

RNC MINERALS CORP.

RNC Reports Q1 Financials – Good Quarter and Outlook Remains Positive

EVENT

RNC Minerals announced its Q1/2020 financial and operating results. Consolidated gold production for the quarter was 24,816 oz (pre-released) with all-in sustaining costs (AISC) of US\$1,101/oz gold sold. RNC reported adjusted earnings of \$12.6M or \$0.02/shr and adjusted EBITDA of \$13.6MM or \$0.02/shr, in-line with estimates. The Company finished the quarter with a healthy balance sheet including \$38.4M in cash and working capital of \$30.7M.

BOTTOM LINE

Positive: RNC put in a strong start to 2020 producing 17,170 oz of gold from Beta Hunt at US\$944 per oz and 7,646 oz of gold from the Higginsville Gold Operation (HGO) at \$1,013 per oz. This was slightly ahead of our production estimate as the impact from COVID-19 was lower than we had anticipated. For 2020, RNC is maintaining its guidance of 90-95koz of gold production with expected AISC of US\$1,050-\$1,200/oz and targeting AISC of ~US\$1,000/oz by year-end. We continue to see the Company as well-positioned to achieve this with multiple ore sources and an increased stockpile of ore and of critical supplies to keep the mill fed. Operating margins stand to benefit from weak oil prices, a strengthening gold price and a weaker Australian dollar. We maintain our Buy rating and \$1.20 per share target.

HIGHLIGHTS

- **Transitional Gold Producer:** Gold production from its Beta Hunt Mine and Higginsville Gold Operation is moving towards 100koz annually with upside from high grade specimen gold discoveries.
- **High Grade Gold at Beta Hunt:** Beta Hunt is known to produce ultra high-grade specimen gold. With a proven exploration model we expect further discoveries of these high grade pods on a regular basis.
- **Higginsville a Rising Star:** The Higginsville ground remains highly prospective with a 1.9Moz historic resource that should add several new sources of mill feed from low-cost open pits.

Recommendation:	BUY
Symbol/Exchange:	RNX-TSX
Sector:	Metals & Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price:	\$0.43
One-year target:	\$1.20
Target return:	202%
52-week Range:	\$0.19 - \$0.73

Financial Summary

Market Cap (\$M)	\$261.3
Cash on hand (\$M)	\$38.4
Debt (\$M)	\$31.0
Basic Shares O/S (M)	607.8
Fully Diluted Shares O/S (M)	643.4
Avg. Weekly Volume (k)	1,956

	2018A	2019A	2020E	2021E
Gold Produced (koz)	51.6	64.3	86.6	94.7
Cash Cost (US\$/oz)	\$1,081	\$1,016	\$901	\$967
AISC (US\$/oz)	\$1,341	\$1,155	\$1,101	\$1,034
EPS	(\$0.02)	(\$0.01)	\$0.09	\$0.15
CFPS	(\$0.02)	\$0.02	\$0.11	\$0.15
Free CFPS	(\$0.04)	(\$0.05)	\$0.09	\$0.14
Dividend/shr	N/A	N/A	N/A	N/A



Company Profile: RNC is junior gold producer and base metal developer. Its principal assets are the Beta Hunt gold mine and Higginsville Gold Operation in Western Australia. It also holds a 28% stake in the world class Dumont Nickel-Cobalt Project located in the Abitibi mining camp in Quebec.

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See disclosure and a description of our recommendation structure at the end of this report.

Q1/2020 PRODUCTION AND FINANCIAL RESULTS

RNC Minerals announced Q1/2020 production and financial results.

Production: RNC put in a strong start to 2020 with consolidated gold production for the quarter of 24,816 oz (pre-released) with all-in sustaining costs (AISC) of US\$1,101/oz sold. This was slightly ahead of our original production estimate as the impact from COVID-19 was lower than we had anticipated. Production was 17,170 oz of gold from Beta Hunt at US\$944 per oz and 7,646 oz of gold from Higginsville at \$1,013 per oz. For 2020, RNC is maintaining its guidance of 90-95koz of gold production with expected AISC of US\$1,050-\$1,200/oz and targeting AISC of ~US\$1,000/oz by year-end. We continue to see the Company as well-positioned to achieve this. With multiple ore sources, increased stockpiles of ore and of critical supplies, RNC is well-positioned to keep the mill fed. Operating margins stand to benefit from weak oil prices, a strengthening gold price and a weaker Australian dollar.

