

# Fundamental

## Research Corp.

*Investment Analysis for Intelligent Investors*

November 30, 2017

### Kerr Mines Inc. (TSX: KER / OTC: KERMF / FRA: 7AZ1) - Initiating Coverage: High Grade Historic Gold Producer in Arizona

**Sector/Industry: Junior Resource**

**www.kerrmines.com**

#### Market Data (as of November 30, 2017)

Current Price	C\$0.305
Fair Value	C\$0.69
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.09 - C\$0.41
Shares O/S	235.41 M
Market Cap	C\$71.80 M
Current Yield	N/A
P/E (forward)	N/A
P/B	8.1x
YoY Return	238.9%
YoY TSX	6.8%

\*see back of report for rating and risk definitions.

\* All figures in C\$ unless otherwise specified.



#### Investment Highlights

- Kerr Mines Inc. ("company", "Kerr") is advancing the fully permitted Copperstone project in Western Arizona, U.S. The project is a historic producer having produced 514 Koz of gold between 1987 and 1993. (Koz - thousand ounces)
- A feasibility study ("FS") was completed in 2010, on a high-grade resource totaling 0.31 Moz (10.3 gpt) in the measured and indicated categories, and 0.13 Moz (12.2 gpt) in the inferred category. (Moz – million ounces)
- Kerr has a brand-new management team and board. The Chairman and the CEO own 34.4% of the outstanding shares.
- The company commenced an aggressive drill program in August 2017 to upgrade and expand the 2010 resource estimate. Initial results (announced in October 2017), combined with historic drill results, resulted in a discovery of a zone parallel to the main Copperstone zone hosting the resource estimate.
- The company is also planning to acquire another 541 hectares of exploration permits located 1,200 m north east of the Copperstone zone.
- A preliminary feasibility study ("PFS") is expected in Q1 2018. We expect a significantly robust PFS versus the 2010 FS primarily because of the potential for a significant increase in the resource estimate.
- Kerr is completing a \$5 million financing by issuing 16.67 million shares at \$0.30 per share. The company can also raise up to \$7.56 million as all outstanding options and warrants are in the money.
- **We are initiating coverage on Kerr with a BUY rating and a fair value estimate of \$0.69 per share.**

#### Risks

- The value of the company is highly dependent on gold prices.
- Exploration and development risks.
- The company may not be able to delineate the resource we used in our valuation models.
- Access to capital and potential share dilution.

#### Key Financial Data (FYE - June 30)

(C\$)	2015	2016	2017	2018 (3M)
Cash	\$476,136	\$412,662	\$5,065,452	\$2,726,563
Working Capital	-\$18,408,191	-\$16,529,873	\$2,784,073	\$2,303,335
PPE / Mineral Assets	\$18,356,147	\$18,294,458	\$18,156,653	\$17,470,885
Total Assets	\$21,015,826	\$25,267,868	\$25,662,990	\$22,346,743
Net Income (Loss)	-\$25,285,468	\$1,874,882	-\$1,336,137	-\$2,917,360
EPS	-\$0.22	\$0.01	-\$0.01	-\$0.01

## Overview

The company was formed in 1984 as Armistice Resources Limited, with a focus on mineral resource exploration and development. Its name was changed to Kerr Mines Inc. in 2014.

Since inception, several management teams have operated the company. Its property portfolio has also changed multiple times. The company ran into liquidity issues in 2016 due to a highly leveraged balance sheet. **Claudio Ciavarella, who had been a significant investor and a director of the company since 2010, became actively involved and orchestrated a turnaround.** Mr. Ciavarella has a strong entrepreneurial background and owns businesses in the Construction, Real Estate and Manufacturing Industries. Saudi-based businessman, Fahad Al Tamimi, was brought in as a major investor, and was subsequently appointed as the Chairman of Kerr in July 2016. Mr. Ciavarella was appointed as the CEO in April 2017, along with Martin Kostuik as the President and Director. Mr. Kostuik is a mining engineer with 25 years of experience, and was formerly with Luna Gold Corporation as the Senior Vice President of Operations and Development.

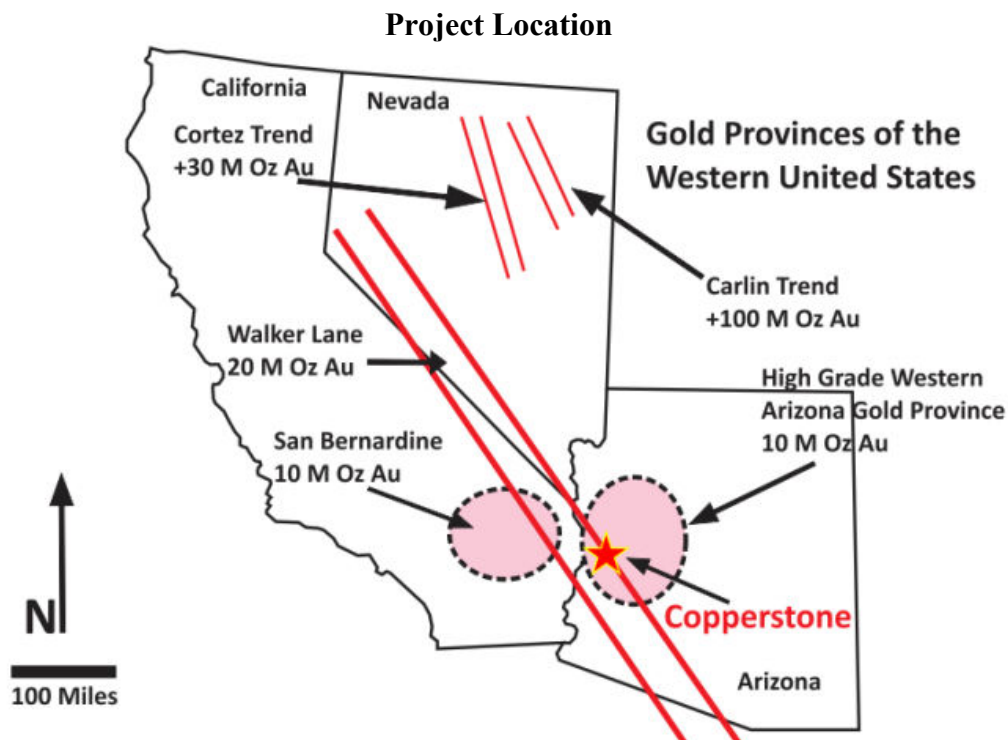
**Kerr's working capital improved from -\$16.53 million as of June 30, 2016, to \$2.30 million as of September 30, 2017.** The improvement primarily came from equity financings, non-core asset sales, and conversion of short-term debt to long-term debt. The company currently has \$9.92 million in long-term debt outstanding, all of which are held by Fahad Al Tamimi and Claudio Ciavarella. These two individuals also own 81.01 million shares, or 34.4% of the total outstanding shares, strongly aligning their interest with investors.

