
Ticker:	RYR CN	(Net) cash:	C\$5.5m	Project:	Nariño Province
Market cap:	\$22m	Price:	C\$0.13/sh	Country:	Colombia

Belt-controlling position as Colombian exploration heats up with majors entering

Moving swiftly in the wake of the FARC peace deal, Royal Road has pegged a large licence position in the prospective SW of Colombia, a package we see as unrivaled among globally listed juniors in terms of size, prospectivity, and lack of exploration. The 4,500km² package sits across the border from Cascabel (1Bt @ 0.9% Cu eq) in an area previously unexplored due to conflict. In our view, this is one of the last unexplored Tier I Andean porphyry belts. Barrick has recently moved to a 12.5% holding in the company, highlighting both the strategic nature of the license-holding and rejuvenated strategic interest in Colombia. Recent exploits at Piedra Iman and Los Andes in Nicaragua underscore the company's technical ability and commitment to making a genuine and substantial discovery.

Company overview

Royal Road Minerals is a Toronto-listed copper-gold explorer focused on Latin America. The core asset is a 4,500km² land package in SW Colombia covering an entire magmatic belt segment down to the Ecuadorian border (Figure 1). The company also holds a portfolio of licenses in Nicaragua (Figure 2) under a 50/50 strategic alliance with Hemco, a subsidiary of Colombia's largest gold producer Grupo Mineros.

Barrick deal: On January 24, 2017 Barrick acquired 10m shares for C\$1.6m (18.5% premium) to increase its stake in the company to 12.5%. *Our view: Barrick's move is a watershed moment, marking major producers' return to this historically conflict-ridden and under-invested country. Given Colombia's globally unmatched combination of Tier I prospectivity and near-complete lack of modern exploration, majors and juniors alike are now increasing their attention on the country.*

Capital structure: Royal Road has 171m shares outstanding, with 44.6m warrants (\$0.10-0.60) and 8m options (\$0.15 & \$0.5) for 224m shares fully diluted. Barrick is the largest shareholder (12.5%), followed by Power Corporation of Canada (10%), Phoenix Gold Fund (8%), and Sprott Inc (5%). The company began trading on the TSX-V on April 20, 2015.

Management: CEO Tim Coughlin is the Founder of Lydian International and discovered the +5Moz Amulsar gold deposit. He is an expert in Colombian metallogeny and exploration through his PhD in Andean tectonics and from his tenure as Anglo Gold Ashanti's Chief Geologist in the early 2000s. Royal Road has deep ties to Colombian government, industry, and society both in Bogotá and Nariño Province through Daniel De Narvaez, Director, and Jenny Arias, VP Responsible Development.

Nariño Province: the missing piece of a Tier I Andean porphyry belt

Royal Road currently has >4,500km² under application in Colombia's southernmost Nariño Province. This area used to be a conflict zone, hence has seen minimal modern exploration, but contains eight mapped and un-drilled porphyry centers, two historic gold mines, and multiple recorded mineral occurrences. Parallel to drill-testing the more advanced targets, Royal Road will run a belt-scale greenfield reconnaissance program in 2018, starting with a full airborne magnetic and radiometric survey.

