

## Golden Reign Resources Ltd.

GRR-TSX: \$0.34  
Rating: Speculative Buy  
Target: \$0.80

Conceptual Estimates (C\$)			
	2018E	2019E	2020E
Gold Price (US\$/oz)	\$ 1,257	\$ 1,300	\$ 1,300
AuEq Production (k oz)	7	19	39
Revenue (MM)	\$ 7	\$ 21	\$ 41
Operating Cash Flow (MM)	\$ 3	\$ 6	\$ 14
Net Income (MM)	\$ 3	\$ 5	\$ 11
Total Cash Costs (\$/oz)	\$ 273	\$ 290	\$ 306
AISC (\$/oz)	\$ 518	\$ 506	\$ 455
EPS	\$ 0.01	\$ 0.02	\$ 0.05
CFPS	\$ 0.01	\$ 0.02	\$ 0.06

Valuation			
P/E	23.6x	14.6x	6.0x
P/CF	23.6x	11.5x	4.6x

Stock Data	
Previous Close (C\$)	\$ 0.34
Potential Return	NA
52-Week High-Low	\$0.36 / \$0.20
Avg. Daily Volume (3m)	34500
Basic SO (MM)	192
Fully Diluted SO (MM)	199
Float (MM)	185
Market Cap. (C\$MM)	\$ 64
Cash (C\$MM)	\$ 4
Debt (C\$MM)	\$ -
Enterprise Value (C\$MM)	\$ 61
Fiscal Year End	31-Dec

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\$)	\$ 61



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

## Discovery Potential Reigns Here

September 13, 2017

Golden Reign Resources is advancing its high grade San Albino property in Nicaragua toward ~40k oz/year of low cost gold production which we believe can be scalable. We believe that a high grade open pit mining scenario will put the San Albino project at the bottom end of the industry cost curve with our estimated AISC of US\$537/oz, resulting in US\$15 – \$20MM in annual FCF. With the current 1.0MM oz AuEq global resource defined on only a 3.5km<sup>2</sup> area, we believe there is a clear opportunity to define +5.0MM oz of potentially open pitable resource on the 138km<sup>2</sup> land package. We see GRR as a unique combination of near-term, high margin production and exciting exploration sizzle. We are initiating coverage with a target price of \$0.80 per share and a **SPECULATIVE BUY** rating.

**HIGH FREE CASH FLOW PROJECT:** Our recent site visit showcased solid infrastructure at the project, including paved road access, water and suppliers in a mining friendly jurisdiction. In our view, high margin production from San Albino can fund exploration to chase massive exploration potential on the land package. Despite a streaming arrangement with Marlin Gold, we estimate an all-in sustaining margin of US\$606/oz, which compares favourably to other low cost global developers such as Sabina (Back River project – US\$677/oz margin) and Lundin Gold (Fruta Del Norte – US\$680/oz margin). Our projected annual average FCF of US\$15 – \$20 MM puts the stock at a FCF yield of ~35%.

**HIGH GRADE MULTIMILLION OUNCE RESOURCE POTENTIAL:** We see massive exploration upside with the ~1.0MM oz resource at San Albino (grading ~8.0 g/t Au) defined over a 1km strike length and only 2% of the 138km<sup>2</sup> land package. Trenching and drilling results over a strike length of 3km to the south in the Las Conchitas area show potential to delineate 1.0 – 3.0MM oz of high grade, open pitable resource. Beyond this immediate upside, historic workings, mapping and sampling have identified 100+ showings across 18 significant targets along the 23km Corona de Oro Gold Belt. An estimated discovery cost of US\$24/oz bodes well for GRR's potential to convert these targets to mineable ounces.

**SEASONED MANAGEMENT:** CEO Kevin Bullock, a mining engineer has 25 years of experience in mine exploration, development and operations, most recently selling Volta Resources to B2Gold. VP Exploration Zoran Pudar is a geologist with 30 years of global exploration experience.

**DISCOUNTED VALUATION:** GRR trades at 0.45x NAV, a ~35% discount to peers trading at 0.67x. With operating permits issued on September 12, 2017, the stage is set for a significant rerating driven by the unlocking of value at a high grade, high free cash flowing asset with compelling exploration upside.

## Golden Reign Resources

<b>Rating</b>	SPECULATIVE BUY	<b>Target Price</b>	<b>\$0.80</b>	<b>Shares O/S (MM)</b>	192	<b>Market Cap. C\$MM</b>	<b>\$64</b>
<b>Potential Return</b>	139%	<b>Previous Close</b>	<b>\$0.34</b>	<b>Float (MM)</b>	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
<b>Fully Diluted Shares</b>			<b>198.7</b>
Assumed Equity Raises			50.0
<b>Fully Diluted Shares (incl. equity raise)</b>			<b>248.7</b>

NET ASSET VALUE	% Int.	Discount Rate	US\$M	US\$/share
<b>Project NAV Gold Assets</b>				
San Albino	100%	5%	\$108	\$ 0.44
<b>Sub-Total Project NAV</b>			<b>\$108</b>	<b>\$0.44</b>
Multiple to Development Assets	1.00x		\$108	\$0.44
<b>Exploration Potential</b>				
In-Situ Valuation	2.0 MM oz	@ C\$50.00/oz	\$82	\$0.33
<b>Total Project NAV</b>			<b>191</b>	<b>\$0.77</b>

Corporate Adjustments	US\$M	US\$/share
San Albino Gold Stream	3%	-\$38
<b>Total Corporate Adjustments</b>		<b>-\$38</b>
<b>Total Corporate NAV</b>		<b>\$153</b>
<b>Target Price</b>		<b>\$ 202</b>
Share Price / NAV		0.45x