**The new management decided to focus exclusively on the Copperstone project, which was acquired by the company through a merger with American Bonanza for approximately 40 million shares in 2014 (valued at approximately \$19.8 million).** The company also holds a portfolio of projects in the Larder Lake Mining Division of Ontario, Canada. These projects were the core properties under the previous management.

## Copperstone Project – Ownership / Location / Infrastructure

Kerr holds a 100% leasehold interest in the Copperstone project, whose landholder is the Patch Living Trust (a family living trust). The current lease expires in 2026, with option to renew for one or more 10-year terms. The project is subject to a 6% production gross royalty, of which, 4.5% is due to a company controlled by Fahad Al Tamimi, and 1.5% payable to the Patch Living Trust.

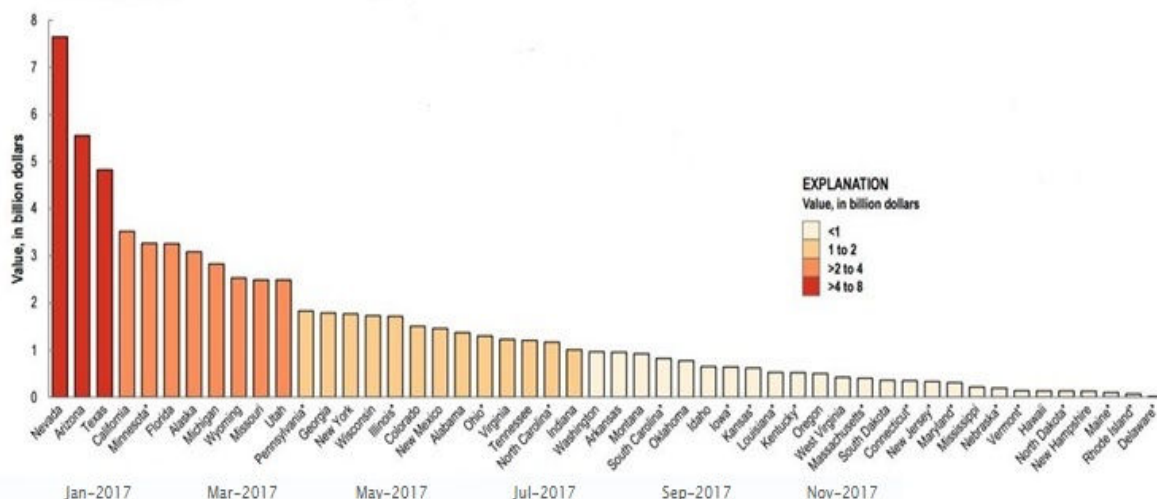
Copperstone (approximately 11,800 acres) is located in LaPaz County, Western Arizona, U.S., along the Walker Lane mineral belt.



Source: Company

**Arizona is a mining friendly jurisdiction and is the second largest producer of minerals (see chart below) in the U.S. behind Nevada.** Arizona is the largest copper producer, and a significant source of molybdenum in the U.S. According to the U.S. Geological Survey (USGS), in 2016, Arizona produced US\$5.6 billion worth of minerals (7.5% of the U.S. total), primarily copper, molybdenum, sand / gravel, and cement. Nevada is the largest producer with approximately US\$7.7 billion worth of minerals produced, or 10.3% of the U.S. total. Nevada's primary production is gold and copper.

### Mineral-Production in the U.S.



Source: USGS

The Copperstone property is approximately 16 km north of the closest town, Quartzsite. The project is accessible from Phoenix (106 km / 2 hour drive) on Interstate 10 to Quartzsite, and from Quartzsite on Arizona Highway 95. A 8 km unpaved road connects the property to Highway 95. A railroad passes 24 km north of the property.

The project is located across a flat and sandy desert in one of the driest regions in the U.S. However, groundwater can be accessed through water wells for mining operations. There are currently three permitted wells on the project. The property also has good connectivity to power, through an on-site substation, and a 69 kV power line. In addition to access to power and water, the project also has **considerable infrastructure**, including a 450 tpd processing facility, a fully permitted tailings storage facility, underground development and supporting infrastructure, offices, maintenance shops, and a laboratory building. **Copperstone's historic producer status is a major advantage, as it allows Kerr to re-commence production in a relatively short time frame and low CAPEX.**

**Processing Plant at Copperstone**



*Source: Company*

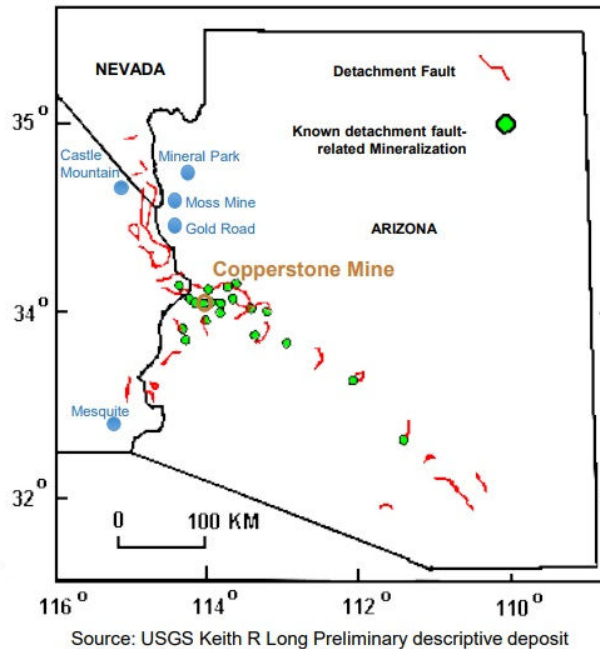
## Geology

Copperstone is located within the Basin and Range province of the south-western U.S. The Basin and Range Province contributes to almost all the copper, and a significant percentage of the gold and silver produced in the U.S.

Copperstone hosts a **detachment fault (low angle) related mineralization**, which is different from the conventional low-grade oxide gold deposits in the Basin and Range province. As there are not many deposits in the world with a similar mineralization as Copperstone, it is premature to generalize the advantages and disadvantages of deposits related to detachment faults. The following image shows the major detachment faults and

related mineral deposits in Arizona, California (south), and Nevada (south).

### Detachment faults and related mineral deposits



Source: USGS

The Copperstone gold deposit is related to the Moon Mountain or Copper Peak detachment fault. Gold occurs as native flakes within fault breccia, gouge and shear zones related to the faulting, and is typically associated with hematite, chlorite, quartz, manganese oxide and copper oxide mineralization.

Unlike most epithermal deposits where gold is held in veins and stockwork zones adjacent to the veins, Copperstone's gold mineralization consists of free gold within faults and open spaces. **This allows for significantly high gold recovery rates (approximately 90%) versus the conventional oxide deposits in Nevada (approximately 80%).** Also, the ores at Copperstone are not refractory. This is important as refractory gold ores may have ultra-fine gold particles, and are naturally resistant to recovery by standard recovery processes, such as cyanidation.

**The identified resource at Copperstone is of significantly higher grade than most of the deposits in the western U.S.** As shown, the average grade of 0.65 gpt is significantly lower than Copperstone's grade of 10.9 gpt.