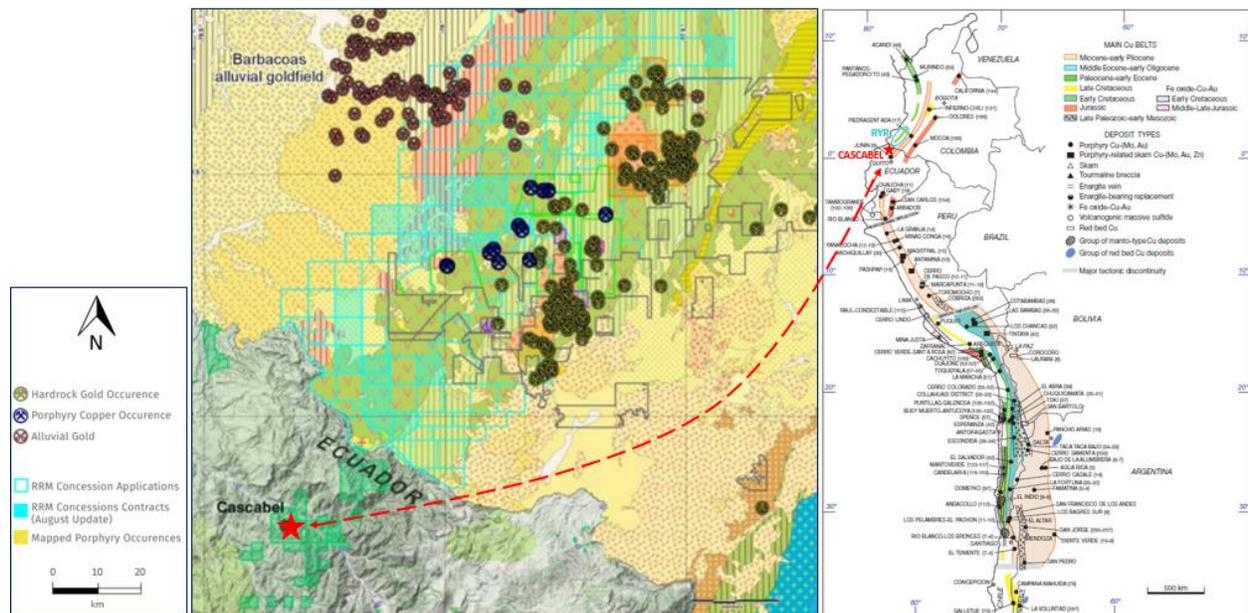
Eocene porphyry belt: The Western portion of the license package covers a segment of the magmatic belt that hosts SolGold's Cascabel to the SW (1Bt @ 0.9% Cu eq) and the Mandé batholith to the NE (Figure 1) and is widely considered the last underexplored Tier I porphyry belt in the Andes. The seminal paper on

Andean metallogeny, Sillitoe and Perelló (2005) reads, “once the sociopolitical situation improves in Colombia, the Paleocene to middle Eocene belt of the Western Cordillera could also provide new discoveries.”

Our view: In porphyry exploration, and particularly in the well-explored Andes, being ‘along-trend’ of one or more major deposits is paramount. Conceptually, this is related to the idea that magmas emerge from a subduction zone in linear belts, and the observation that magma endowment changes over time. In Chile, for example, the Eocene-Oligocene belt contains multiple monsters, Chuquicamata, Escondida, Collahuasi, El Salvador etc., whereas the adjacent but older Cretaceous-Paleocene belt hosts zero systems of similar scale. Also noteworthy is that Andean belts never host only one excellent deposit – they either host multiple or none. The Ecuador-Colombia Eocene belt has long been considered highly prospective but was never explorable in the past. The discovery of 20km-away Cascabel, a Tier I mineral system irrespective of block-cave economics, proves the belt’s potential.

Oligocene-Miocene gold belt: To the East of the porphyry belt, across a major NE-SW structure, Royal Road’s licenses cover the late-Oligocene to early-Miocene intrusion-related gold belt. The land package contains two historic gold mines, La Golondrina (with a 2015 43-101 but no resource estimate) and La Redención. Very little data exists on this belt, but material shedding off it gave rise to Colombia’s most prominent alluvial gold fields to the West, suggesting it hosts rich gold deposits at surface.

Figure 1. Royal Road licences and metallogeny



Sources: Royal Road, Sillitoe and Perelló (2005), SCP; note SCPe sketched extension of green Eocene belt in northern Colombia. Original caption from Sillitoe and Perelló reads, “obvious longitudinal gaps (e.g. Colombia and Ecuador) reflect paucity of data.” Cascabel was since discovered and dated at 39Ma (Eocene), adding a key data point to extend the belt South.

Landmark ECOMÚN agreement: In 4Q17, Royal Road announced an agreement with ECOMÚN, a joint social and economic body between FARC and the government born out of the peace deal for the reintegration of ex-FARC combatants. Among the key terms outlined, ECOMÚN will work decisively to obtain community and indigenous support in Royal Road’s areas of influence. ECOMÚN and Royal Road will also collaborate to formalize illegal mining and eradicate the use of mercury by setting up small-scale community mining operations. Royal Road provides a 1% net smelter royalty each to ECOMÚN and community institutions, subject to a \$10m buy-back per royalty.