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

Costs	2017E	2018E	2019E	2020E	2021E
Operating Cash Cost	\$0	\$259	\$275	\$292	\$325
<b>Total Cash Cost (US\$/oz)</b>	<b>\$0</b>	<b>\$273</b>	<b>\$290</b>	<b>\$306</b>	<b>\$339</b>
G&A	NA	\$139	\$75	\$75	\$75
Exploration	NA	\$32	\$19	\$13	\$13
Sustaining Capital	\$0	\$74	\$122	\$61	\$61
<b>All-In Sustaining Cost (US\$/o)</b>	<b>\$0</b>	<b>\$518</b>	<b>\$506</b>	<b>\$455</b>	<b>\$488</b>

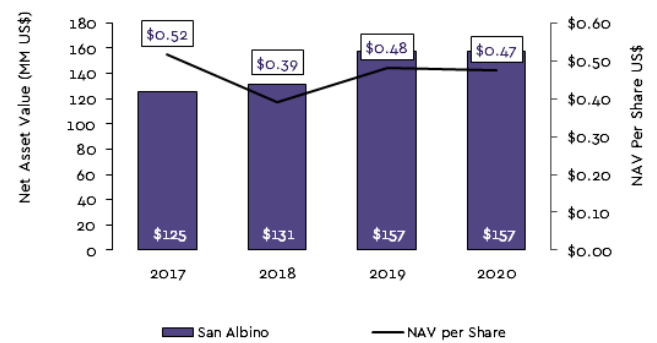
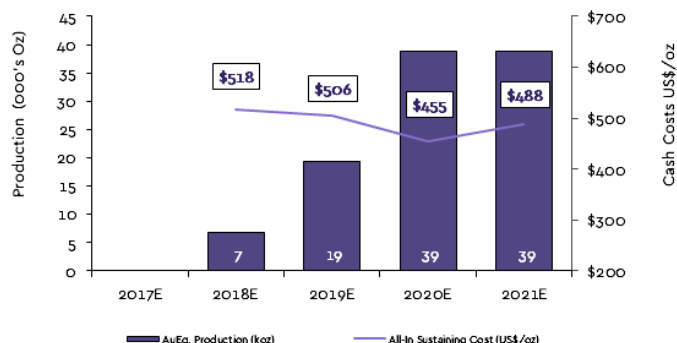
GOLD PRICE ASSUMPTION	2018E	2019E	2020E	2021E
Gold Price(US\$/oz)	\$1,257	\$1,300	\$1,300	\$1,300

FINANCIAL SUMMARY	2017E	2018E	2019E	2020E	2021E
<b>Year-end December 31</b>					
Basic Shares Outstanding (MM)	192	242	242	242	242
EPS	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.05	\$ 0.04
P/EPS	N/A	23.6x	14.6x	6.0x	6.5x
Target/EPS	N/A	56.3x	34.8x	14.4x	15.6x
CFFOPS	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.06
P/CFFOPS	N/A	23.6x	11.5x	4.6x	4.8x
Target/CFPS	N/A	56.3x	27.4x	11.0x	11.4x

Income Statement	2017E	2018E	2019E	2020E	2021E
Revenue	\$0	\$7	\$21	\$41	\$41
Operating Expenses	\$0	\$2	\$6	\$12	\$13
General & Adm.	\$0	\$1	\$1	\$3	\$3
Exploration exp.	\$0	\$0	\$1	\$1	\$1
Depreciation	\$0	\$0	\$1	\$3	\$4
Net Income	(\$0)	\$3	\$5	\$11	\$10
<b>Balance Sheet</b>					
Cash & S.T. Inv.	\$4	\$5	\$10	\$23	\$35
NC Working Capital	\$0	\$0	\$0	\$0	\$0
Long-term Debt	\$0	\$15	\$15	\$15	\$15
Shareholder Equity	(\$0)	\$14	\$18	\$29	\$40
<b>Cash Flow</b>					
Op. CF (Before W/C)	(\$0)	\$3	\$6	\$14	\$14
Financing CF	\$0	\$26	\$0	\$0	\$0
Investing CF	(\$18)	(\$6)	\$0	(\$2)	(\$2)
Change in Cash	(\$19)	\$23	\$6	\$13	\$12
Free Cash Flow	(\$19)	(\$3)	\$6	\$13	\$12

ESTIMATES AND CONSENSUS	2018E	2019E	2020E	2021E	
<b>Year-end December 31</b>					
CFFOPS	Clarus	\$0.01	\$0.02	\$0.06	\$0.06
	IBES Consensus	n/a	n/a	n/a	n/a
EPS	Clarus	\$0.01	\$0.02	\$0.05	\$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



## Investment Thesis

Golden Reign is advancing its San Albino property in Nicaragua toward ~40k oz/year of low cost gold production over an anticipated ~10 year open pit mine life which we believe can be scalable with exploration success.

San Albino is an orogenic gold system associated with a series of shallow dipping near-surface quartz sulphide veins at the bottom of the 23km long Corona de Oro gold belt. The San Albino resource consists of three high grade vein systems – the San Albino, Naranjo and Arras veins over a strike length of 850m and a down dip extent of 925m. Defined global resources total ~1.0MM oz AuEq grading ~8.0 g/t and we anticipate that 300k – 400k oz of this resource will be open pitable. Our model conservatively estimates initial capex of US\$20 MM for a 250 tpd plant and expanded to 500 tpd to produce ~40k oz/year for an additional US\$5 MM capex. Clarus projected AISC of US\$537/oz for San Albino puts GRR at the low end of the industry cost curve, resulting in an AISC margin of US\$606/oz, even after accounting for the gold stream funding, one of the highest among global developers. Using a gold price of US\$1,300/oz, we estimate an after tax project NPV (5%) of US\$108 MM, an IRR of +50% and a payback of <2 years. Overall, we see San Albino as a high grade, open-pitable mine that should generate US\$15 – \$20 MM/year in FCF that can fund exploration to unlock the massive exploration on the broader 138km<sup>2</sup> land package.

Our recent site visit highlighted the massive exploration opportunity at San Albino. The 1.0MM oz resource at San Albino (grading ~8.0 g/t Au) is defined on a 1km strike length or only 2% of the 138km<sup>2</sup> land package. Trenching and drilling results over a strike length of 3km to the south in the Las Conchitas area show potential to delineate 1.0 – 3.0MM oz of high grade, open pitable resource, which we expect can be delineated quickly given the need for only shallow drilling (< 50m). Beyond this immediate upside, historic workings, mapping and sampling have identified 18 targets from 100+ anomalies along the 23km Corona de Oro Gold Belt.