### Gold Projects in the Western U.S.

	Project	Company	Location	Au grade (g/t, global)	Total Au equiv. oz	Annual Gold Production (est.)	Stage
1	Sleeper Gold	Paramount Gold Nevada	Nevada	0.34	6,573,452	83,500	PEA
2	North Bullfrog + Mother Lode	Corvus Gold	Nevada	0.26	2,730,155	150,000	PEA
3	Grassy Mountain	Paramount Gold Nevada	Oregon	0.82	1,904,087	53,000	PEA
4	Talapoosa	Timberline Resources	Nevada	1.01	1,684,150	55,000	PEA
5	Florida Canyon Mine	Rye Patch Gold	Nevada	0.56	1,522,700	75,000	PEA
6	Relief Canyon	Pershing Gold Corp.	Nevada	0.61	1,444,745	88,500	PFS
7	Gold Springs	TnMetals Mining Inc.	Nevada	0.54	768,000	48,000	PEA
8	Gold Bar Project	McEwen Mining	Nevada	0.94	722,000	65,000	FS
9	Moss Gold-Silver Mine	Northern Vertex Mining	Arizona	0.73	478,000	42,000	FS
10	Bruner Gold Project	Canamex Resources Corp	Nevada	0.66	353,737	36,000	PEA
11	Copperstone	Kerr Mines Inc.	Arizona	10.86	445,000	60,000	Upcoming PFS
	Average (excluding Copperstone)			0.65	1,818,102	69,600	

Source: FRC

### History

As the name suggests, Copperstone was first identified (in 1968) as a copper prospect. The first known drill hole on the property was by Newmont Mining (NYSE: NEM) in 1975. Newmont conducted a geophysical survey, and drilled a hole, but the hole was unsuccessful in identifying porphyry copper mineralization. In 1980, the Southwest Silver Company drilled six rotary holes. However, their results were never disclosed.

Cyprus-Amoco leased the property in 1980, and conducted a field evaluation and sampling program, which identified the potential for gold mineralization on the project. Cyprus drilled over 400 reverse-circulation ("RC") and 70 diamond drill holes in 1980 and 1985, and decided to advance the project to production. An open pit mining / heap leach operation (2,500 tpd) ran from 1987 to 1993. Production was suspended when the pit reached its economic limits. **Cyprus produced a total of 514,000 oz of gold from 5.60 Mt at an average grade of 0.089 opt (2.78 gpt).**

### Aerial View of the Open Pit



*Source: Company*

Several companies have drilled the property since 1993. A total of 1,153 reverse circulation and diamond core holes were drilled from 1975 to 2015. A summary of the historical drilling is shown below:

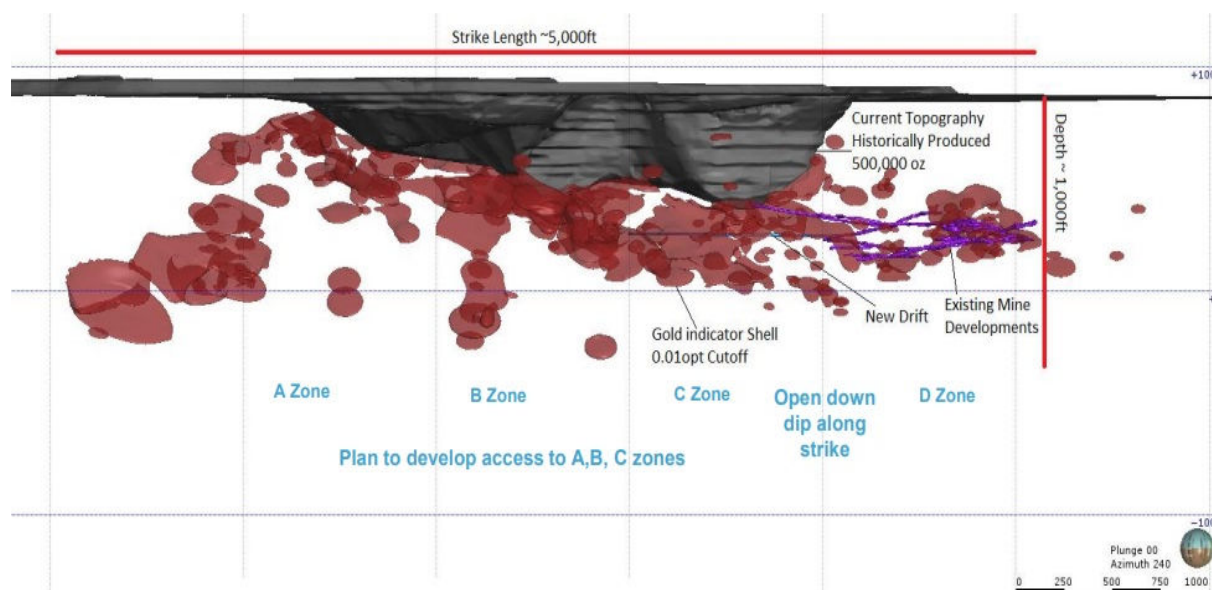
#### Historic Drill Programs

Company	Timeframe	Drill Holes Completed	Feet Drilled	Drilling Styles
Newmont	1975	1	Unknown	unknown
Southwest Silver	1980	6	Unknown	RC
Cyprus	1980-1986	589	225,435	Mostly RC
Santa Fe	1993	17	12,500	Mostly RC
Royal Oak	1995-1997	34	28,414	Mostly RC
Asia Minerals	1998-2000	26	19,589	RC pilot/core tail
Bonanza	2003-2005	263	169,977	RC pilot/core tail
Bonanza	2006-2008	69	57,395	RC pilot/core tail
Bonanza	2012 / 2013	162	14,247	Percussion
Kerr	2015	4	3,045	Diamond core

*Source: Company*

**American Bonanza (previously known as Asia Minerals) operated the project from 1998 up until its merger with Kerr in 2014.** Multiple drill programs were conducted during this period, focused on underground development and drilling from the pit bottom on the Copperstone Zone, primarily on A, B, C, and D shown below. The Copperstone zone now is identified to have a strike length of approximately 5,000 feet (1,525 m).