Financials: RNC reported adjusted earnings of \$12.6M or \$0.02/shr, in-line with estimates. Adjusted EBITDA was strong at \$13.6MM or \$0.02/shr. The Company finished the quarter with a healthy balance sheet including \$38.4M in cash and working capital of \$30.7M.

Exhibit 1: Key 2019 Q4/YE Production and Financial Data

					Cantor Estimates				
					Q1/20E	%Diff			
					Q4/19A	2019A	Q1/20A		
Operations:									
Total Tonnes Milled	tonnes	321,000	755,000	314,000	279,000	13%			
Mill Throughput	TPD	3,567	2,097	3,489	3,100	13%			
Gold grade to mill	g/t	2.60	2.65	2.35	2.68	-12%			
Total Gold Production	koz	26,874	64,277	24,816	21,874	13%			
Total Gold Sold	koz	28,359	65,225	24,626	21,874	13%			
AISC Total Gold	US\$/oz	1,131	1,155	1,101	1,029	7%			
Financials:									
Revenues	\$M	55.4	128.8	54.3	45.9	18%			
Total Operating Costs	\$M	36.0	97.9	35.7	25.9	38%			
Income (loss) from Mining Ops:	\$M	19.5	30.2	18.6	20.0	-7%			
Net Income (loss)	\$M	11.4	(6.9)	0.5	13.1	-96%			
EPS	\$/shr	0.02	-0.01	0.01	0.02	-73%			
CFPS (Operating)	\$/shr	0.02	0.02	0.02	0.02	-6%			
Adjusted EBITDA	\$M	14.4	18.3	13.6	16.7	-19%			
Balance Sheet:									
Cash & equivalents	\$M	34.7	34.7	38.4	46.8	-18%			
Long-term Debt (\$M)	\$M	24.1	30.8	31.0	30.8	1%			

Source: RNC Minerals, Cantor Fitzgerald

BETA HUNT

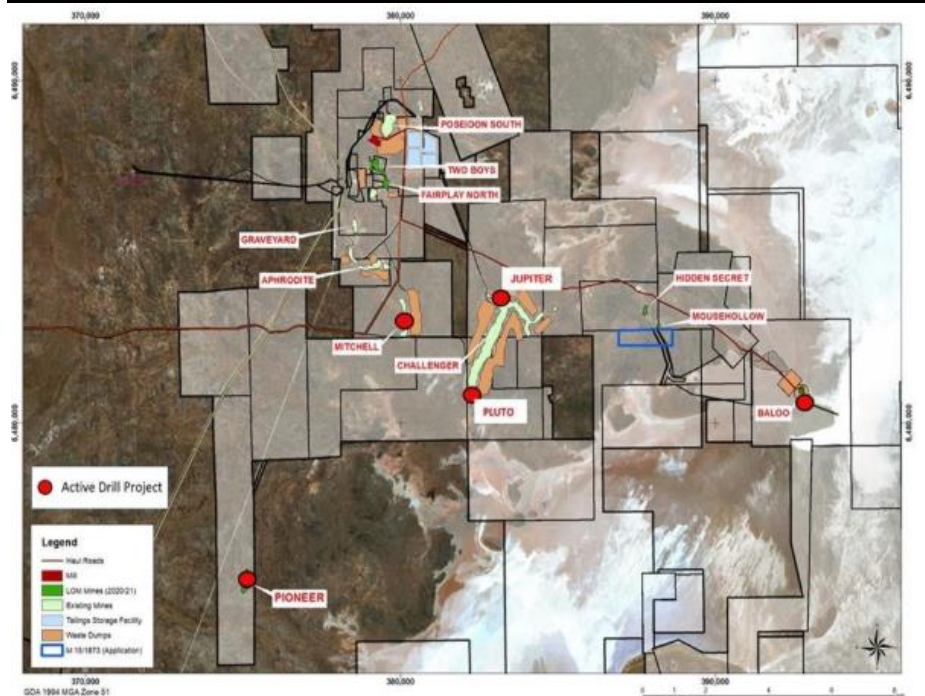
Production from Beta Hunt during Q1/20 was 186,000 tonnes grading 2.58 g/t producing 17,170 oz of gold at US\$944 per oz. Beta Hunt production is mainly focused on the Western Flanks and A Zone mining areas and grades are expected to increase towards reserve grade over the quarter. A number of stoping areas are being developed within the Western Flanks that will access some of the wider Beta Hunt stoping blocks (up to 20 m wide). Mining rates at Beta Hunt are currently 50,000-55,000 tonnes per month (up from 40,000-50,000 tonnes per