Management and the board are seasoned in mine development and operations. CEO Kevin Bullock, a mining engineer with 25 years of global experience in mine exploration, development and operations, most recently sold Volta Resources to B2Gold for \$63MM. VP Exploration Zoran Pudar has 30 years global exploration experience. Braam Jonker, Chairman has more than 20 years of extensive management, accounting and corporate finance experience mostly in the mining industry.

The stock currently trades at 0.45x NAV, a discount to developer peers trading at 0.67x. We believe that with permits now in hand and several near term catalysts the stage is set for a rerating and the unlocking of value on the prospective land package.

### CATALYSTS:

- Commence Construction – H2 2017
- Exploration Results from Concurrent Trenching, Geophysics and Drilling Program - Ongoing
- Commission Plant – H2 2018
- First Gold Pour – H2 2018

We are initiating coverage with a **SPECULATIVE BUY** rating and a **\$0.80** per share target price.

## Background

Gold-quartz mineralization was discovered at San Albino around 1790 by Spaniards during placer mining activities on the Rio Cocos west of the deposit. Spaniards mined gold at the San Albino Deposit initially from an open pit and subsequently by underground methods. From 1885 to 1920 the Property was worked by several operators. Between 1922 to 1926, Charles Butters, an American metallurgist, built a mill on site, however, the operation was seized in 1927 by Augusto Sandino, leader of the Nicaraguan revolution.

In June 2009 Golden Reign signed an option agreement to acquire an initial 80% interest in the San Albino-Murra Mining Concession (8,700 hectares) for aggregate cash payments of US\$450,000, the issuance of 4MM shares and the completion of \$5MM in exploration spending. In May 2012 GRR completed the earn-in of its 80% interest in the San Albino-Murra mining property subsequently acquiring the remaining 20% interest for a further cash payment of US\$650,000 and issuing 2.1MM shares. In February of 2012, GRR also acquired the El Jicaro Concession, encompassing the extension of the structures identified on the San Albino - Murra Property for a total purchase price of \$120,000. GRR now held a land concession aggregating 138 km<sup>2</sup> (San Albino Murra - 87 km<sup>2</sup> and El Jicaro - 51 km<sup>2</sup>).

Since 2009, GRR has completed detailed mapping and prospecting over the entire San Albino-Murra property from 2010 through 2012 as well as the El Jicaro concession (51km<sup>2</sup>) subsequent to its acquisition. Mapping and sampling carried out at the Las Conchitas area which lies immediately south of the San Albino gold deposit identified 5-10 new prospects, all located within a 4 km<sup>2</sup> area on the southern block of the property. These new prospects comprise a system of parallel sheeted quartz veins similar to those at the San Albino Gold deposit. A number of old mine dumps and pits, float material and quartz vein structures that were sampled returned good gold grades. Four significant, parallel mineralized zones, all striking northeast/southwest, have been mapped and tested by sampling. The Company also outlined the Corona del Oro Gold Belt, a structural corridor approximately 3km wide by 23 km long that stretches from the southern to NE boundaries of the property.

From 2010-2013 a total of 41,170m in 226 holes were drilled in the San Albino deposit. In 2013, GRR announced an initial NI 43-101 compliant resource of ~962k oz AuEq grading 8.0 g/t AuEq. In 2011, a limited drill program comprised of 2,012m in seven holes was completed at the Las Conchitas area. **The estimated discovery cost to date of ~US\$24/oz highlights the potential to cheaply and quickly define resources at Las Conchitas.**

In 2014, as a part of its strategy to expedite gold production by developing a small operation, the Company signed a US\$15 MM streaming agreement with Marlin Gold. In 2015, the Company announced the results of a preliminary economic assessment study for San Albino Gold deposit forecasting average annual production of ~22k oz (using a 250 tpd plant) at an AISC of US\$464/oz over a 30 year mine life. Using a gold price of US\$1,250/oz the PEA yielded an after tax NPV (5%) of US\$106 MM and an IRR of 37%.

## Investment Highlights

### HIGH MARGIN SAN ALBINO PROJECT

The San Albino - Murra Concession is located in Nueva Segovia Department of the Republic of Nicaragua. The San Albino concession covers ~87 km<sup>2</sup> and the El Jicaro concession covers an area of 51 km<sup>2</sup>, totaling an aggregate of ~138 km<sup>2</sup> land package.

The San Albino Deposit is characterized by a series of shallow dipping, sulphide bearing quartz veins. Mineralization appears to be controlled by a regional 60° trending regional fabric that governs the strike of the mineralized quartz veins. The San Albino Deposit consists of four principal stacked, northwest dipping mineralized zones.