## Copperstone Zone



Source: Company

### 2010 Feasibility Study

A feasibility study was completed on the project in 2010, which showed 0.31 Moz of measured and indicated resources at an average grade of 10.3 gpt, and an inferred resource of 0.13 Moz at an average grade of 12.2 gpt. The cut-off used was 5.1 gpt. **Proved and probable reserves were estimated at 0.26 Moz at 8.8 gpt, based on a cut-off of 4.5 gpt.**

### 2010 Resource Estimate

Category	Tonnes	Grade (gpt)	Contained Ounces
Measured	933,493	10.4	311,083
Indicated	8,165	8.0	2,101
<b>M &amp; I</b>	<b>941,658</b>	<b>10.4</b>	<b>313,184</b>
Inferred (South Zone)	334,751	12.3	132,000
Proven	903,739	8.8	255,253
Probable	5,818	6.3	1,178
<b>Proven &amp; Probable</b>	<b>909,557</b>	<b>8.8</b>	<b>256,431</b>

Source: Technical Report

**The feasibility study showed an after-tax NPV at 5% of US\$68.1 million based on a gold price of US\$1,104 per oz.**



### 2010 Feasibility Study Results

Tonnage	1,002,615 tons
Grade	0.256 opt / 8 gpt
Throughput	450 tpd
Mine Life	6.4 years
Average Annual Production	approx. 38 Koz
Initial Capital Cost	US\$17.75 Million
Operating Cost	\$95.64/ton
After tax NPV @5% at a gold price of US\$962/oz	US\$51.3 million
After tax NPV @8% at a gold price of US\$962/oz	US\$44.8 million
After tax NPV @5% at a gold price of US\$1,104/oz	US\$68.1 million

Source: Technical Report

The study used a standard crush-grind-gravity-flotation process at 450 tpd, with an average recovery rate of 90%. The operating cost was estimated at US\$95.64 / ton, including US\$60.6 / ton for mining, US\$21.8 / ton for processing and US\$13.3 / ton for General and Administrative (G&A) expenses.

The sensitivity of the NPV and IRR estimates to gold prices are shown below:

### NPV and IRR Sensitivity

		Base Case	Case 2	Case 3	Case 4	Case 5
Commodity Gold	US\$/oz	962	770	866	1058	1155
Post-Tax IRR	%	96.3%	55.2%	77.5%	112.8%	129.0%
NPV 0%	US\$000	64,763	33,050	49,889	78,915	92,688
NPV 5%	US\$000	51,291	23,314	39,181	62,784	73,992
Payback	Years	1.06	1.25	1.14	1.01	0.44

Source: Technical Report

Following the feasibility study, American Bonanza began working towards reactivating the mine, and, produced its first gold concentrate in March 2012. Although production rates reached 300 tpd with a recovery rate of 86%, grades were lower than expected, resulting in cost overruns. Grades were low due to the processing of significant amounts of stockpiled material that had low grades. **American Bonanza decided to suspend operations in October 2013, as additional capital was required to improve operational efficiency.** In the first nine months of 2013, the mine produced approximately 7,424 oz of gold.

After taking over the property in 2014, Kerr completed a 4 hole / 3,045 feet drill program in 2015, on a target (now known as the Footwall zone) located 300 m parallel to the Copperstone zone. The drill program confirmed and extended mineralization in this parallel zone, as three of the holes cut gold-bearing mineralization. One hole returned 13.88 gpt over 6 m, and another returned 11.1 gpt over 5 m.

### 2015 Drilling

Drill Hole	From (ft)	To (ft)	Core Length (ft)	Au (oz/t)	Au (g/t)
KER-15-01	567	570	3	0.13	4.46
KER-15-02	635	641	6	0.41	13.88
	661	666	5	0.07	2.4
KER-15-03	350	355	5	0.32	11.11
	597	602	5	0.11	3.91
KER-15-04	83	85	2	0.05	1.71

*Source: Company*

### New Strategy

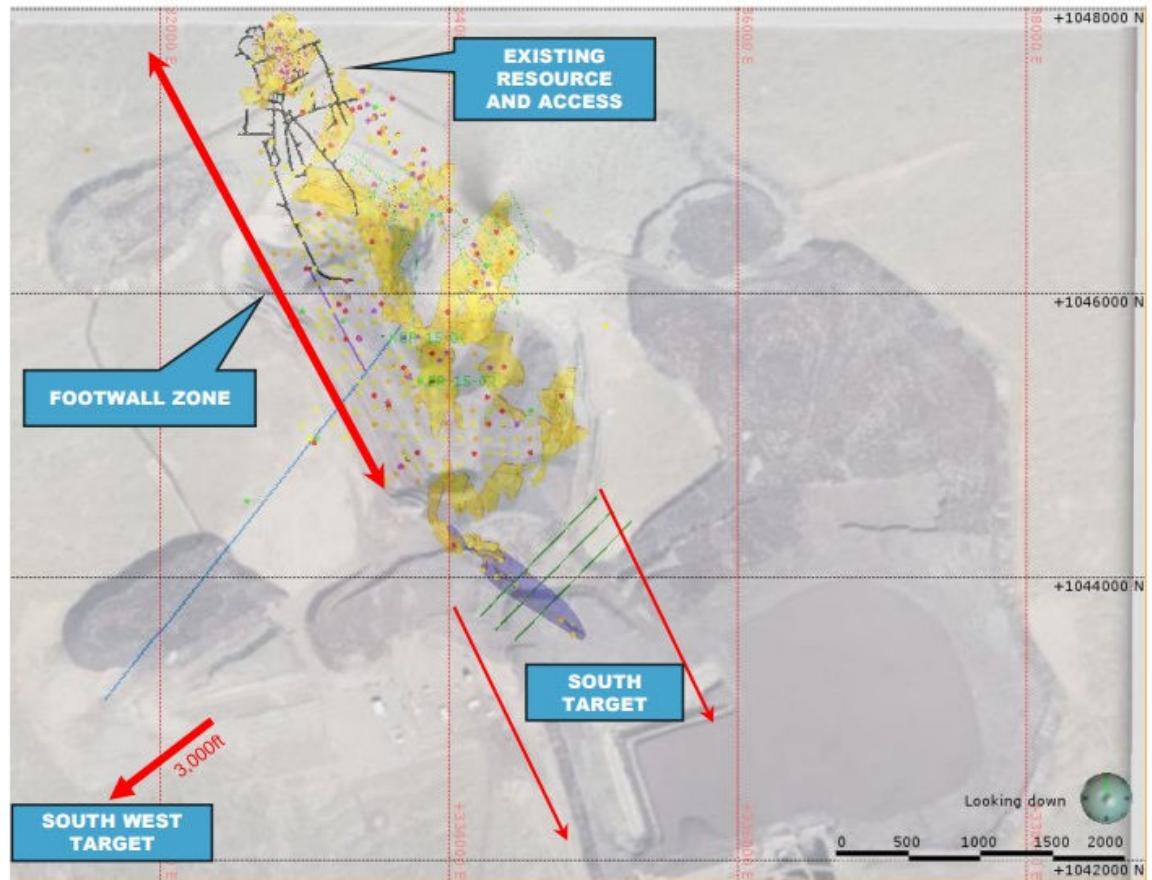
No follow up drilling was conducted on the property in 2016, as Kerr was in a transition stage, as mentioned earlier in this report. After analyzing all of the historical information, Kerr's new management came to a decision to evaluate the project's geology and resource potential in more detail prior to advancing it to production. The new team intends to advance Copperstone with two primary goals:

- 1) define and expand the existing resource, and
- 2) optimize economics and simultaneously advance the project to a production decision

In March 2017, a de-watering and underground rehabilitation program was completed to provide access for underground drilling and mine development.

In August 2017, Kerr commenced a Phase 1 surface exploration program (4,600 m / 15,000 feet) and an underground program (also 4,600 m / 15,000 feet) with the objective of expanding and upgrading the known resource at the Copperstone zone, and further define the parallel Footwall target. A new 365 m (1,200 feet) of new exploration drift is also being completed to provide underground access to untested areas in the southeast, along the strike of the Copperstone Zone (see image below).

