

Auryn Resources, Inc. (AUG)
Rating: Buy

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Sombrero Surface Exploration Unveils Mineralized Body at Ccello; Further Potential at Depth; Reiterate Buy; PT Lower

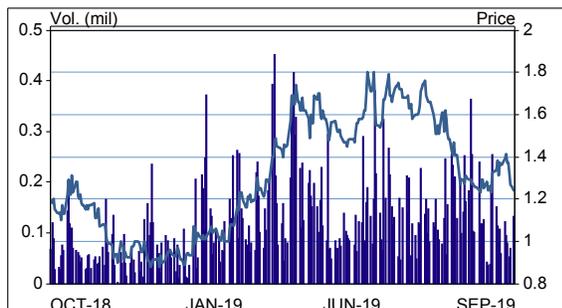
Stock Data		09/30/2019
Price		\$1.24
Exchange	NYSE American	
Price Target		\$2.00
52-Week High		\$1.84
52-Week Low		\$0.85
Enterprise Value (M)		\$117
Market Cap (M)		\$118
Shares Outstanding (M)		95.2
3 Month Avg Volume		135,854
Short Interest (M)		0.12

Balance Sheet Metrics	
Cash (M)	\$3.3
Total Debt (M)	\$2.5
Total Cash/Share	\$0.03

Cash (M): Note: Cash includes marketable securities and includes proforma value for the first tranche of the bridge loan.

Total Debt (M): Debt accounts for first tranche of bridge loan on proforma basis.

EPS (C\$) Diluted			
Full Year - Dec	2018E	2019E	2020E
FY	C\$(0.21)A	C\$(0.18)	C\$(0.18)



Follow-up exploration efforts at Ccello yield promising results. On September 30, 2019, Auryn announced results from a rock sampling program at its Ccello project that is located within the southern portion of the Sombrero district in Southern Peru. Effective regional stream sediment sampling that was undertaken in FY17 returned anomalous silver responses and has ultimately led to the discovery of a high-sulphidation alteration system within the property. This mineralized system is currently known to span an area of about 2.0 x 1.5 kilometers (km), as defined by the firm's surface mapping and thereby represents a significant footprint that may be hosting favorable silver grades.

Anomalous silver grades at surface with indications of mineralization at depth. Management currently believes that a 500-meter area containing massive silica structures in association with quartz-alunite alteration, as well as silver mineralization, is located within the larger clay alteration zone. Further, a series of rock grab samples affirm the grade potential of this large silica section, with the various assayed rocks returning grades as high as 981 grams per tonne (gpt), 72.1 gpt, 64.4 gpt, 40.6 gpt, and 26.6 gpt silver, respectively. We note that elevated arsenic and antimony values across the greater clay altered area have shown the potential for a shallow, precious metal target at depth, in addition to substantial silver mineralization at surface.

Continued exploration potential. We highlight that structural and geochemical data at surface have indicated positioning within the upper limits of a high-sulphidation system that are in support of this hypothesis. In turn, and given the nature of precious metal distribution in such systems, these results warrant the pursuit of supplementary subsurface exploration. This sort of discovery once again falls in line with the overall potential of the Sombrero district, where the firm anticipates receiving drill permits for the Sombrero Main project in the near future.

Closing of first C\$3M tranche of C\$6M bridge loan. On September 13, 2019, Auryn announced that the firm had closed the first tranche of its previously announced bridge loan facility. The C\$6M loan consists of two C\$3M tranches, where the first tranche has been received and is expected to be used to fund general working capital. The second tranche is contingent upon mutual agreement of both parties. The loan carries interest of 10% per annum, while Auryn retains a penalty-free prepayment option that is effective 90-days after advancement. We believe that the bridge loan provides a lower cost of capital than an equity raise, even when accounting for the 500,000 bonus warrants with a \$2.00 strike and a three-year term that management has issued in relation to the loan.

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We maintain our Buy rating but lower our PT to \$2.00 per share from \$2.10 per share. The lower price target is a result of updated financials, specifically regarding the firm's cash balance, and share structure related to the recent bonus warrants issued in relation with the bridge loan. There is no change to our implied valuation of Auryn's projects. Our valuation remains based on an unchanged in situ valuation of the firm's resources of \$129.7M. We assign an unchanged \$50M valuation to the Sombrero property, and value Auryn's non-core assets at \$30M. We then add value for the firm's cash and marketable securities balance to arrive at our overall valuation of \$210.5M, for a rounded value of \$2.00 per share.

Risk. (1) Commodity price risk; (2) operating and technical risk; (3) and financial risk.

Auryn Resources*Figures below in 000's of U.S. dollars*

Value of resources at Committee Bay and Homestake	\$129,692	valued at ~\$50 per oz (peer average * 1.1x multiple)
Plus Sombrero copper-gold project in Southern Peru	\$50,000	increased from \$30 million as of 5/15/2019 given incremental trenching and core sampling results
Plus other exploration assets	\$30,000	includes Huilacollo, Curibaya, Sambalay, Salvador, Banos Del Indio, and Gibson MacQuoid
Plus cash & equivalents	\$3,309	Proforma for acquisition of concessions in Peru and first tranche of C\$6M bridge loan
Less debt	-\$2,492	Proforma for first tranche of bridge loan including 10% interest
Total current value	\$210,508	1.32 C\$/US\$ exchange rate as of 9/30/19

Common shares	95,182	as of 9/12/19
Options	8,678	as of 9/12/19
Fully diluted shares	103,860	as of 9/12/19

Auryn (AUG) Share price	\$ 1.24	per share	as of 9/30/19
Auryn (AUG) Net Asset Value	\$ 2.03	per share	
Rounded (\$0.10) price target	\$ 2.00	per share	38.0% discount to price target

Source: H.C. Wainwright & Co. estimates.

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RETURN ASSESSMENT

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Distribution of Ratings Table as of September 30, 2019					
Ratings	Count	Percent	IB Service/Past 12 Months		
			Count	Percent	
Buy	360	92.31%	124	34.44%	
Neutral	29	7.44%	3	10.34%	
Sell	0	0.00%	0	0.00%	
Under Review	1	0.26%	1	100.00%	
Total	390	100%	128	32.82%	

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