Figure 1: San Albino Reserves & Resources

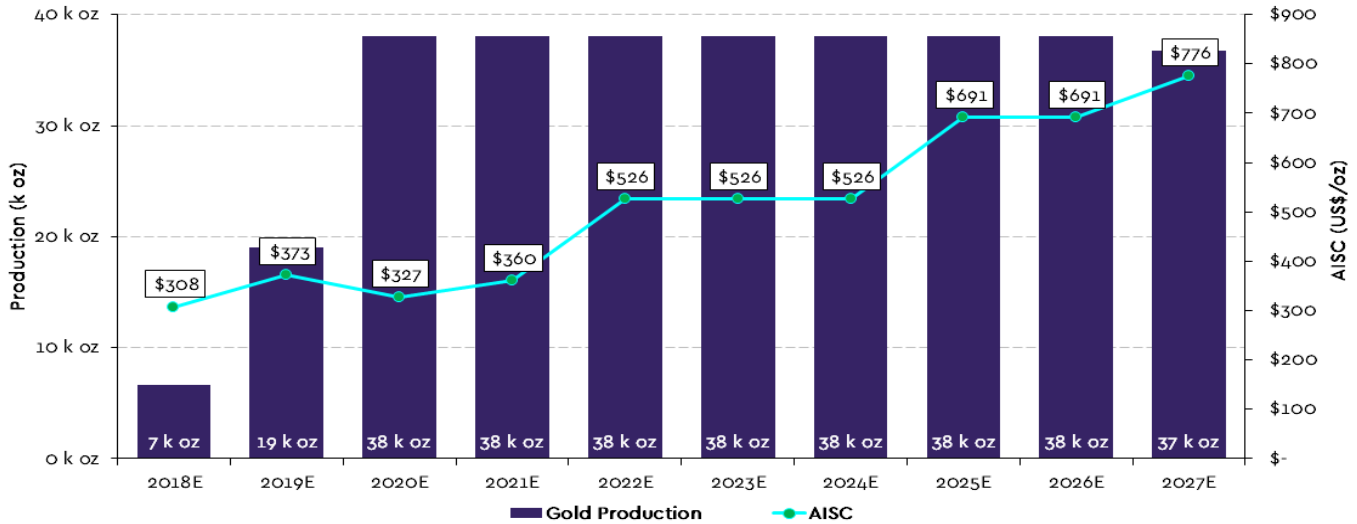
Zone	Classification	Ore kt	Au Grade g/t	Au koz	Ag Grade g/t	Ag koz	AuEq Grade g/t	AuEq koz
<b>Oxide</b>	<b>Indicated</b>	494.0	6.21	98.7	12.70	202.2	6.35	100.9
	<b>Inferred</b>	328.0	4.95	52.3	9.60	101.4	5.06	53.4
<b>Fresh</b>	<b>Indicated</b>	184.0	9.17	54.2	11.80	69.6	9.34	55.2
	<b>Inferred</b>	2739.0	8.35	735.5	13.10	1152.9	8.55	752.7
<b>Total</b>	<b>Indicated</b>	678.0	7.01	152.9	12.50	271.8	7.16	156.1
	<b>Inferred</b>	3067.0	7.99	787.8	12.70	1254.3	8.17	806.1

Source: Company Reports

A PEA that was completed under the previous management in Q1 2015 proposed a combination of open-pit and underground mining based on open pit production of ~190k oz (~6.9 g/t) and underground production of ~470k oz Au (at 8.35 g/t Au) resulting in an annual average production of ~22k oz AuEq over a 31 year mine life. The PEA recommended that the project be advanced with a 250tpd production rate capacity with staged increases in capacity to 500 tpd funded internally from project cash flow. A trade-off between underground and open pit mining resulted in the mineable open pit resource of 204k oz mined from four open pits and a strip ratio of 5.2 to 1.

We believe a more likely scenario using more realistic underground mining costs would see significantly deeper open pit mining and higher strip ratios (15 to 1, life of mine), which is supported by an open pit grade of ~7.0 g/t. As a result our model does not include any production from underground and is based solely on a 350k oz open pit which supports our modeled mine life of 10 years using a 500 tpd plant. See detailed Valuation Section on page 12.

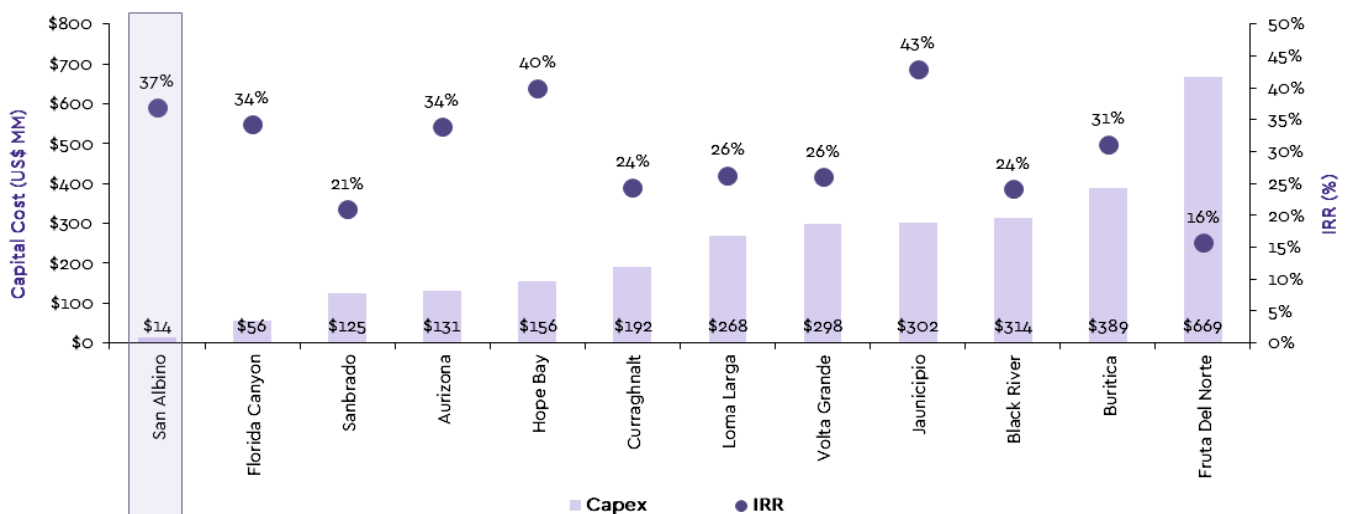
Figure 2: San Albino Production & AISC Profile - Clarus Estimates



Source: Clarus Securities

Project metrics compare favourably to other development opportunities and we expect the project to be among the lowest cost open pits in the space. Overall, we see an opportunity for a low capex, high margin production scenario which should allow GRR to internally fund exploration on the Las Conchitas concession and on the broader 23km Corona de Oro trend. Our model indicates that the production scenario at San Albino at a fully ramped up ~40k oz/year profile should generate an average annual FCF of US\$15 – \$20 MM and a payback of <2 years.