## Targets



Source: Company

### Promising Phase 1 Results

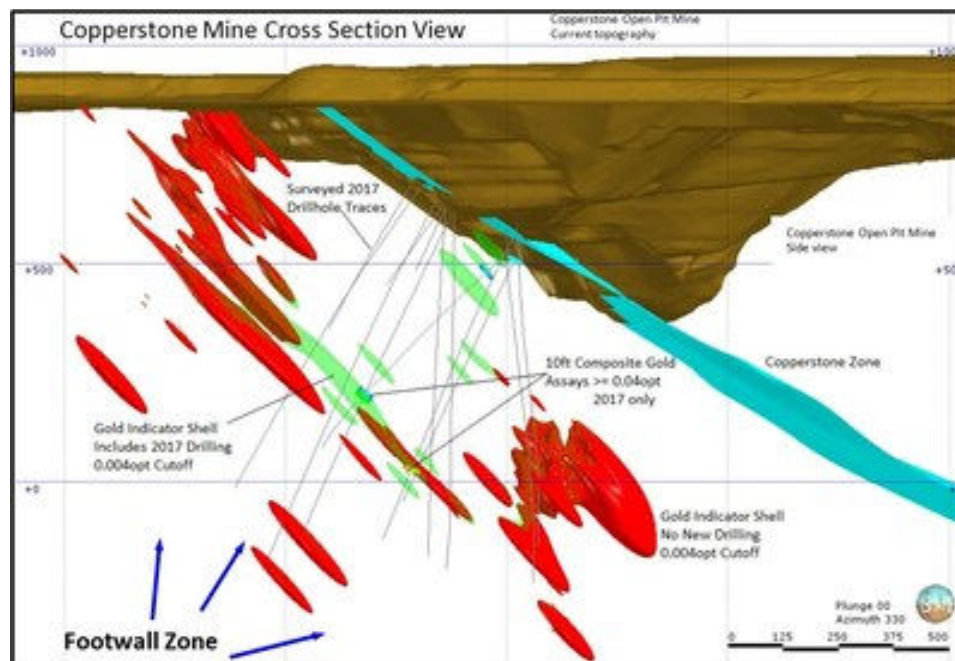
In October 2017, the company announced the discovery of the Footwall zone by combining the historic and 2017 Phase 1 surface exploration program drilling results. The Footwall zone has been estimated to be of 500 feet (150 m) along strike by 800 feet (244 m) along depth so far. Management believes that it has the potential to be very similar in dimensions to the Copperstone zone.

The key results and a map with drill hole locations are shown below.

**Footwall Zone Drilling**

Drill Hole #	Depth From (ft)	Depth To (ft)	Length (ft)	Assay Value gpt Au	Total Interval
A00-10 (Historical)	479	485	6.0	51.6	
A00-10	485	489.5	4.5	6.7	10.5 ft @ 32.3 g/tonne Au
CS-185 (Historical)	280	285	5.0	6	
CS-185	285	290	5.0	5.1	10.0 ft @ 5.6 g/tonne Au
CSD-67 (Historical)	395	400	5.0	11.4	
CSD-67	400	405	5.0	6.7	10.0 ft @ 9.0 g/tonne Au
CSR-143 (Historical)	270	280	10.0	11.3	
CSR-143	280	290	10.0	20.2	
CSR-143	290	300	10.0	3.5	30.0 ft @ 11.7 g/tonne Au
DCU-8 (Historical)	550	565	15.0	15	15.0 ft @ 22.1 g/tonne Au
F4-1 (Historical)	574	579	5.0	14	5.0 ft @ 14.0 g/tonne Au
H5-147 (Historical)	25	35	10.0	6.6	10.0 ft @ 6.6 g/tonne Au
H5-147	85	95	10.0	6.7	10.0 ft @ 6.7 g/tonne Au
H5-147	278	283.5	5.5	8	5.5 ft @ 8.0 g/tonne Au
H5-147	299	304	5.0	7.1	5.0 ft @ 7.1 g/tonne Au
KER-15-02 (Historical)	635	641	6.0	13.9	6.0 ft @ 13.9 g/tonne
KER-15-03 (Historical)	350	355	5.0	11.1	5.0 ft @ 11.1 g/tonne
KER-17S-02	56.5	60	3.5	9.1	3.5 ft @ 9.1 g/tonne Au
KER-17S-02	78	80.1	2.1	5.4	2.1 ft @ 5.4 g/tonne Au
KER-17S-04	594	606	12.0	7.3	12 ft @ 7.3 g/tonne Au
KER-17S-07	494	497	3.0	4.1	3.0 ft @ 4.1 g/tonne Au

Source: Company



Source: Company

On November 2, 2017, the company announced initial results of the Phase 1 underground program, which is primarily focused on zones D and C of the Copperstone zone. The objective of this program is to test along approximately 520 meters (1,700 feet) of the known resource on the Copperstone zone, which has a strike length of 1,525 meters (5,000 feet). 10 of 12 drill holes intersected significant gold mineralization.

#### Phase 1 Underground Drilling

Hole ID	From ft	To ft	Interval ft	Interval m	Gold g/tonne Au
KER-17U-04	80	95	15	4.6	5.1
includes	84.5	95	10.5	3.2	5.7
KER-17U-05	112	122	10	3.0	7.9
includes	114	122	8	2.4	9
KER-17U-06	83	103.5	20.5	6.2	8.6
includes	83	95.5	12.5	3.8	12.9
and	147.5	168.5	21	6.4	3.1
includes	154	168.5	14.5	4.4	3.2
KER-17U-08	19	26.1	7.1	2.2	4.8
includes	19	23	4	1.2	8.1
KER-17U-11	48	61	13	4.0	6.2
includes	48	58.5	10.5	3.2	7.6
and	197.5	206.5	9	2.7	5.4
includes	200	206.5	6.5	2.0	7.2
KER-17U-12	153	185	32	9.8	16.2
includes	163	185	22	6.7	22.9

