

# Fundamental

## Research Corp.

*Investment Analysis for Intelligent Investors*

January 14, 2019

### Nexus Gold Corp. (TSXV: NXS / FSE: F6E / OTC: NXXGF) – Expands Land Package in Burkina Faso / Diversifying Portfolio

**Sector/Industry: Junior Resource**

**[www.nexusgoldcorp.com](http://www.nexusgoldcorp.com)**

#### Market Data (as of January 14, 2019)

Current Price	C\$0.14
Fair Value	N/A
Rating*	N/A
Risk*	5 (Highly Spec)
52 Week Range	C\$0.08 - C\$0.65
Shares O/S	42,285,440
Market Cap	C\$5.92 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.6x
YoY Return	-76.7%
YoY TSXV	-33.0%

\*see back of report for rating and risk definitions



#### Highlights

- In November 2018, Nexus Gold Corp. (“Nexus”, “company”) acquired the Dakouli 2 gold concession, located immediately south of the company’s Niangouela concession in Burkina Faso. The country is estimated to be the fourth largest gold producer in Africa, behind South Africa, Ghana and Mali.
- The acquisition increases the company’s land package in Burkina Faso to 564 sq. km across four projects.
- In October 2018, the company announced results of 3 holes of an 11 hole (1,434 m) step-out RC drill program at the Rakounga gold concession. The company has so far delineated a strike length of approximately 1,200 m on the Koaltenga zone.
- A 105 line kilometer soil sampling survey identified a 15 km gold trend which extends across the Rakounga and Bouboulou concessions.
- In a move to diversify its portfolio, the company recently entered into an agreement (related party transaction) to acquire the New Pilot project (gold-copper) in B.C. for 3.50 million common shares. The project is just 18 km from the producing Bralorne Pioneer mine.
- At the end of Q3-2018 (ended October 31, 2018), the company had cash and working capital of \$0.65 million and \$0.72 million, respectively.
- Nexus completed a 10:1 share consolidation in 2018.

#### Key Financial Data (FYE - Jan 31)

(C\$)	2017	2018 (9M)
Cash	\$52,524	\$652,986
Working Capital	\$43,763	\$716,358
Mineral Assets	\$2,015,446	\$2,820,553
Total Assets	\$2,464,855	\$3,896,655
Net Income (Loss)	-\$2,332,084	-\$3,132,699
EPS	-\$0.18	-\$0.11

**Expands Land Package in Burkina Faso**

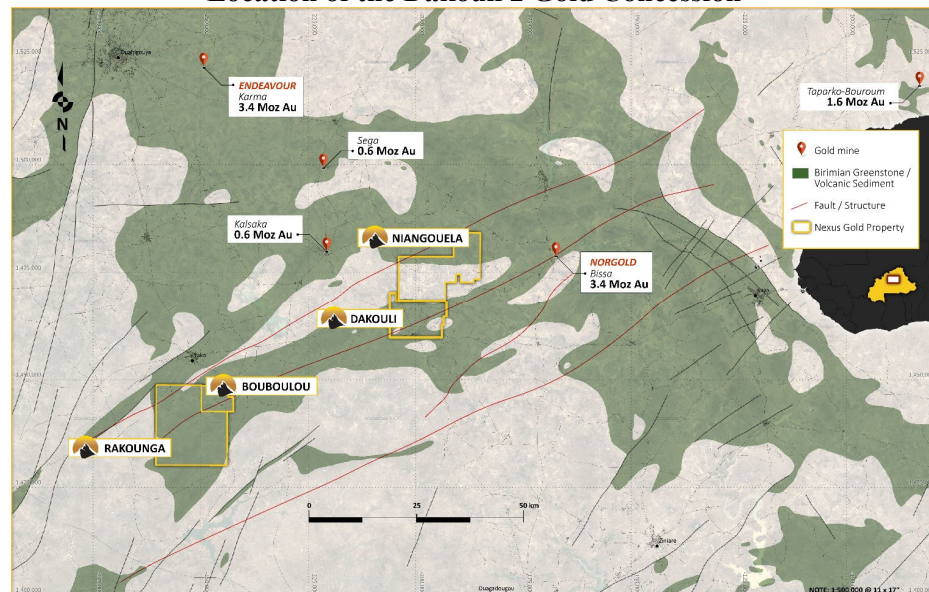
In November 2018, the company announced it acquired the Dakouli 2 gold concession (98 sq. km.), located approximately 100 km north of the capital city Ouagadougou. It is immediately south of the company's 178-sq km Niangouela concession, and 20km southwest of Nordgold's (LSE: NORD) Bissa deposit.