Figure 3: Development Projects – Capex vs IRR



(Comparison of feasibility study results)

Source: Company Reports, Clarus Securities

Figure 4: Open Pit Projects – Grade vs AISC



Source: Company Reports

## BUILDING THE MINE

Our site visit in August 2017 underlined the excellent infrastructure available that would support the low capex construction of the San Albino project. The property is accessible through a 53 km paved road from the City of Ocotol, 226 km north of Managua City following the Pan American Highway, to El Jicaro, Murra and Quilali. Management intends to use diesel generators for power supply for the plant as the national power grid that runs within 1 km of the proposed plant site currently does not have the capacity to support an industrial user in the region. There are three major rivers located within the concession boundaries that the Company can use for obtaining process water.

The San Albino project will also benefit from access to local labor force skilled in small-scale mining resulting from a history of small-scale mining in the district.

Mining will be conducted using contract mining. The processing plant design will remain essentially the same as envisioned in the 2015 PEA based on a combination of a two-step gravity circuit and CIL. The metallurgical test work has confirmed that a two-step gravity separation process followed by CIL will provide high gold recovery levels in the order of 91% to 95%. Detailed metallurgical test work has indicated gold recoveries in the gravity circuit of 47.1% - 56.9%.

Figure 5: Milestones & Timelines

San Albino Project - Planned Milestones & Timelines						
	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
Detailed Engineering						
Signing of EPCM Contract						
Commencement of Construction						
First Gold Pour						
Commercial Production						

Source: Clarus Securities

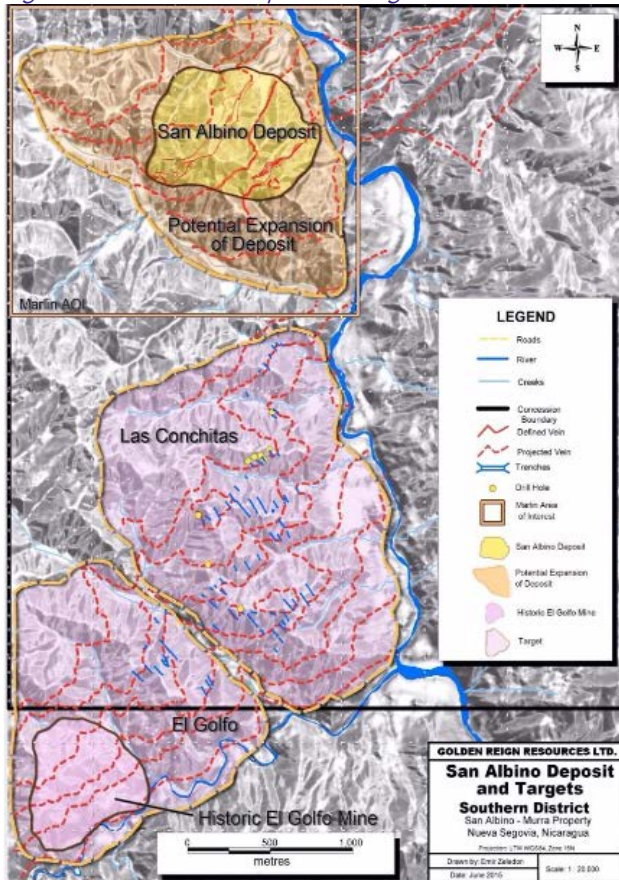
## UNTAPPED EXPLORATION POTENTIAL

In our view, the key opportunity for an investor in Golden Reign beyond the high margin production story at San Albino is the opportunity to define up to 5.0MM oz in additional resources outside the Marlin stream area of influence. The San Albino Deposit is contained in ~1.0km<sup>2</sup> or only <1% of the 138km<sup>2</sup> San Albino Murra land package. Exploration to date has shown that structures and mineralization at San Albino continue for at least 3km to the south into the Las Conchitas and El Golfo areas and should support the delineation of additional mineralized high grade, near-surface quartz veins.

- Las Conchitas: ~3.0km<sup>2</sup> area, roughly ~3x times the footprint of San Albino deposit (~1.0km<sup>2</sup>) which sits immediately south of the San Albino deposit. A total of seven drill holes totaling 2,012m were drilled in a follow up to the prior trenching program. Four parallel mineralized zones have been identified which host near-surface gold and silver mineralization: San Pablo, Intermediate, Las Conchitas and Las Dolores zones. Notable trenching and drilling results have included:
  - Drilling results:
    - 21.3m at 7.2 g/t Au and 14.2 g/t Ag, including 5.0m at 28.45 g/t Au and 53.7 g/t Ag
    - 3.0m at 62.96 g/t Au and 61.7 g/t Ag
    - 2.5m at 15.69 g/t Au and 15.5 g/t Ag
  - Trenching results:
    - 12.8m at 16.05 g/t Au and 9.9 g/t Ag, including 3.0m at 40.97 g/t Au and 23.7 g/t Ag
    - 6.0m at 15.46 g/t Au and 12.8 g/t Ag
    - 5.3m at 48.28 g/t Au and 21.0 g/t Ag
    - 11.0m at 8.59 g/t Au and 19.6 g/t Ag
    - 4.0m at 20.54 g/t Au and 33.7 g/t Ag
- El Golfo: Sits to the south of the Las Conchitas deposit and 3 km south of the San Albino deposit with very similar style of mineralization and similar footprint of ~1.0km<sup>2</sup>. The area hosts 4 parallel mineralized zones that have been outlined over a 700m to 1.5km strike length. El Golfo also hosts 10 old tunnels, 2 historic shafts and numerous pits. A historic conceptual resource target for the area was 800kt at 16 g/t. Initial sampling results:
  - 5.5m continuous underground sample at 12.33 g/t Au
  - 7.5m vein grab samples between 1.2 g/t to 10.77 g/t Au.
- **Broader Corona Del Oro Trend**: Historic workings, mapping and sampling on the broader 23km long Corona de Oro trend has defined 18 targets with near surface quartz vein from 100+ anomalies. These include outcrop, grab sampling and historic mine dumps across the trend.

