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# Golden Reign Resource Ltd.

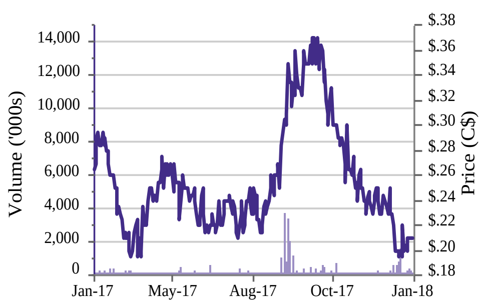
GRR-TSX: $0.22
Rating: Speculative Buy
Target: $0.80

| Conceptual Estimates (C$) | 2018E | 2019E | 2020E |
|---|---|---|---|
| Gold Price (US$/oz) | $ 1,300 | $ 1,300 | $ 1,300 |
| AuEq Production (k oz) | 7 | 19 | 39 |
| Revenue (MM) | $ 7 | $ 21 | $ 41 |
| Operating Cash Flow (MM) | $ 3 | $ 5 | $ 14 |
| Net Income (MM) | $ 3 | $ 4 | $ 11 |
| Total Cash Costs ($/oz) | $ 274 | $ 291 | $ 307 |
| AISC ($/oz) | $ 519 | $ 507 | $ 456 |
| EPS | $ 0.01 | $ 0.02 | $ 0.05 |
| CFPS | $ 0.01 | $ 0.02 | $ 0.06 |
| **Valuation** | | | |
| P/E | 14.0x | 10.3x | 4.0x |
| P/CF | 14.0x | 7.9x | 3.0x |

| Stock Data | |
|---|---|
| Previous Close (C$) | $ 0.22 |
| Potential Return | NA |
| 52-Week High-Low | $0.37 / $0.19 |
| Avg. Daily Volume (3m) | 227800 |
| Basic SO (MM) | 192 |
| Fully Diluted SO (MM) | 199 |
| Float (MM) | 185 |
| Market Cap. (C$MM) | $ 42 |
| Cash (C$MM) | $ 4 |
| Debt (C$MM) | $ - |
| Enterprise Value (C$MM) | $ 39 |
| 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$) | $ 39 |




