

## Resources

# Auryn Resources Inc. | AUG - \$1.55 - NYSE | Buy

## Company Update

### Stock Data

52-Week Low - High	\$0.85 - \$1.84
Shares Out. (mil)	94.51
Mkt. Cap.(mil)	\$146.49
3-Mo. Avg. Vol.	161,207
12-Mo.Price Target	\$3.25
Cash (mil)	C\$5.7
Tot. Debt (mil)	C\$0.0

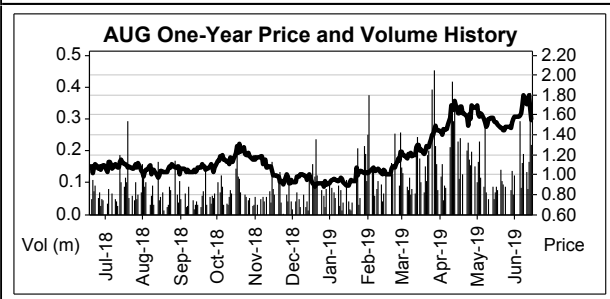
Cash (mil): Cash is as of last reported quarter and does not include any intra-quarter announced changes.

### EPS C\$

Yr Dec	—2017—	—2018—	—2019E—
		Curr	Curr
1Q	(0.01)A	(0.04)A	(0.02)A
2Q	(0.01)A	(0.05)A	(0.03)E
3Q	0.02A	(0.08)A	(0.03)E
4Q	(0.01)A	(0.03)A	(0.02)E
YEAR	0.00A	(0.21)A	(0.11)E

### Revenue (C\$ millions)

Yr Dec	—2017—	—2018—	—2019E—
		Curr	Curr
1Q	0.0A	0.0A	0.0A
2Q	0.0A	0.0A	0.0E
3Q	0.0A	0.0A	0.0E
4Q	0.0A	0.0A	0.0E
YEAR	0.0A	0.0A	0.0E



## AUG: Drill Results Demonstrate Significant Project Potential

On June 13, 2019, AUG announced assay results from eight historical drill holes at its Sombrero project. The drill holes showed significant copper and gold grades over strong widths. More encouraging, was that these results were not from AUG's top targets on the property. Thus, we view the results as a significant positive and we are reiterating our Buy rating and \$3.25 price target.

**All eight historical holes show significant gold and copper mineralization.** On June 13, 2019, Auryn resources announced assay results from the eight historical drill holes from a prior operator of the Sombrero project. All eight holes showed significant gold and copper mineralization with the best intercept grading 0.58% copper equivalent over 116 meters.

**Sombrero clearly has the potential to be a world class copper/gold asset.** While the grades of the intercepts are encouraging as they are in line with other large copper/gold deposits in the region, we feel it is important to note a few things about these holes. First, AUG did not choose the location of these holes and they were not drilled with the intent of discovering copper and gold. Second, the eight holes were on the company's Fierrazo target, which is one of six targets on the project and not the company's top target. Lastly, we note the mineralization occurred in host rock that was not anticipated to carry significant copper and gold grades, which opens the door for the company to see wider intersections of mineralization when it is able to drill the project in the future, in our opinion.

**Reiterating rating and target.** While we do not believe these results provide us with enough justification to increase our valuation of AUG, we do see them as a significant positive for the company. We also note that the negative market reaction to the results could be driven by a combination of factors. For one, the stock has significantly outperformed its peers in recent months, while copper and gold price performance has been relatively poor. Additionally, a back of the envelope resource calculation of Fierrazo could mislead investors to believe the project doesn't have enough scale. However, we look at these results as an indication of grade and thickness potential for the larger targets on the project and note the potential for a significant deposit increased, in our view. Thus, we are reiterating our Buy rating and \$3.25 price target.

## VALUATION

We base our valuation of Aurn Resources on a sum of the parts analysis. We assign a value of \$62 million to Committee Bay, \$79 million to Homestake Ridge, \$20 million to Gibson MacQuoid, \$100 million to the company's assets in Peru, and \$50 million for near-term exploration upside. To this we add \$5.7 million in cash to arrive at a value of \$317.2 million for AUG. We divide this by a fully diluted share count of 99.9 million to arrive at \$3.17 per share. We round this up to reach our \$3.25 price target and we are reiterating our Buy rating.

Factors that could impede AUG's ability to reach our price target include, but are not limited to: unanticipated dilutive transactions (M&A or capital raising), disappointing exploration results, election by management to discontinue option agreements in Peru, loss of key personnel, underperformance of metals prices, increases in exploration costs, and other unforeseeable events.