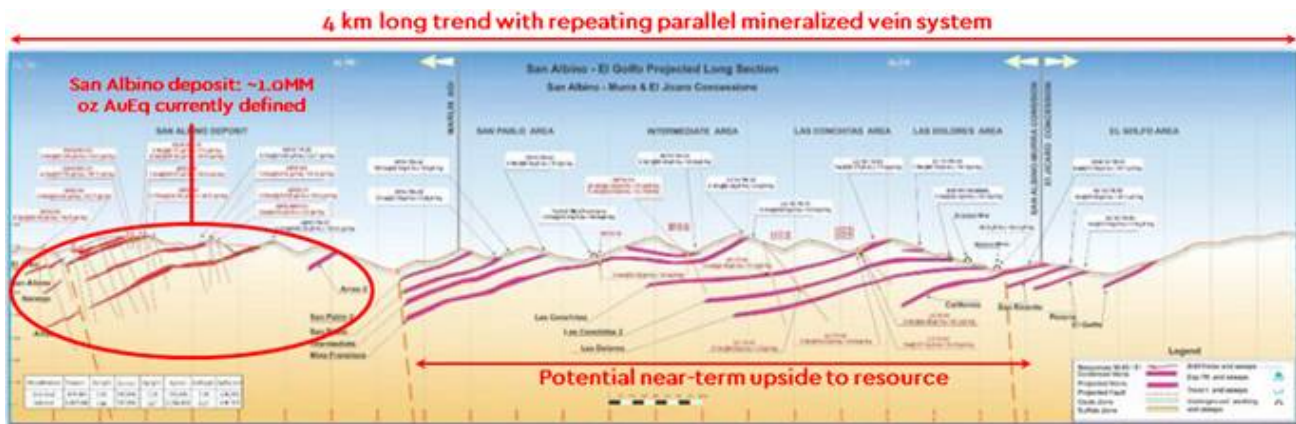
**Conclusion:** The San Albino deposit contains 1.0MM oz grading ~8.0 g/t Au contained within a 3.5km<sup>2</sup> area and the combined Las Conchitas and El Golfo areas represent an area ~4x the size of San Albino. Our recent site visit highlighted the fact that the structures and mineralization continue into these zones and, in our view, could conceptually support an incremental 1.0 – 3.0 MM oz resource from these areas alone. We believe that the Las Conchitas and El Golfo potential can be quickly delineated with the shallow deposits only requiring an average depth of 50m in each drill hole. In our view the huge prospectivity along the broader trend provides highly compelling additional potential for a gold district at San Albino-Murra.

Figure 6: San Albino Deposit & Targets – Las Conchitas & El Golfo



Source: Company Reports

Figure 7: San Albino - El Golfo Cross Section



Source: Company Reports

Figure 8: GRR's Corona de Oro Gold Belt Targets



Source: Company Reports

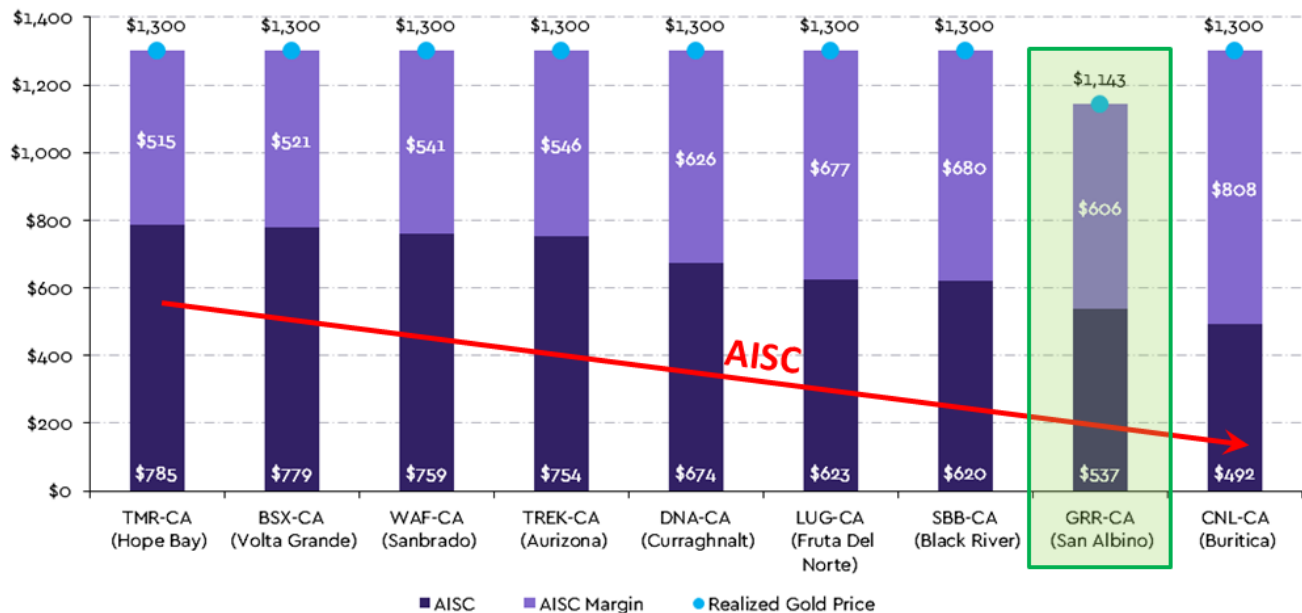
**MARGINS RIVAL HIGH MARGIN DEVELOPERS DESPITE GOLD STREAM FINANCING AGREEMENT**

The gold stream funding agreement with Marlin Gold for US\$15 MM completed July, 2014 will partially fund our estimated capex for the San Albino project of US\$25 MM. The gold stream is applicable only on the gold production from the San Albino deposit. Under the terms of the agreement:

- GRR will provide 40% of its gold production from San Albino at US\$700/oz to Sailfish, a subsidiary of Marlin, until Sailfish recovers US\$19.6 MM.
- GRR will provide 20% of its gold production from San Albino at US\$700/oz, thereafter.
- An 8% semi-annual coupon on purchase price (US\$19.5 MM) is payable to Sailfish prior to commercial production.