**Bissa Gold Mine**

- Nordgold is the second largest gold producer in Burkina Faso
- 85km north of the capital, Ouagadougou
- Commenced commercial production in 2013
- Produced 196 Koz in 2017
- Reserves of 1.97 Moz at 1.4 gpt

*Source: Norgold*

**Location of the Dakouli 2 Gold Concession**

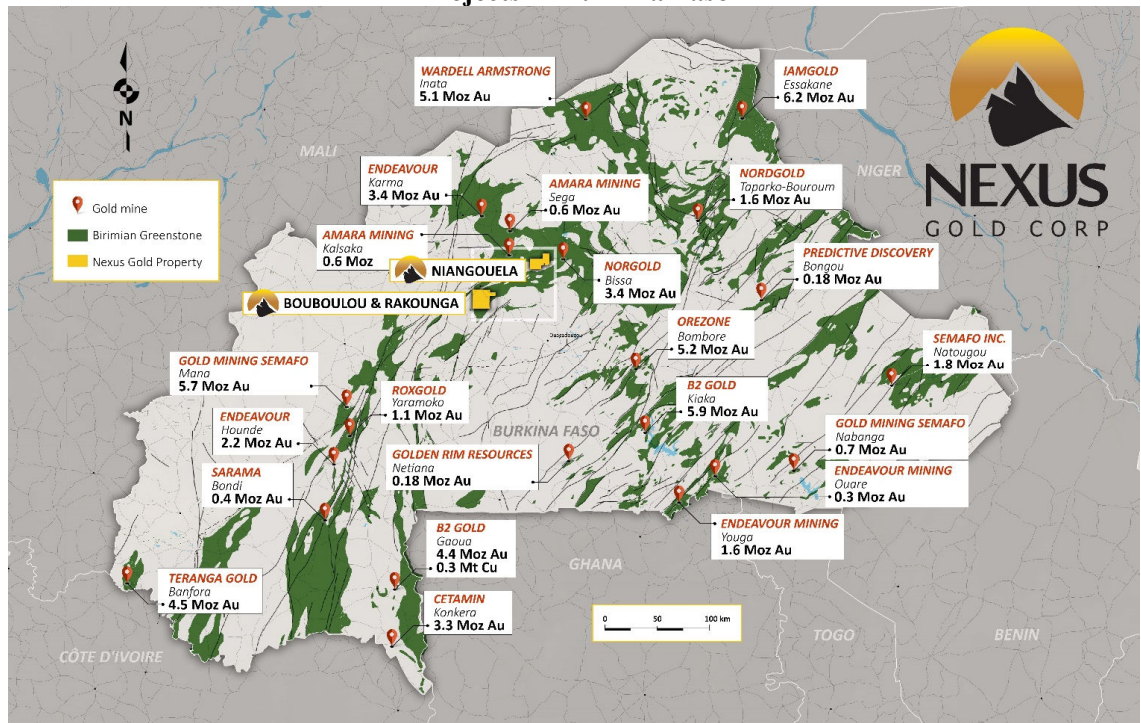


*Source: Company*

Dakouli 2 has a few highly developed artisanal sites, and management believes there are higher-grade opportunities. The acquisition increases the company's land package in Burkina Faso to 564 sq. km across four projects - Dakouli 2 (98 sq. km), Bouboulou (38 sq. km), Rakounga (250 sq. km), and Niangouela (178 sq. km).

**Burkina Faso, which is relatively underexplored compared to Ghana and Mali, is currently being aggressively explored / developed by a large number of companies.** The chart below shows the location of well-known projects in Burkina Faso.

## Projects in Burkina Faso



Source: Company

The common characteristic between all the deposits is their location within Birimian greenstone belts. The Birimian greenstone belts of Western Africa are widely regarded as the most prominent component for significant gold mineralization in the region. Nexus' projects are in the Boromo greenstone belt (approximately 120 km long), which is part of the prolific Birimian greenstone belt that stretches throughout Burkina Faso and neighboring countries. **In general, the grades of Birimian greenstone hosted deposits vary greatly, typically ranging between 1 g/t gold and 8 g/t gold.** Gold ore in the region is typically free milling, and readily amenable to gravity concentration and cyanide leaching, with good recoveries of over 90%.