Source: Company



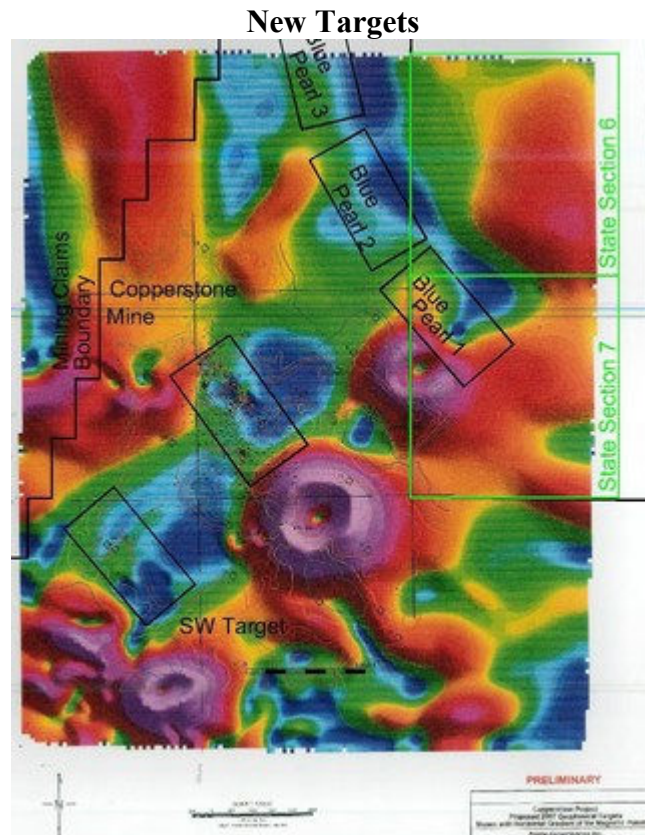
**Adding Land Package**

**Metallurgy Shows Potential for Copper**

The Copperstone zone is now estimated to have dimensions of approximately 1,525 m by 300 m. The 2010 resource estimate was based on a strike length of approximately 1,250 m (4,100 feet).

The Phase 1 program intends to test up to 100 m below the current depth of 300 m. Our discussions with management indicated that, as mineralization is estimated to be in a chimney like body, the actual potential depth of the resource remains unknown.

In October 2017, Kerr announced that it is in the process of acquiring another 541 hectares (1,338 acres) of exploration permits on new targets identified by geophysical anomalies. The permits are approximately 1,200 meters (4,000 feet) to the north east of the Copperstone zone. The focus will be on the three Blue Pearl targets shown below. The blue area indicates a large mass of rock with uniform magnetic characteristics. Management indicates that this signature is identical to that of the Copperstone zone, and the southwest target. The southwest target was previously drilled in 2006-2008, which showed 20 intervals averaging 10.5 feet (3.2 m) of 7.4 gpt.



Source: Company

In November 16, 2017, positive initial metallurgical results were announced. The initial studies not only showed a high gold recovery rate of 91%, but also showed potential for economic copper mineralization distributed along the entire strike of the Copperstone zone. It was found that the historical holes that intersected gold grades of 3+ gpt Au, also had a

## Catalysts

weighted average copper grade of 0.54% Cu. Studies show that both sulphide and oxide copper exist in the project.

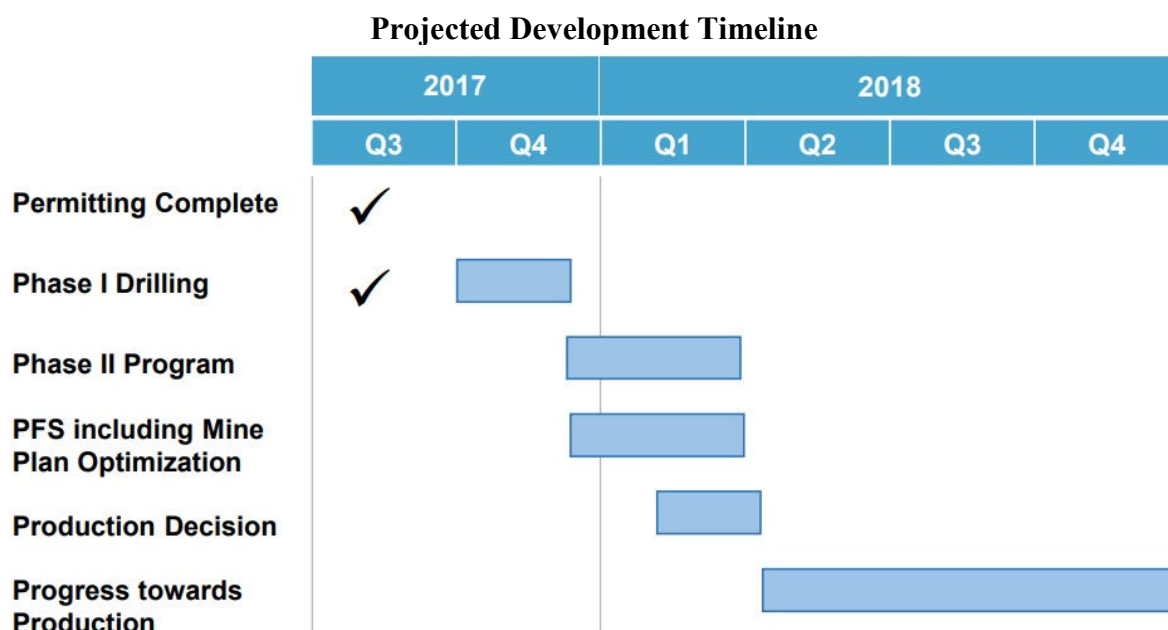
**Hard Rock Consulting of Colorado was hired to prepare a PFS, which is estimated to be completed by Q1 2018.** The company intends to make a production decision upon completion of the PFS. We expect to see a significantly improved and robust PFS versus the 2010 feasibility study due to the following reasons:

- Stronger commodity prices
- Updated resource estimate
- Potential for copper

The company is also planning a Phase 2 program underground, and surface drilling program totaling 45-60,000 feet.

The long-term upside in resource is expected to come from the five targets - South, Southwest and the three Blue Pearl targets.

The following chart summarizes management's expected timeline.



Source: Company

## Management

**Chairman, Fahad Al Tamimi, and CEO / Director, Claudio Ciavarella, combined, hold 81 million shares, or 34% of the total outstanding.** We believe this is a strong sign and aligns management and investors' interest. Eric Sprott is another significant investor with 8% of the total shares.

### Management / Board / Institutional Shareholders

Name	Position	Director Since	% of Total
Fahad Al Tamimi	Chairman (Independent)	2016	23.17%
Claudio Ciavarella	CEO / Director	2013	11.25%
Martin Kostuik	President / Director	2017	0.00%
Peter Damouni	Director	2016	0.14%
Ayman Arekat	Director (Independent)	2016	0.00%
James McVicar	Director (Independent)	2017	0.00%
<b>Total</b>			<b>34.6%</b>

Institutions / Key Investors	% of Total
Eric Sprott	8.00%
<b>Total</b>	<b>8.0%</b>

<b>Management / Directors and Institutions</b>	<b>42.6%</b>
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*Source: Management Information Circular*

Brief biographies of the management team and board of directors, as provided by the company, follow:

#### **Fahad Al Tamimi - Chairman**

Mr. Al Tamimi is a Saudi-based businessman with global investment activities. Previously, he was President and CEO of SaudConsult, the largest engineering firm in Saudi Arabia responsible for many large infrastructure and construction projects in the country. He was also a 50% partner of Worley Parsons Arabia, which undertook major infrastructure projects in the oil & gas, energy and a mining project worth over \$5 billion in Saudi Arabia.