We estimate that in year 5 the purchase price of US\$19.5 MM would be fully repaid and the gold stream percentage would drop to 20%. Overall, accounting for the gold stream we estimate that at Clarus price deck (gold price US\$1,300/oz), the Company will be able to realize an effective gold price of ~US\$1,145/oz on the total gold production. Given the project's lowest quartile AISC of US\$537/oz, we see a compelling AISC margin of US\$606/oz which is comparable to low cost development peers such as Sabina (Back River project - US\$680/oz margin) and Lundin Gold (Fruta Del Norte - US\$677/oz margin), even after accounting for the lower effective gold price realized as a result of the gold stream (Figure 8).

Figure 9: AISC Margin At Effective Realized Gold Price (at Clarus Price Deck - US\$1,300/oz Gold)



Source: Company Reports

## MANAGEMENT TRACK RECORD

A depth of management experience from the management and the board in mine development and capital markets provide confidence in management's ability to execute. Management and the board of directors have significant experience in the mining sector including experience and GRR success with junior mining companies.

- **Kevin Bullock:** CEO Kevin Bullock brings in over 25 years of mining sector, having worked at various senior levels in mining exploration, mine development and mine operations. Additionally, Kevin also served as a CEO for GoldCrest and Volta Resources. Volta Resources was eventually sold to B2Gold in 2013. With a career focused extensively in

mining, Mr. Bullock brings in important project experience from inception through exploration to development and production.

- **Abraham Jonker:** Non-Executive Chairman Abraham Jonker has more than 20 years of extensive management, accounting and corporate finance experience across 5 continents, mostly in the mining industry. He currently serves as the non-executive Chairman of the Board of Directors of Mandalay Resources Corp (MND: TSX). Previously, Mr. Jonker was the Chief Financial Officer of Western Coal Corp at the time of its take-over by Walter Energy for \$3.3 billion.
- **Zoran Pudar:** Mr. Zoran Pudar, B.Sc. Geo has been Vice President of Exploration for Golden Reign since May 2006. Educated in Europe, Mr. Pudar worked for ~10 years with several European public and private companies involved in mineral properties exploration. Since 1996, he held several exploration roles with various British Columbia and Alberta public companies involved in mineral exploration. Prior to Golden Reign, he served as the Chief Geologist for Big Blackfoot Resources. At Golden Reign, he is responsible for coordinating and overseeing exploration activities on the Issuer's mineral exploration projects.

## Valuation

Our 12-month target price of \$0.80/share is based on a 1.0x multiple to the project NAV for San Albino.

Our valuation model is based on a discounted cash flow model for an open-pit-only operation at San Albino using 350k oz Au (~360k oz AuEq) at 7.0 g/t Au in open pit mineable inventory and a fully ramped up 500 tpd processing plant which results in a ~10 year mine life. Our assumption for mineable ounces is based on a 100% conversion of the indicated & inferred open pit resource. Our model estimates an annual average LOM gold equivalent production of ~40k oz over a 10 year mine life. We estimate ~US\$537/oz LOM AISC and have assumed US\$20 MM in initial capex for the project and an additional US\$5 MM in expansion capital in year 2. Our model reflects commercial production in Q4/18 and a fully ramped up production rate of 500 tpd (~40k oz/year) by Q1 2020.

Given the clear exploration upside available to investors in GRR, our model includes an in-situ valuation for 2.0MM oz at C\$50/oz. We believe this is reasonable given our view that additional resources can be defined over the next 12-18 months at Las Conchitas/El Golfo. We value the gold stream funding agreement at (US\$38 MM) based on our modelled production and the terms of the agreement.

Our fully financed NAV assumes a C\$15 MM equity funding to provide a working capital buffer for our modelled initial capex of US\$20 MM and to provide some funding for exploration. Our model assumes equity funding at C\$0.30 per share resulting in ~50 MM additional shares to fund the development of the San Albino project. We use a long-term gold price assumption of US\$1,300/oz and a 5% discount rate resulting in a project NPV of US\$108 MM or US\$0.44/share. Applying in-situ valuation and corporate adjustments including a deduction for the gold stream agreement (US\$45 MM or US\$0.18/share), we estimate corporate NAV of US\$153 MM or US\$0.62/share, driving our target price of **\$0.80** per share.

Figure 10: San Albino Modelled Assumptions

San Albino Project Modelled Assumptions - CLARUS					
<i>(amounts in US\$ unless stated otherwise)</i>					
AuEq Mineable Ounces	Koz	350.0			
Life of Mine	Years	10			
Long Term Gold Price	US\$/oz	\$1,300			
<b>LOM Average Production</b>			<b>LOM Average Operating Costs</b>		
Au - Head Grade	g/t	7.00	Mining Costs	(C\$/tonne)	\$57.4
Throughput	Mtpa	171	Processing Costs	(C\$/tonne)	\$36.6
Strip Ratio	-	15	G&A Costs	(C\$/tonne)	\$11.1
Au - Recovery	%	94.0%	Cash Costs	(C\$/oz)	\$471
AuEq - Avg. Annual Production	koz	34	AISC	(C\$/oz)	\$537
<b>Net Asset Value</b>			<b>LOM CAPEX</b>		
Project NAV (5%)	US\$ MM	\$108	Project Capex	(C\$ MM)	\$25
Project NAV (5%)	US\$/share	\$0.44	LOM Sustaining Capex	(C\$ MM)	\$22