*Source: FactSet*

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

# Trenching at Las Conchitas Highlights Growth Potential

*February 1, 2018*

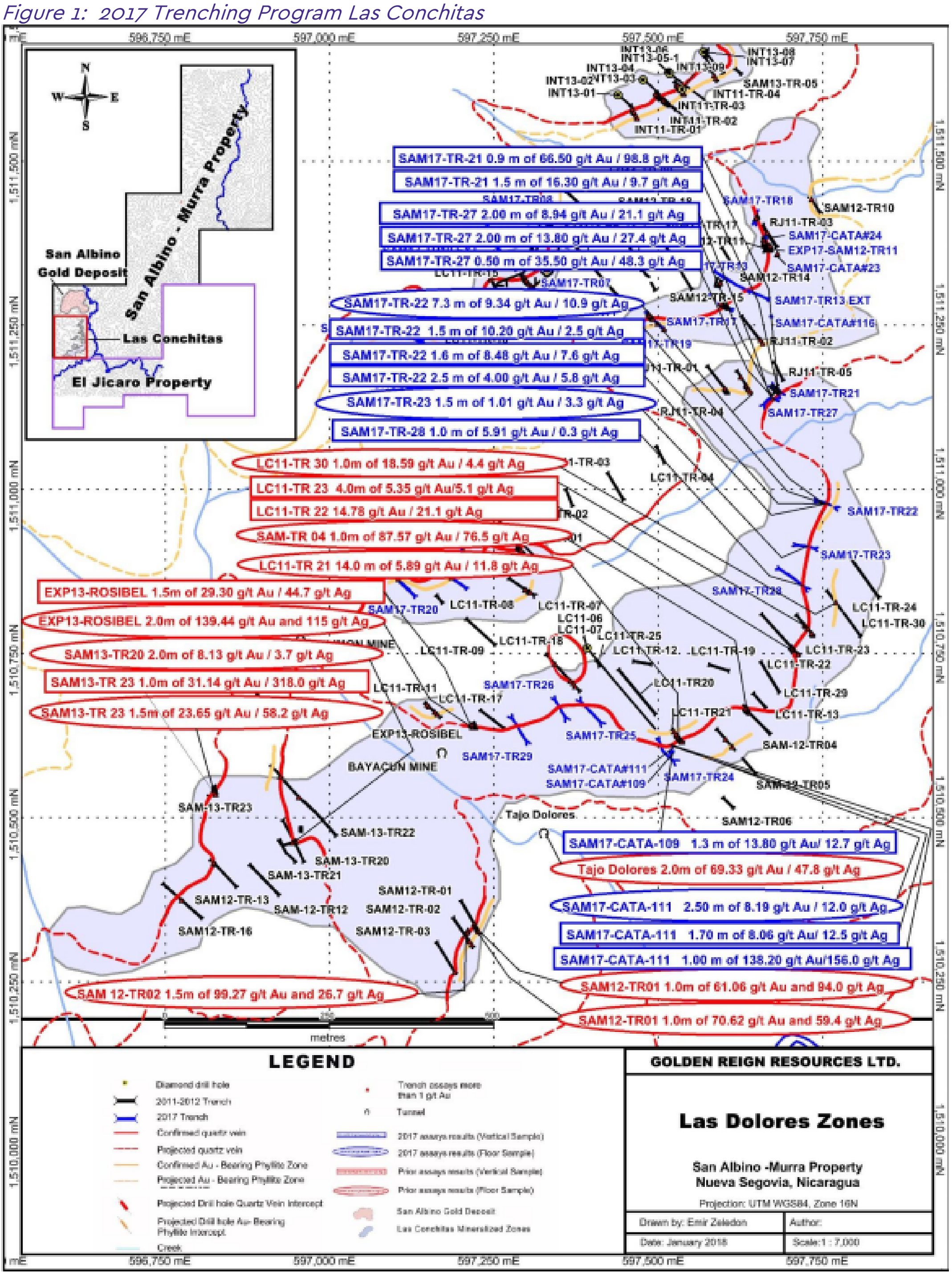
Trench results at the Las Dolores zone continues to confirm the upside potential of the Las Conchitas area. Results from the 12 trench holes extended the strike length by a further 250m, bringing the total strike length of the Dolores zone to over 1000m. Results provide further confirmation of high grade open pittable resource potential at Las Conchitas which we believe could support an incremental 1-3MMoz. Overall, we continue to believe there is an opportunity to define +5.0MM oz of potentially open pittable resource on the 138km2 land package which contains 18 targets from 100+ anomalies along a 20km trend. We maintain our **SPECULATIVE BUY** rating and our target price of **$0.80** per share.

**LAS DOLORES TRENCHING CONTINUES TO CONFIRM SOUTHERN EXTENSIONS OF SAN ALBINO:** Trenching results over a 1000m strike length continue to show high grade gold mineralization in the Las Dolores zone, one of the seven targets which sit in the Las Conchitas area. Results from 12 trenches show closely spaced, parallel shallow dipping quartz veins with similar mineralization, grades and widths to San Albino and other targets recently trenched. Significant results include: 1.0m at 138.2 g/t (vertical), 7.3m at 9.34 g/t (along dip), 0.9m at 66.50 g/t (vertical) and 0.5m at 35.50 g/t. While drilling needs to provide confirmation, we are encouraged with the trenching results at various targets on Los Conchitas that are indicative of the upside potential we see in the 3km of largely untested strike length to the south of San Albino. We note that these areas sit outside the area of influence of the Marlin stream. Numerous other targets, including geochemical soil anomalies and historical workings are present and remain untested. We expect drilling on these targets in a preliminary program of 1,500m starting in early Q1/18.

**EXPLORATION UPSIDE REMAINS COMPELLING:** 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 138km2 land package. Recent trenching results from the Mina Francisco zone, Intermediate zone, Cruz Grande zone and Las Dolores zones indicate high grade mineralization over the 3km to the south of the San Albino deposit. We believe drilling results show potential to delineate 1.0 – 3.0MM oz of incremental high grade, open pittable resource. We expect additional ounces 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 20km long Corona de Oro Gold Belt.