#### **Claudio Ciavarella - Chief Executive Officer & Director**

Mr. Ciavarella earned his Bachelor of Business Administration from Wilfrid Laurier University's School of Business and Economics, where he graduated Honours with Distinction. Mr. Ciavarella is a private business owner with over 25 years experience in the Construction, Real Estate and Manufacturing Industry. He is currently President of his Forte Group of Companies, a Custom Store Fixture Manufacturer and Chief Financial Officer of the Aqua Tech Group, his construction operations. He is a Professional Accountant receiving his designation in 1994 and has served on the Board of Kerr Mines for over 7 years.

#### **Martin Kostuik - President & Director**

Mr. Kostuik (B.Sc., MBA) is a mining engineer and senior executive with 25 years of diversified experience in the mining industry. Mr. Kostuik joins Kerr from Luna Gold Corporation where he was Senior Vice President of Operations and Development, responsible for operations, development, capital projects, environmental, government and community

relations. Mr. Kostuik was also President, CEO and Director of Rupert Resources Limited where he focused on implementing exploration programs for existing assets and on developing the company through evaluations of investment opportunities for near term corporate growth. He has obtained a broad base of experience in operations, engineering, exploration and capital projects with various companies including Barrick Gold Corporation, Taseko Mines Limited, DMC Mining Services and The Rogers Group.

**Brad Atkinson - Director of Exploration and Geology**

Mr. Atkinson (BS, MS, MBA) is a geologist with over 20 years of experience in the mining industry. He was geologist for Phelps Dodge Morenci and a corporate project geologist for Newmont Gold. More recently, Mr Atkinson was at Caterpillar Financial Services.

Mr. Atkinson is a graduate in both Geological Science and Geochemistry from Virginia Tech and completed an MBA at the University of Denver.

**Peter Damouni - Director**

Mr. Damouni has over 16 years of experience in investment banking and capital markets, with expertise in mining and oil and gas. Throughout his career, Mr. Damouni has worked on and led equity and debt financings valued over \$5 billion. He has comprehensive experience in equity financing, restructuring, corporate valuations and advisory assignments.

**Ayman Arekat - Director**

Mr. Arekat has over 35 years of strong banking, finance, investment and business management experience gathered while working with global institutions. Mr. Arekat has been part of such organizations as Chase Manhattan Bank, Merrill Lynch, Deutsche Bank, Investcorp and Abraaj Capital and as an independent businessman. He is currently the managing director of Tamimi investments.

**James McVicar - Director**

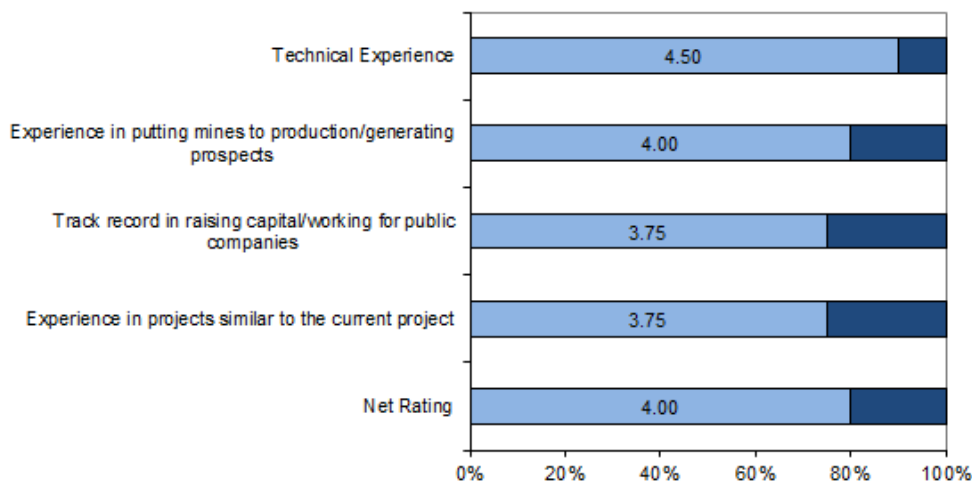
Mr. McVicar is a lawyer with over 20 years' of specialized experience in corporate finance and corporate/commercial matters for natural resources companies. Earlier in his career, Mr. McVicar worked for a number of years at the Ontario Securities Commission. Mr. McVicar obtained his law degree from the University of Alberta and holds a Bachelor of Science (Honours) from Queens University.

**Michael R. Smith – Technical Advisor**

Mr. Smith is a professional geologist with over 38 years global experience in exploration including Arizona and Nevada, previously Chief Mine Geologist at the Barrick Goldstrike and Founding President and CEO of Continental Gold. Magna Cum Laude Arizona State and MS Geology Mackay School of Mines.

**Our net rating on the company's management team is 4.0 out of 5.0 (see below).**

### Management Rating



Source: FRC

**The company's board has six members, of which, three are independent.** We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. The following table shows our analysis on the strength of the company's board.

### Strength of Board

	Poor	Average	Good
Three out of six directors are independent		X	
Two directors holds significant shares of the company (34% of the total)			X
The Audit committee is composed of 3 board members, two are independent		X	
The Management Compensation committee is composed of 3 board members, one is independent	X		

Source: FRC

### Financials

At the end of Q1-FY2018 (ended September 30, 2017), the company had cash and working capital of \$2.73 million and \$2.30 million, respectively. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$1.05 million per month in the first three months of FY2018. The following table summarizes the company's liquidity position:



### Financial Summary

(in C\$)	2015	2016	2017	2018 (3M)
Cash	\$476,136	\$412,662	\$5,065,452	\$2,726,563
Working Capital	-\$18,408,191	-\$16,529,873	\$2,784,073	\$2,303,335
Current Ratio	0.06	0.24	1.88	3.18
LT Debt	\$1,286,127	\$953,916	\$9,905,401	\$9,923,781
LT Debt / Assets	6.1%	3.8%	38.6%	44.4%
<b>Working Capital - LT Debt</b>	<b>-\$19,694,318</b>	<b>-\$17,483,789</b>	<b>-\$7,121,328</b>	<b>-\$7,620,446</b>
Total Debt	\$10,257,649	\$11,916,900	\$10,126,772	\$9,923,781
Monthly Burn Rate (incl. investing activities)	\$582,594	\$369,151	\$475,318	\$1,052,325
Cash from Financing Activities	\$7,062,679	\$925,291	\$2,491,523	\$1,384,701

The total debt was \$9.923 million at the end of Q1-2018; all of held by the Chairman and the CEO.