On January 8, 2019, the company announced initial sampling results. **Six of 12 samples returned significant grades**, with values between 2.90 g/t Au and 29.5 g/t Au, including 27.5 g/t Au and 12.4 g/t Au from samples containing visible gold. The samples were taken from depths between 8 m and 18 m below surface of artisanal shafts and pits. The company also noted that gold recovered by artisanal miners are also coarse and nuggety. The company is planning ground work shortly to identify drill targets.

In October 2018, the company announced results of three holes of a 11 hole (1,434 m) step-out RC drill program on the Koaltenga zone at the Rakounga gold concession. The Rakounga gold concession borders the Bouboulou property on the west and south. Results announced to date included some encouraging values:

- 1 gpt over 10 meters, including 2.67 gpt over 2 meters, and 1.25 gpt Au over 2

## Drill Results - Rakounga

meters.

- 0.50 gpt Au over 12 meters (including 2 gpt over 2 meters)
- 0.40 gpt Au over 10 meters

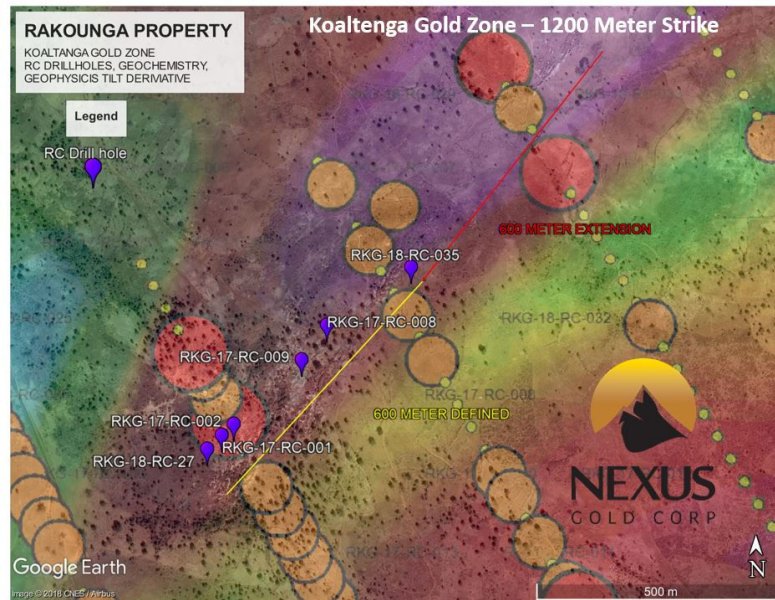
Results announced to date from the Koaltenga zone are shown below:

KOALTENGA				
HOLE	FROM (meters)	TO (meters)	LENGTH (meters)	GRADE (grams/tonne)
RKG-17-RC-001	102	128	26	0.82
INCLUDES	108	110	2	4.11
	110	112	2	2.44
	112	114	2	2.36
RKG-17-RC-002	108	140	32	1.01
INCLUDES	112	114	2	2.36
	114	116	2	2.99
	116	118	2	3.1
	120	122	2	5.65
RKG-17-RC-008	102	136	34	1
INCLUDES	116	118	2	1.8
	124	126	2	1.76
	126	128	2	6.05
	128	130	2	5.09
RKG-17-RC-009	134	156	22	0.57
INCLUDES	134	138	4	2.01
RKG-18-RC-027	116	126	10	1
INCLUDES	118	120	2	2.67
AND	122	124	2	1.25
RKG-18-RC-035	66	78	12	0.5
INCLUDES	74	76	2	2
	110	120	10	0.4
INCLUDES	112	114	2	1.1

*Source: Company*

The company has so far delineated a strike length of approximately 1,200 m on the Koaltenga zone (one of the three drill tested zones), of which, 600 m was identified through drilling, and the other 600 m through sampling programs, active artisanal mining activity, and geophysics.