month in 2019). This rate is expected to continue as part of the Beta Hunt expansion plan.

HIGGINSVILLE – RISING STAR

Production from the Higginsville Gold Operation during Q1/20 was 128,000 tonnes grading 2.00 g/t producing 7,646 oz of gold at \$1,013 per oz. Mining operations at Higginsville now includes production from the both the Baloo and Fairplay North open pits. Mining at Baloo Stage 1 is forecasted to continue to mid-2020 and Stage 2 has been extended to January 2021 and likely beyond. For 2020, RNC is allocating the bulk of its ~A\$10MM exploration budget to Higginsville given its significant potential for additional ounces over the short and medium term (Exhibit 2). Specifically, a recently completed high-density gravity survey identified a newly interpreted structure extending over 5 km north of the previously mined high grade 1.0 Moz Trident gold deposit. This new structure is considered to have high potential for mineralization at depth and will be the focus of a new round of drilling. At the Aquarius project, RNC's ongoing review of HGO historical mineral resources and drill results has confirmed the potential of the deposit as a future high-grade open pit and/or underground operation. At the Hidden Secret (HDS) and Mousehollow (MOH) projects, drilling has extended mineralization which now form part of RNC's near-term mine plan. Overall Higginsville is showing excellent potential to add resources quickly and will make an increasingly important contribution to production. Drilling should pick up in the second half of 2020.

Exhibit 2: Map of Exploration Activity at Higginsville



Source: RNC Minerals

2020 GUIDANCE AND OUTLOOK UNCHANGED

RNC maintained its guidance for 2020 of 90,000-95,000 oz with expected AISC of US\$1,050-\$1,200 per oz and targeting AISC of ~US\$1,000 per oz by the end of 2020, assuming no significant interruption in operations as a result of the COVID-19 virus. We see the Company is well-positioned to do this. Ore feeding the Higginsville mill is now coming from three sources: the Baloo pit, Fairplay North pit and the Beta Hunt underground mine allowing for ample feed for the mill. Operating margins are set to expand driven by the extraordinarily weak oil prices (which could drive cash costs down by up to 10%), a strengthening gold price and a weaker Australian dollar. Indeed, gold is trading at record highs in Australian dollar terms, approaching AUD\$2,700/oz. We recently updated our gold price forecast, highlighting RNC Minerals as a top pick for these reasons and updating our target (see [March 25 gold macro note here](#)). In response to the COVID-19 pandemic, the Company has implemented strict control measures at its operations is carefully monitoring the advice of local health authorities and has informed site personnel of the precautions that need to be taken with respect to travel to and from site, along with isolation periods should anyone exhibit symptoms consistent with COVID-19. RNC has also employed a full-time nurse specifically to monitor the status of people entering and leaving site. In order to minimize potential disruptions to supply chains, RNC continues building additional critical supplies beyond normal levels with run-of-mine ore stockpiles currently at 106kt.

VALUATION AND TARGET

We are maintaining our Buy recommendation and 52-week target price of \$1.20 per share. Our valuation methodology remains an equally weighted target multiple of 1.0x NAVPS_{5%} and an 8.0x 2020e P/CF multiple. RNC Minerals currently trades at 0.3x P/NAV and 2020E CF of 4.0x versus the small-mid tier peer average of 0.8x and at and 5.4x.