Permitting: Royal Road is permitted for surface prospecting, not including drilling, on the entire Nariño 4,500km² land position. Already 2,000km² have passed the initial conversion phase to concession contracts, which requires approval by local mayors and councils and is thus a significant milestone. The final step is 'public audience' in which the mining agency presents to the local community, expected on a rolling basis starting in 2Q-3Q18. Once concessions are granted, annual fees are incurred, amounting to about \$2m per annum for the entire package. Royal Road intends to efficiently work through the current ground position and downsize to high-priority areas.

Our view: We are told that a backlog of drill permits in Colombia is currently causing delays. Ironically, this suits Royal Road well as 2018 is slated for surface work and regional reconnaissance and gives the company more time to assess at the belt-scale before permit fees come due.

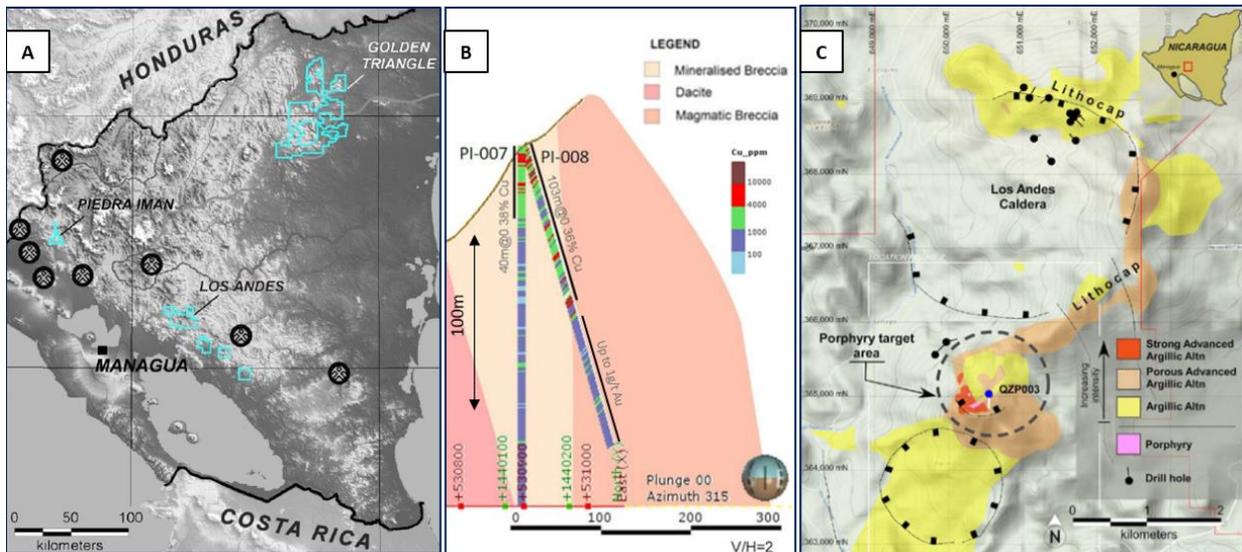
Nicaragua portfolio: Royal Road's sandbox ahead of Colombia 'big leagues'

Royal Road acquired a portfolio of licenses in Nicaragua (Figure 2A) through the 1Q17 takeover of Caza Gold and formed a strategic alliance in 3Q17 with partner Hemco, a subsidiary of Colombia's largest gold producer Grupo Mineros. The 50/50 partnership will jointly explore the combined licenses with the declared focus to discover and define reserves >2Moz Au eq.