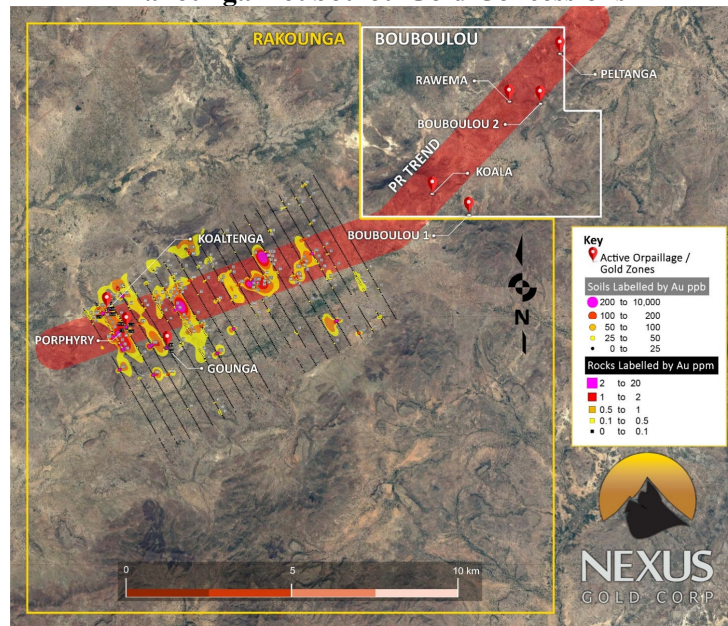




Source: Company

Concurrent with the 2018 drill program, the company completed a 105-line kilometer soil sampling survey, which identified a **15 km gold trend which extends across the Rakounga and Bouboulou concessions.**

#### Rakounga-Bouboulou Gold Concessions



Source: Company

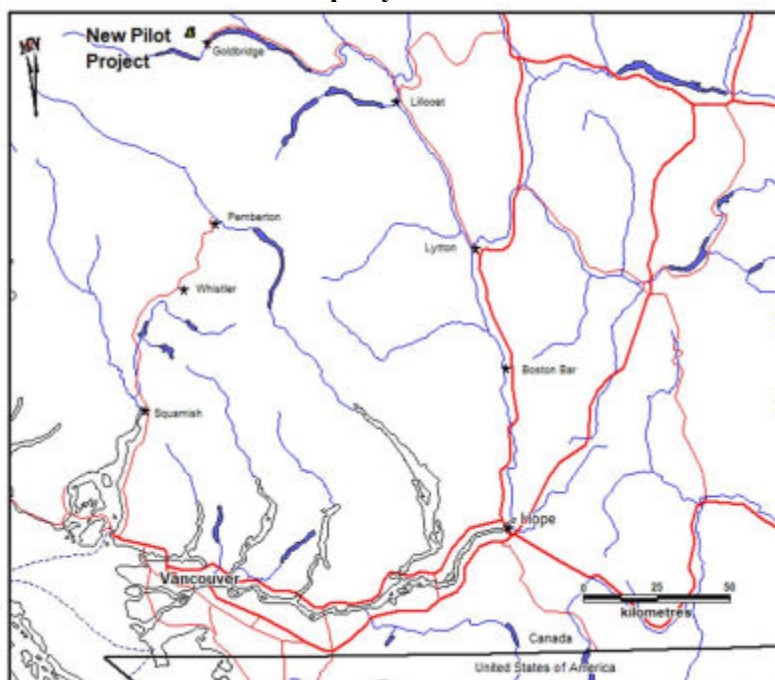
The company's plans for 2019 include continued step out drilling on Koaltenga and geophysical surveys covering the anomalous gold trend identified by geochemical surveys.

**Enters into Agreement to Acquire a Gold-Copper Project in B.C.**

In November 2018, the company announced that it entered into an agreement with Warren Robb to acquire the New Pilot project for 3.50 million common shares. This is a related party transaction as Mr. Robb is a Nexus Director and Senior Vice President, Exploration. He was the Chief Geologist of Roxgold Inc. (TSX: ROXG) in 2011/2012, when Roxgold drilled the Bouboulou property. The acquisition was closed in January 2019.

The 509 ha New Pilot project is a gold-copper exploration property located in the Bridge River Mining Camp, approximately 180 kilometers north of Vancouver, B.C. The property is accessible by paved road, and is 18 kilometers from the producing Bralorne Pioneer mine.