Source: Clarus Securities

Figure 11: Clarus NAV

NET ASSET VALUE				US\$
	% Int.	Discount Rate	US\$M	/share
<b>Project NAV Gold Assets</b>				
San Albino	100%	5%	\$108	\$ 0.44
<b>Sub-Total Project NAV</b>			<b>\$108</b>	<b>\$0.44</b>
Multiple to Development Assets		1.00x	\$108	\$0.44
<b>Exploration Potential</b>				
In-Situ Valuation		2.0 MM oz @ C\$50.00/oz	\$82	\$0.33
<b>Total Project NAV</b>			<b>191</b>	<b>\$0.77</b>
<b>Corporate Adjustments</b>				
San Albino Gold Stream		3%	-\$38	-\$0.15
<b>Total Corporate Adjustments</b>			<b>-\$38</b>	<b>-\$0.15</b>
<b>Total Corporate NAV</b>			<b>US\$/share \$153</b>	<b>\$0.62</b>
<b>Target Price</b>			<b>C\$/share \$ 202</b>	<b>\$ 0.80</b>
Share Price / NAV				0.45x

Source: Clarus Securities

## Peer Valuation – Discounted to Peers

At its current market cap of ~C\$65 MM, GRR trades at a fully financed NAV of 0.45x NAV, a ~35% discount to development peers trading at an average of 0.67x. We highlight that the current market cap and the projected annual average FCF of ~US\$20 MM puts the stock at a FCF yield of ~35%.

We believe the stock has been discounted due to an overhang resulting from a longer than expected permitting process. In addition, we believe that investors have overemphasized the fact that San Albino is proposed to be a relatively small sized production profile of up to ~40k oz/year with a significant gold stream, however, our estimates show that San Albino will generate comparable levels of operating cash flow to larger producers including WDO & SGI. We further believe that investors have not fully understood the exploration opportunity at San Albino Murra given management's focus on completing the permitting of the project.

With permits now in hand, the stage is set for a significant rerating of a funded, high grade, high free cash flowing asset. With development milestones toward production and a planned exploration campaign on a highly prospective but relatively underappreciated exploration opportunity should see the stock rerated toward less compelling but more highly valued peers.

Figure 12: GRR Peer Comps

9/12/2017									
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	2P, M&I, I \$ / oz	P/NAV
Belo Sun Mining Corp.	TSX:BSX	\$0.61	\$283	\$213	10.5	1.04	\$56	\$20	0.55x
Continental Gold Inc	TSX:CNL	\$3.21	\$603	\$473	12.7	9.8	\$128	\$37	0.41x
Dalradian Resources Inc.	TSX:DNA	\$1.61	\$425	\$391	4.4	12.3	\$272	\$89	0.68x
Lundin Gold Inc.	TSX:LUG	\$5.10	\$610	\$435	9.5	8.3	\$90	\$46	0.78x
Sabina Gold & Silver Corp.	TSX:SBB	\$2.54	\$568	\$532	10.2	2.0	\$212	\$52	0.83x
TMAC Resources, Inc.	TSX:TMR	\$9.42	\$791	\$856	9.4	8.7	\$244	\$91	0.73x
Trek Mining, Inc.	TSX:TMR	\$1.12	\$199	\$153	8.7	0.7	\$66	\$18	0.48x
West African Resources Ltd	TSX: WAF	\$0.37	\$177	\$172	2.2	1.4	NA	\$79	0.90x
<b>Mean</b>			<b>\$457</b>	<b>\$403</b>	<b>8.5</b>	<b>5.5</b>	<b>\$153</b>	<b>\$54</b>	<b>0.67x</b>
<b>Golden Reign Resources Ltd.</b>	<b>TSX:GRR</b>	<b>\$0.34</b>	<b>\$65</b>	<b>\$62</b>	<b>1.0</b>	<b>8.0</b>	<b>N/A</b>	<b>\$64</b>	<b>0.45x</b>

Source: Factset, Company Reports, Clarus Securities

## Investment Risks

**Currency & Commodity Price Risk:** One of the key risks facing the Company is fluctuations in currency exchange rates, gold price and uncertainty in geopolitics.

**Financing Risk:** The Company faces financing risk. The Company currently does not have revenue stream and there is no guarantee that debt or equity markets will allow the Company to fund the development of San Albino or further the exploration of its land package. We note that the gold stream funding agreement with Marlin Gold that provides US\$15 MM for construction of the project partly funds our estimated US\$20 MM capex for the project and diminishes the financing risk faced by GRR.

**Geologic Risk:** While the Company had completed a PEA under a previous management, we believe the actual mine plan would differ from what was proposed in the PEA with potentially deeper open pit mining scenario at higher strip ratio. We note that the PEA has a NI 43-101 compliant resource, which forms the basis of our valuation model. Significant variance in the modelled parameters would impact our valuation. Our modelled opex and capex assumptions may differ materially from actual realized costs which would impact our valuation.

**Development Risk:** The Company faces typical risks associated with project development including but not limited to the risk of construction delays, long lead item delays, staffing risks, and capital cost inflation. In our view these risks are mitigated by management's depth of experience in mine building.

**Permitting Risk:** The Company announced on September 12, 2017 that it had received its environmental permit for the development, construction and an operation of up to a 500 tpd operation at San Albino. The Company faces permitting risk for any further expansions or additional mining to the San Albino operation. However, this is mitigated by the fact that the initial permit was awarded and the continued strong local support for the project.

**Technical Risk:** The engineering work completed on the San Albino project to date is limited to Preliminary Economic Assessment level work completed in Q1 2015. While detailed engineering

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currently underway is expected to be of a PFS level, there is inherent risk in constructing a mine without a formal PFS or BFS having been completed. This is mitigated by a strong suite of consultants and management's depth of experience in mine building.

## Conclusion

Golden Reign Resources is advancing its high grade San Albino property in Nicaragua toward 40k oz/year of low cost gold production which we believe can be scalable. We believe that a low capex, high grade open pit mining scenario will put the San Albino project at the bottom end of the industry cost curve with our estimated AISC of US\$537/oz, resulting in US\$15 - \$20MM in annual FCF. With the current 1.0MM oz AuEq global resource defined on only a 3.5km<sup>2</sup> area, we believe there is a clear opportunity to define +5.0MM oz of potentially open pitable resource on the 138km<sup>2</sup> land package. We see GRR as a unique combination of near-term, high margin production and exciting exploration sizzle. We are initiating coverage with a target price of **\$0.80 per share** and a **SPECULATIVE BUY** rating.

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## 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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