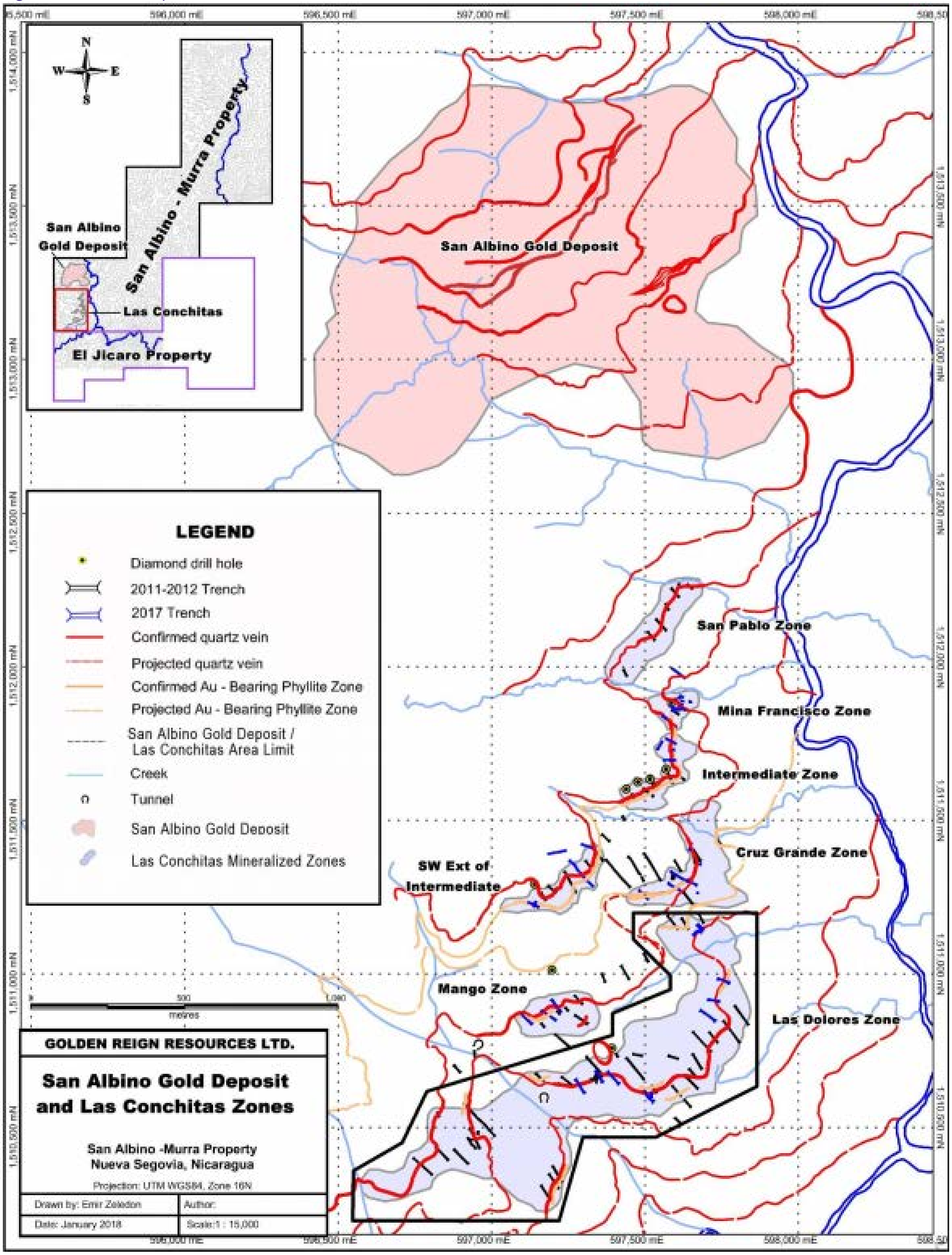
**RECOMMENDATION:** We see GRR as a unique combination of near-term, high margin production with ~40k oz/year at US$537/oz AISC profile and exciting exploration sizzle with the potential to define a +5.0MM oz of open-pittable resource. The stock trades at 0.29x NAV and $64/oz, a 54% and 35% discount to peers trading at an average of 0.64x and $97/oz. We believe the stage is set for unlocking of 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: 2017 Trenching Program Las Conchitas*