### Outstanding Debt as of September 30, 2017

	Amount	Maturity	Interest	Conversion Price
Long-Term Promissory Note	\$2,013,333		8% p.a.	
Long-Term Convertible Promissory Note	\$4,276,620	Mar-19	8% p.a.	
Long-Term Loan Payable	\$3,633,828	Aug-19	8% p.a.	
<b>Total</b>	<b>\$9,923,781</b>			

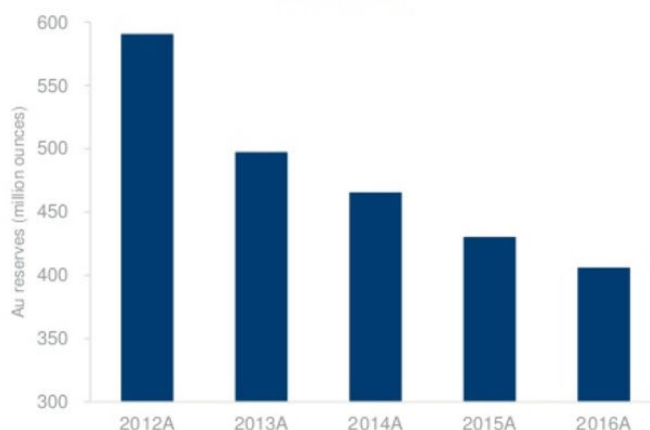
Subsequent to the quarter-end, in November 2017, the company announced a financing for up to \$5 million by issuing 16.67 million shares at \$0.30 per share. We believe the fact that the company is not offering any additional warrants in the offering indicates the strong expected appetite for the investment.

We estimate the company currently has 7.80 million options outstanding (weighted average exercise price of \$0.20 per share) and 22.22 million warrants (weighted average exercise price of \$0.27 per share) outstanding. **All of the options and warrant are in the money, indicating the company can raise up to \$7.56 million if exercised.**

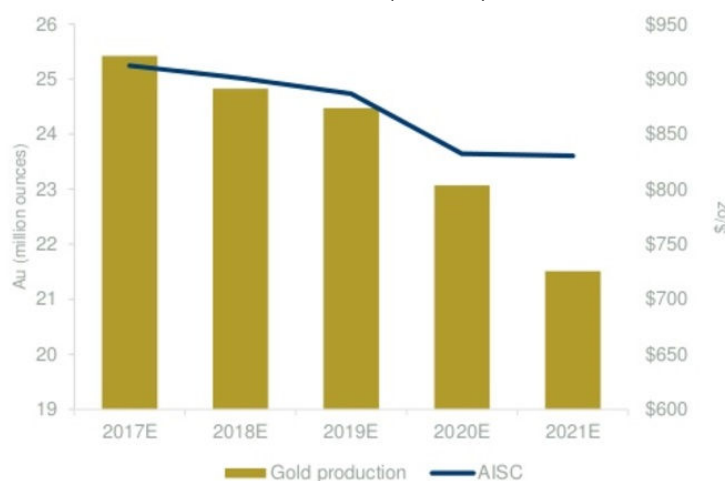
### Gold Industry

The industry has been experiencing a trend of declining reserves and production (see charts below), which we believe will encourage larger companies to seek high-quality and undervalued assets to add to their portfolios. The following charts show the combined production and gold reserves of the major gold producers:

**Gold Reserves (in Moz)**



**Production (in Moz)**



Source: Goldcorp Inc.

The above charts include production and reserve data of Goldcorp (TSX: G), Barrick (TSX: ABX), Newmont (NYSE: NEM), Newcrest (ASX: NCM), Agnico Eagle (NYSE: AEM), Kinross (TSX: K), Yamana (TSX: YRI), AngloGold (JSE: ANG), Gold Fields (JSE: GFI) and Harmony Gold (JSE: HAR).

In July 2017, Eldorado Gold (TSX: ELD) acquired Integra Gold (TSXV: ICG) for \$590 million. Integra held the Lamaque project near Val-d'Or. The project has an indicated resource of 1.04 Moz at 7.24 gpt, and inferred resource of 1.18 Moz at 6.80 gpt. **We believe this is encouraging for juniors, such as Kerr, as the acquisition shows the attractiveness and marketability of high grade, low tonnage projects in the current environment.**

The following table shows our Discounted Cash Flow model on Copperstone.

*Valuation & Rating*

<b>DCF Valuation</b>	
Operating Life (years)	10
Throughput (tons per day)	450
Tonnage - Mt	2.22
Recovery	90%
Total Gold Produced (Moz)	0.56
Average Annual Production (Au equiv. oz)	63,013
Average Price of Au (US\$/oz)	\$1,300
LT avg. exchange rate (US\$:C\$)	1.10
Operating Cost (LOM) in US\$/tonne	\$105.43
Initial Capital Cost (US\$)	\$27,750,000
Discount Rate	10%
Tax	35%
<b>After-Tax Net Asset Value (C\$)</b>	<b>\$179,810,356</b>
Working Capital - Debt (C\$)	(\$2,970,446)
<b>Fair Value of KER (C\$)</b>	<b>\$176,839,910</b>
No. of Shares *	255,297,894
<b>Fair Value per Share (C\$)</b>	<b>\$0.69</b>

\* calculated based on the treasury stock method / assumes completion of the current \$5M financing

Source: FRC

Our key assumptions are listed below:

- Based on an increase in the Copperstone zone's estimated strike length to 1,525 m (previously 1,250 m) and depth by approximately 100 m, and assuming a speculative resource on the Footwall zone of 50% of the Copperstone zone, our models used a total resource of 2.22 Mt at 8.8 gpt for 0.63 Moz.
- A 750 tpd operation versus the existing 450 tpd facility on site. We have applied a US\$10 million incremental CAPEX estimate to expand the operating capacity, and for underground development.
- No value is applied to the upside potential from copper.
- Note that our valuation does not account for any value on the other projects in Kerr's portfolio.
- A long-term gold price forecast of US\$1,300 per oz, and a long-term C\$:US\$ of 1.1.

The following table shows our valuation's sensitivity to key inputs.

		Gold Price (US\$ / oz)				
		\$900	\$1,100	\$1,300	\$1,500	\$1,700
Exchange Rate (US\$:C\$)	\$1.00	\$0.29	\$0.46	\$0.63	\$0.80	\$0.97
	\$1.05	\$0.30	\$0.48	\$0.66	\$0.84	\$1.02
	\$1.10	\$0.32	\$0.51	<b>\$0.69</b>	\$0.88	\$1.07
	\$1.20	\$0.35	\$0.55	\$0.76	\$0.96	\$1.17
	\$1.30	\$0.38	\$0.60	\$0.82	\$1.04	\$1.26

		Recovery Rate				
US\$:C\$ - 1.1		88.0%	89.0%	90.0%	91.0%	92.0%
Discount Rate	5.0%	\$0.88	\$0.90	\$0.91	\$0.93	\$0.95
	7.5%	\$0.76	\$0.78	\$0.79	\$0.81	\$0.82
	10.0%	\$0.67	\$0.68	<b>\$0.69</b>	\$0.71	\$0.72
	12.5%	\$0.58	\$0.60	\$0.61	\$0.62	\$0.63
	15.0%	\$0.51	\$0.53	\$0.54	\$0.55	\$0.56

Source: FRC

**We are initiating coverage on Kerr with a BUY rating and a fair value estimate of \$0.69 per share.**

## Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is highly dependent on gold prices.
- Exploration and development risks.
- The company may not be able to delineate the resource we used in our valuation models.
- Access to capital and potential share dilution.

**We rate Kerr's shares a risk of 4 (Speculative).**

#### Fundamental Research Corp. Equity Rating Scale:

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

#### Fundamental Research Corp. Risk Rating Scale:

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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