## RISKS

- **Political risk.** Natural resource companies are subject to significant political risk. Although most mining jurisdictions have known laws, potential exists for these laws to change. AUG has diversified its political risk by acquiring assets in multiple jurisdictions. Additionally, exploration companies tend to receive less regulatory scrutiny than producers or developers. Thus, we believe AUG has less political risk than most mining companies, but still has some political risk exposure.
- **Commodity price risk.** All natural resource companies have some form of commodity price risk. This risk is not only related to final products but, can also be in regards to input costs and substitute goods. AUG's most significant commodity price risk is to the price of gold, but we note the company also has some exposure to silver and copper prices as well as input prices for energy and labor. There is also potential that as the company makes additional discoveries it may gain new commodity price risks that cannot be foreseen today.
- **Pre-revenue risk.** As a pre-revenue company, AUG has additional risk for investors. There is no guarantee that the company will ever reach revenue or positive cash flow and it is likely the company will need additional capital infusions to do so.
- **Operational and technical risk.** Natural resources companies have significant operational and technical risks. Despite completing NI 43-101 compliant (or similar) resource estimates, deposits can still vary significantly compared to expectations. Additionally, numerous unforeseeable issues can occur with operations and exploration activities. Given the early stage nature of AUG's prospects its biggest technical risk is to geological interpretation and the potential of the company to use geology to discover or extend resources.
- **Market risk.** Although most natural resource companies are more closely tied to individual commodity price performance, large business cycle forces or economic crises can impact a company's valuation significantly. AUG has similar market risk to other early-stage gold exploration companies.

Cautionary Note to US Investors: Estimates of Measured, Indicated and Inferred Resources

"Measured Mineral Resources" and "Indicated Mineral Resources." US investors are advised that although these terms are required by Canadian regulations, the US Securities and Exchange Commission (SEC) does not recognize them, and describes the equivalent as "Mineralized Material." US investors are cautioned not to assume that these terms are any form of guarantee.

"Inferred Mineral Resources." US Investors are advised that while this term is required by Canadian regulations, the SEC does not recognize it. "Inferred Mineral Resources" are not delineated with a great deal of certainty and should not be considered likely to be brought into production in whole or in part.

## COMPANY DESCRIPTION

Auryn Resources Inc, formerly Georgetown Capital Corp, is a Canada-based junior exploration company. The Company is focused on the acquisition, exploration and development of mineral resource properties. The Company holds interest in the Committee Bay Project in Nunavut, Canada. The Committee Bay Project consists of approximately 210,000 hectares situated along the Committee Bay Greenstone Belt (the CBGB) over 180 kilometers North East of the Meadowbank mine and extends approximately 300 kilometers northeast. The Company holds rights to approximately two gold properties in the Tacna province of Southern Peru, the Huilacollo and Curibaya properties. The Huilacollo and Curibaya properties consists a total of approximately 33,600 hectares within the prolific Pliocene gold/silver (Au/Ag) epithermal and Miocene copper/aurum (Cu/Au) porphyry belts respectively. *Source: Eikon as of October 28, 2017*

## AUG Key Estimates

Amounts in CAD\$ million	2017A	1Q18A	2Q18A	3Q18A	4Q18A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019E
Revenue	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	6.2	3.4	4.8	9.0	2.5	19.7	1.9	3.3	3.3	2.3	10.8
Operating Income	(6.2)	(3.4)	(4.8)	(9.0)	(2.5)	(19.7)	(1.9)	(3.3)	(3.3)	(2.3)	(10.8)
Other Expenses	(5.9)	0.0	(0.5)	(1.5)	(0.1)	(2.0)	0.0	(0.0)	(0.0)	(0.0)	(0.1)
Pretax Income	(0.3)	(3.5)	(4.4)	(7.5)	(2.4)	(17.7)	(1.9)	(3.3)	(3.3)	(2.3)	(10.7)
Taxes	-	-	-	-	-	-	-	-	-	-	-
Net Income	(0.3)	(3.5)	(4.4)	(7.5)	(2.4)	(17.7)	(1.9)	(3.3)	(3.3)	(2.3)	(10.7)
Basic EPS	(\$0.00)	(\$0.04)	(\$0.05)	(\$0.08)	(\$0.03)	(\$0.21)	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.11)
FD EPS	(\$0.00)	(\$0.04)	(\$0.05)	(\$0.08)	(\$0.03)	(\$0.21)	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.11)
FCF to Equity	0.0	8.7	(5.6)	(0.4)	(3.5)	(0.8)	-	-	-	-	-

Source: SEDAR Filings, ROTH Capital Partne

Note: Aurn reports under IFRS

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#### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 06/16/19	
			Count	Percent
Buy [B]	264	74.16	133	50.38
Neutral [N]	48	13.48	25	52.08
Sell [S]	3	0.84	1	33.33
Under Review [UR]	41	11.52	20	48.78

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

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**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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