*Source: Company Reports*

*Figure 2: GRR Properties*




*Source: Company Reports*

## Golden Reign Resources

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rating | SPECULATIVE BUY | Target Price | $0.80 | Shares O/S (MM) | 192 | Market Cap. C$MM | $42 |
| Potential Return | 264% | Previous Close | $0.22 | 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% | $108 | $ 0.44 |
| **Sub-Total Project NAV** | | | **$108** | **$0.44** |
| Multiple to Development Assets | | 1.00x | $108 | $0.44 |
| **Exploration Potential** | | | | |
| **In-Situ Valuation** | | 2.0 MM oz @ C$50.00/oz | **$82** | **$0.33** |
| **Total Project NAV** | | | **190** | **$0.76** |
| **Corporate Adjustments** | | | **US$M** | **US$/share** |
| San Albino Gold Stream | | 3% | -$38 | -$0.15 |
| **Total Corporate Adjustments** | | | **-$38** | **-$0.15** |
| **Total Corporate NAV** | | **US$/share** | **$152** | **$0.61** |
| **Target Price** | | **C$/share** | **$ 201** | **$ 0.80** |
| Share Price / NAV | | | | 0.29x |

| FINANCIAL SUMMARY | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Basic Shares Outstanding (MM) | 192 | 242 | 242 | 242 | 242 |
| EPS | $ (0.00) | $ 0.01 | $ 0.02 | $ 0.05 | $ 0.04 |
| P/EPS | N/A | 14.0x | 10.3x | 4.0x | 4.2x |
| Target/EPS | N/A | 50.7x | 37.3x | 14.4x | 15.4x |
| CFFOPS | $ (0.00) | $ 0.01 | $ 0.02 | $ 0.06 | $ 0.06 |
| P/CFFOPS | N/A | 14.0x | 7.9x | 3.0x | 3.1x |
| Target/CFPS | N/A | 50.7x | 28.9x | 11.0x | 11.3x |
| **Income Statement** | | | | | **$MM** |
| 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 | $4 | $11 | $10 |
| **Balance Sheet** | | | | | **$MM** |
| 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 | $40 |
| **Cash Flow** | | | | | **$MM** |
| Op. CF (Before W/C) | ($0) | $3 | $5 | $14 | $14 |
| Financing CF | $0 | $26 | $0 | $0 | $0 |
| Investing CF | ($18) | ($6) | $0 | ($2) | ($2) |
| Change in Cash | ($19) | $23 | $5 | $13 | $12 |
| Free Cash Flow | ($19) | ($3) | $5 | $13 | $12 |

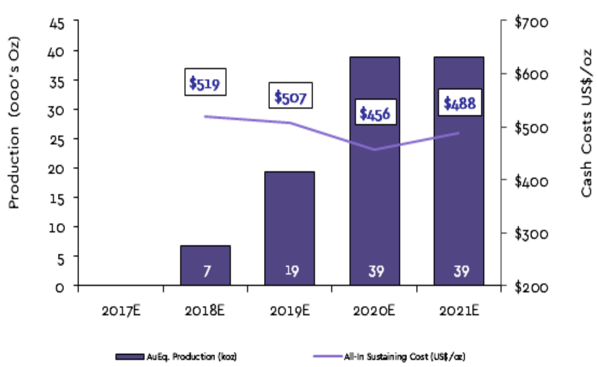
| PRODUCTION ESTIMATES<br>Year-end December 31 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| San Albino | - | 7 | 19 | 39 | 39 |
| **AuEq. Production (koz)** | **-** | **7** | **19** | **39** | **39** |

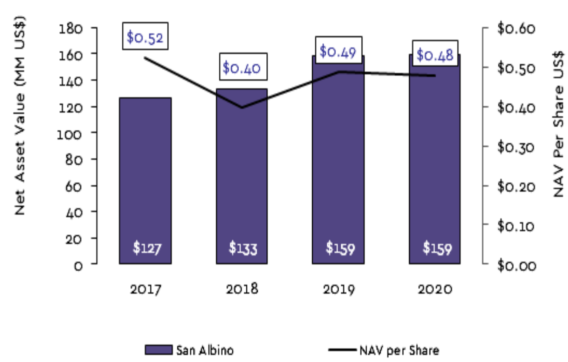
| Costs | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Operating Cash Cost | $0 | $259 | $275 | $292 | $325 |
| **Total Cash Cost (US$/oz)** | **$0** | **$274** | **$291** | **$307** | **$339** |
| G&A | NA | $139 | $75 | $75 | $75 |
| Exploration | NA | $32 | $19 | $13 | $13 |
| Sustaining Capital | $0 | $74 | $122 | $61 | $61 |
| **All-In Sustaining Cost (US$/o** | **$0** | **$519** | **$507** | **$456** | **$488** |

| ESTIMATES AND CONSENSUS<br>Year-end December 31 | | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| 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 |

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

| 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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***Speculative Buy:*** Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.
***Accumulate:*** Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12 -18 months.
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