RNC Minerals Corp. - Summary Sheet

Rating	BUY	Basic Shares (MM)	608.2	Cantor Fitzgerald
Target Price	\$1.20	Diluted Shares (ITM / FD) (MM)	643.4	Matthew O'Keefe
Share Price	\$0.43	Basic Mkt Basic Mkt Cap (C\$MM)	261.3	416-849-5004
Potential Return	202%	Enterprise Value (C\$MM)	254.0	matthew.o.keefe@cantor.com

BALANCE SHEET					
C\$MM, Jun30.YE	2018A	2019A	2020E	2021E	2022E
Assets					
Cash	1.3	34.7	88.0	174.5	263.7
Other Current Assets	11.0	24.0	21.6	21.6	21.6
Current Assets	11.0	58.7	109.6	196.1	285.3
Non-current Assets	47.1	119.1	122.1	124.1	125.6
Total Assets	58.0	177.8	231.7	320.1	410.9
Liabilities					
Current Liabilities	29.9	32.2	29.3	29.3	29.3
Long Term Debt	0.3	30.8	31.0	31.0	31.0
Other Liabilities	1.6	22.5	22.3	22.3	22.3
Total Liabilities	31.9	85.5	82.7	82.7	82.7
Shareholder Equity	26.1	92.3	149.0	237.4	328.2

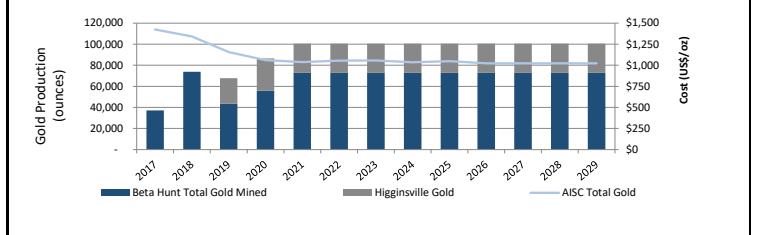
INCOME STATEMENT					
C\$MM, Jun30.YE	2018A	2019A	2020E	2021E	2022E
Total Revenue	128.8	128.8	197.1	251.3	257.1
Operating Costs	101.7	97.9	110.1	124.5	125.5
G&A	7.3	14.8	12.7	12.7	12.7
Other	-	-	-	-	1.0
Other	-	-	-	-	-
EBITDA	20.7	13.0	81.5	114.1	118.9
Depreciation	7.9	9.3	5.5	3.1	3.5
Unusual/Other Items	15.7	9.4	5.5	3.1	4.5
EBIT	12.9	12.9	81.5	114.1	117.9
Interest Expense	-	-	-	-	-
EBT	(0.7)	26.7	56.3	85.6	90.5
Taxes	(0.5)	(0.8)	(13.0)	(25.7)	(27.1)
Other	(9.8)	(34.4)	(13.1)	(22.9)	(26.8)
Net Income (Reported)	(10.0)	(6.9)	56.1	88.4	90.8
Net Income (Adjusted)	(10.0)	(6.9)	56.1	88.4	90.8
EPS (Adjusted) (\$/sh)	\$ (0.02)	\$ (0.01)	\$ 0.09	\$ 0.15	\$ 0.15
Average shares (MM)	446.3	607.8	608.0	608.0	608.0

CASH FLOW STATEMENT					
C\$MM, Jun30.YE	2018A	2019A	2020E	2021E	2022E
Cash Flow from Operations					
Net Income	(10.0)	(6.9)	56.1	88.4	90.8
Non-Cash Items	8.0	16.8	13.5	3.1	3.5
WC changes	-	(4.2)	(1.1)	-	-
Total CF Operations	(8.3)	15.2	65.5	91.5	94.3
CF Operations(\$/sh)	\$ (0.02)	\$ 0.02	\$ 0.11	\$ 0.15	\$ 0.16
Cash Flow from Investing					
Capital Expenditures	(10.5)	(47.0)	(12.2)	(5.0)	(5.0)
Other Investments	(8.5)	(0.2)	-	-	-
Total CF Investing	(18.9)	(47.2)	(12.2)	(5.0)	(5.0)
Cash Flow from Financing					
Debt Financing	3.9	36.3	-	-	-
Equity Financing	1.6	36.2	-	-	-
Options & Warrants	12.0	2.9	0.1	-	-
Repayments & Costs	(9.1)	(9.7)	(0.0)	-	-
Total CF Financing	4.2	65.3	(0.1)	-	-
Change In Cash	(23.1)	33.3	53.3	86.5	89.3
Free Cash Flow	(18.8)	(31.8)	53.3	86.5	89.3

