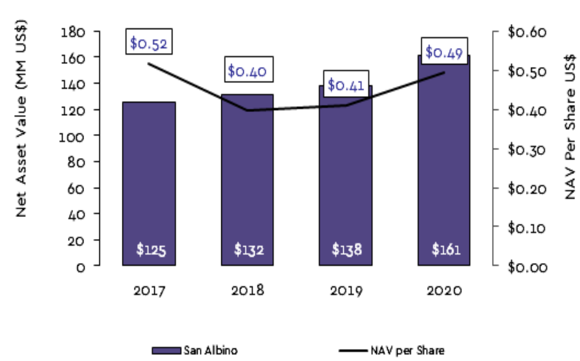
GOLD PRICE ASSUMPTION	2018E	2019E	2020E	2021E
Gold Price(US$/oz)	$1,328	$1,300	$1,300	$1,300

FINANCIAL SUMMARY	2017E	2018E	2019E	2020E	2021E
Basic Shares Outstanding (MM)	192	242	242	242	242
EPS	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.00)	$ 0.04
P/EPS	N/A	N/A	N/A	N/A	4.8x
Target/EPS	N/A	N/A	N/A	N/A	14.5x
CFFOPS	$ (0.00)	$ (0.01)	$ (0.02)	$ 0.00	$ 0.06
P/CFFOPS	N/A	N/A	N/A	N/A	3.5x
Target/CFPS	N/A	N/A	N/A	N/A	10.7x
Income Statement					**$MM**
Revenue	$0	$0	$7	$21	$41
Operating Expenses	$0	$0	$2	$6	$12
General & Adm.	$0	$1	$1	$1	$3
Exploration exp.	$0	$0	$1	$1	$1
Depreciation	$0	$0	$0	$1	$4
Net Income	($0)	($3)	($4)	($0)	$10
Balance Sheet					**$MM**
Cash & S.T. Inv.	$4	$6	$2	$1	$13
NC Working Capital	$0	$0	$0	$0	$0
Long-term Debt	$0	$22	$22	$22	$22
Shareholder Equity	($0)	$8	$4	$4	$15
Cash Flow					**$MM**
Op. CF (Before W/C)	($0)	($3)	($4)	$1	$14
Financing CF	$0	$33	$0	$0	$0
Investing CF	($18)	($6)	$0	($2)	($2)
Change in Cash	($19)	$25	($4)	($1)	$12
Free Cash Flow	($19)	($9)	($4)	($1)	$12

ESTIMATES AND CONSENSUS					
Year-end December 31		**2018E**	**2019E**	**2020E**	**2021E**
CFFOPS	Clarus	-$0.01	-$0.02	$0.00	$0.06
	IBES Consensus	n/a	n/a	n/a	n/a
EPS	Clarus	-$0.01	-$0.02	$0.00	$0.04
	IBES Consensus	n/a	n/a	n/a	n/a

MODELLED RESERVES & RESOURCES	% Int.	M t	Au g/t	Gold MMoz	Mine Life (yr)
San Albino	100%	7.8	4.0	1.0	10





Source: Clarus Securities

Clarus Securities Equity Research Disclosures

The analyst has visited the Company's mining operations at Nueva Segovia Department of the Republic of Nicaragua. Partial payment or reimbursement was received from the issuer for the associated travel costs.

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Accumulate: Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12 -18 months.
Hold: Fairly valued and expected to trade in line with the current price over the next 12-18 months.
Sell: Overvalued and expected to decline from the current price over the next 12-18 months.
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