**Property Location**

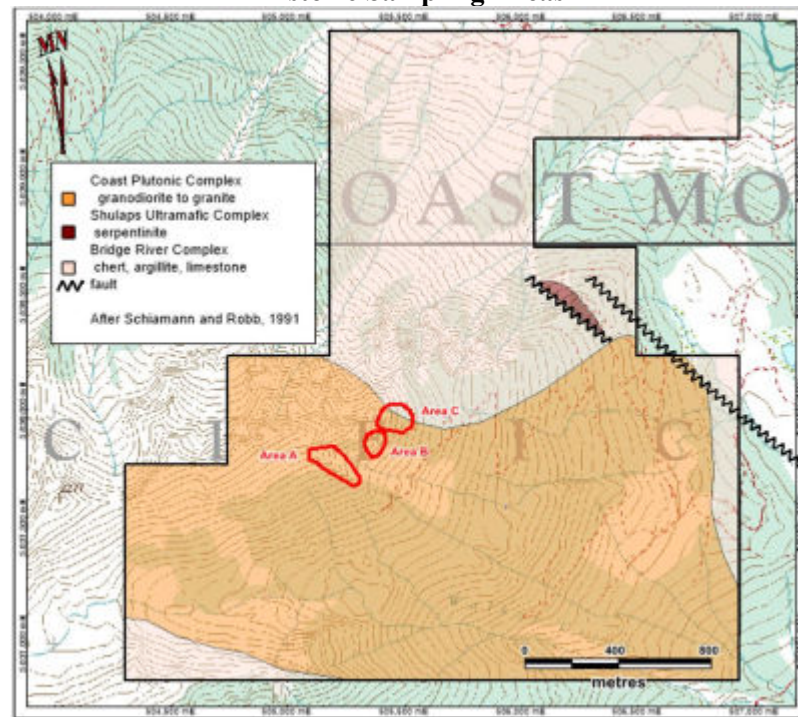


*Source: Company*

Three styles of mineralization have been identified on the project, including siliceous fractures containing sulphides, carbonate altered shears, and quartz veins containing arsenopyrite. Historical exploration included prospecting and sampling.

- Of the 99 grab samples taken from three areas (A, B, and C), three returned 102 g/t gold, 106 g/t Au with visible gold, and 111 g/t gold. In total, 20 samples returned over 1 gpt.

### Historic Sampling Areas



Source: Company

- Chip samples returned 4.03 gpt gold over 10 meters, and 1 gpt gold over 10.5 meters.

Management expects to conduct ground geochemistry and geophysics in 2019.

### Management

In May 2018, Alex Klenman (Chairman and Chief Operating Officer) took over the CEO and President positions from Peter Berdusco, who also resigned from the board of directors. The company also added a new board member.

**J. Ian Stalker** - Mr. Stalker has more than 40 years of development and operational mining experience in countries around the world, including over a decade working in West Africa. Among his many senior executive positions, he was Managing Director of Ashanti Goldfields Co. Limited (later to become AngloGold Ashanti); Vice President of Gold Fields Ltd., at one point the world's fourth largest gold producer; and Chief Executive Officer & Director of Brazilian Gold Corp., among others. Among his current titles, **Mr. Stalker is the Chairman of Plateau Energy Metals, President & CEO of LSC Lithium, and a Director of K92 Mining Inc.**

The company's board currently has four members, of which, two are independent. This is a significant improvement from five members (only one independent) at the time of our initiating report in 2017.

### Financials

**At the end of Q3-2018 (ended October 31, 2018), the company had cash and working capital of \$0.65 million and \$0.72 million, respectively. We estimate the company had a burn rate (cash spent on G&A) of \$0.29 million per month in the first nine months of**



FY2018, which we believe is on the higher end of companies with a similar market capitalization as Nexus. The following table summarizes the company's liquidity position:

<b>Financial Position</b>		
<b>(in C\$)</b>	<b>2017</b>	<b>2018 (9M)</b>
Cash	\$52,524	\$652,986
Working Capital	\$43,763	\$716,358
Current Ratio	1.13	3.46
Monthly Burn Rate (incl. G&A)	-\$183,778	-\$292,683
Monthly Burn Rate (incl. property related)	-\$140,977	-\$89,067
Cash from Financing Activities	\$2,909,643	\$4,108,351

*Source: Company / FRC*

### *Stock Options and Warrants*

The company has 2.59 million options (weighted average exercise price of \$0.42 per share) and 16.38 million warrants (weighted average exercise price of \$0.48 per share) outstanding. At this time, none of the options or warrants are 'in-the-money'.

### *Valuation and Rating*

Considering the early stage nature of Nexus' projects, we believe it is premature to assign speculative resource estimates on any of its projects. We are not assigning a rating or fair value at this time.

### *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.
- The company does not currently have properties with NI 43-101 compliant resources.
- Properties are in very early stages.
- Exploration risks.
- Burkina Faso is a relatively new gold producing nation compared to other large gold producers in Africa.
- Access to capital and share dilution.

As with most junior exploration / development companies, we rate Nexus' shares a risk of 5 (Highly 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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The distribution of FRC's ratings are as follows: BUY (73%), HOLD (7%), SELL / SUSPEND (20%).

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