VALUATION DATA					
	2018A	2019A	2020E	2021E	2022E
P/E	NM	NM	4.7x	3.0x	2.9x
P/CF	NM	17.2x	4.0x	2.9x	2.8x
P/NAV			0.33x		
EV/EBITDA	12.3x	19.6x	3.1x	2.2x	2.1x
FCF Yield	NM	NM	0.2x	33%	34%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

	Beta Hunt			Higginsville			Total (oz)
	Mt	Grade (g/t)	Gold (oz)	Mt	Grade (g/t)	Gold (oz)	
P&P	3.4	2.8	310,000	NA	NA	NA	310,000
M&I	10.1	2.9	944,000	19.1	2.0	1,242,000	2,186,000
Inferred	4.1	3.1	406,000	10.6	2.0	682,000	1,088,000
M&I+I	14.2	3.0	1,350,000	29.7	2.0	1,924,000	3,274,000
Dumont Nickel	Mt	Ni (%)	Co (%)	Ni (Mlbs)	Co (Mlbs)	NiEq%	NiEq (kt)
Reserves (P&P)	1,028	0.27	0.011	6,082	243	0.30	6,690
M&I Resource	1,666	0.27	0.011	9,750	394	0.29	10,735
Inferred	500	0.26	0.010	2,862	112	0.29	3,142
Total M&I+I	2,165	0.26	0.011	12,612	506	0.29	13,877

OPERATING STATISTICS						
Production		2018A	2019E	2020E	2021E	2022E
Average Throughput	(tpd)	1,422	2,094	2,975	3,500	3,500
Average Gold Grade	(g/t)	1.4	2.7	2.5	2.3	2.4
Total Gold Produced	(oz)	73,801	64,277	86,588	94,709	96,894
AISC Gold Produced	(US\$/oz)	1,341	1,155	1,101	1,034	1,042



PROJECT SUMMARY - Dumont Nickel (100% Basis; 30+ year Project)			
	2019 DFS	Cantor	
Production			
Throughput (ktpd)	52.5 - 105	52.5 - 105	
Ni (Mlbs/yr)	84.1	89	
C1 Costs Net (US\$/lb)	4.30	3.12	
Capital Expenditures			
Upfront (\$M)	1,268	1,283	
Expansion (\$M)	997	983	
Sustaining (\$M)	823	813	
Economics			
NPV8% (US\$M)	\$1,137	1,320	
IRR (%)	15.9%	18.3%	

NET ASSET VALUE		Target Price Breakdown			
Asset	Valuation (NAV (\$M))	\$/Share	NAV Valuation		
Beta Hunt	1.0x DCF5%	454.7	\$0.74		
HGO	1.0x DCF5%	232.9	0.38	Mining Assets	\$1.26
Dumont (28%)	0.2x DCF8%	84.5	\$0.14	Financial	\$0.01
Total Mining Assets		772	\$1.26	Total	\$1.28
Pro-Forma WC		38	\$0.06	Target Weightings	
Debt		(31)	-\$0.05	NAV	50%
Net Financial Assets		7	\$0.01	P/CF (FTM)	50%
Total		\$779	\$1.28	TARGET PRICE	\$1.20

INPUT PRICES					
	2018A	2019A	2020E	2021E	2022E
Gold (US\$/oz)	1,268	1,451	1,746	2,000	1,800
Nickel (\$US/lb)	5.00	6.31	7.00	7.50	8.00
Cobalt	32	15	15	15	20
Platinum	872	864	864	864	900
Palladium	1,027	1,524	1,524	1,524	1,400
Key Currencies					
CDN:USD	0.75	0.75	0.75	0.75	0.78

Source: Consensus data - Factset, Historical Data - Company Filings, Forecasts/estimates - Cantor Fitzgerald Canada

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The analyst responsible for this report *has not* visited the material operations of RNC Minerals Corp. No payment or reimbursement was received for related travel costs.

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BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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