Piedra Iman drill results: Piedra Iman is an IOCG (iron-oxide-copper-gold) target in NW Nicaragua 30km north of B2Gold's El Limón mine. Historic 1970s Noranda drilling showed 37m @ 1.1% Cu and 9-15m @ 1.4-1.7% Cu and was only sporadically assayed for gold but included a hit of 3.6m @ 6.3g/t Au. Following encouraging channel samples in 1H17, Royal Road reported initial drilling results from a nine-hole RC program, with highlights of 8m @ 9g/t Au and 31m @ 0.5% Cu in hole 6, 103m @ 0.36% Cu in hole 8, 40m @ 0.38% Cu in hole 7. These hits are from a single magmatic breccia but crucially, the gold sits below and outboard (hole 6) of the copper and appears to represent a separate mineralization event (Figure 2B), contradicting the hoped-for IOCG model. Given this new key insight, further drilling is not warranted at this stage. The remaining task now is to resample Noranda's underground channels where long high-grade gold intervals were reported and confirm that gold and copper are also separate at depth.

Our view: While management would have liked stronger initial results of course, they offer a blueprint for how Royal Road will execute on its core land holding in Colombia. The company entered Piedra Iman with a specific, well-formulated question: do gold and copper represent the same mineralizing event, and if yes, does the mineralization style support a >2Moz Au eq IOCG target? The company answered these germane questions swiftly and cheaply and will now move on to greener pastures, despite attention-grabbing hits such as 8m @ 9g/t Au. The qualities of (i) identifying the right question and (ii) moving on swiftly from sub-par projects are precisely what is need for the herculean task ahead, i.e. assessing a huge prospective land package.

Figure 2. Nicaragua licenses and projects



Source: Royal Road; A: RYR Nicaragua licenses, B: Piedra Iman cross-section; C: Los Andes porphyry alteration map

Los Andes porphyry target: The advanced Los Andes target is next-in-line and will be drill-tested in 2018. Alteration mapping and extensive spectral analysis delineated a broad advanced argillic zone around an outcropping porphyry dyke (Figure 2C). The sole drill hole into the project (QZP003) collared in the dyke and hit an adjacent breccia with up to 30% pyrite. Together, the dyke, the surface alteration, and the pyritic breccia, all look like ‘smoke’ from a deep porphyry Cu core. Consistent with this idea, 3D modelling of 2015 Caza geophysical data shows an anomalous body c. 500m below the mapped porphyry outcrop. The company plans to refine the target with surface geochemistry and ground magnetics, and then drill-test with a handful of deep holes later in the year. Drill permits have been granted and the company will now pursue social license.

Our view: The Los Andes project is a methodically worked-up porphyry target, combining geologic mapping with spectral data and geophysics to arrive at a coherent and testable hypothesis. The data collected so far supports a potassic core at depth and warrants drill-testing. However, even in the event of a technical success, the economic hurdles for a 500m deep porphyry remain substantial. Most important at this stage, in our view, is the level of comfort in Royal Road’s porphyry exploration abilities investors can draw from this project.

Golden Triangle: This project lies in NE Nicaragua (Figure 2), in a well-known mining district with >8Moz historic production. The licences surround strategic partner Hemco’s Bonanza Mine, a combined open-pit and underground low-sulfidation epithermal. As near-mine exploration targeted this specific mineralization style with a model-driven approach, the project has never been systematically prospected for porphyries. Mapping and sampling is underway, initially focused on two known skarn showings, El Turco (21m @ 2.2g/t Au and 16m @ 4.3g/t Au in trenches) and Bambanita (up to 68g/t in rock chips). Also in 2018, the company plans to fly airborne magnetics and commence drilling if any obvious near-surface targets emerge.

Why we like Royal Road

1. Land package: Dominant 4500km² in “missing piece” of Tier I Andean belt, across from Cascabel
2. Management: Technically strong, track record of success (+5Moz Amulsar discovery)
3. Social license: Landmark ECOMÚN deal to guarantee local support
4. Strategic attention: Barrick is largest shareholder

Catalysts

- 2018: Ongoing mapping and sampling on Nariño, Golden Triangle licenses
- 1H18: Los Andes surface geochemistry, ground magnetics
- Mid-18: Los Andes drilling
- 2H18: Initial Nariño concession contracts (drill permits) granted
- 4Q18-2019: Nariño belt-scale geophysics
- 2H18: Golden Triangle drilling

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