

May 12, 2017

Grassy Visit Displays Site Potential and Support for Mining in Area; Maintaining Buy

Stock Data		05/11/2017		
Rating		Buy		
Price		\$1.59		
Exchange		NYSE		
Price Target		\$4.00		
52-Week High		\$2.93		
52-Week Low		\$1.37		
Enterprise Value (M)		\$23.5		
Market Cap (M)		\$28		
Public Market Float (M)		7.3		
Shares Outstanding (M)		17.8		
3 Month Avg Volume		48,645		
Short Interest (M)		0.16		
Balance Sheet Metrics				
Cash (M)		\$4.47		
Total Debt (M)		\$0.00		
Total Cash/Share		\$0.25		
EPS Diluted				
Full Year - Dec		2015A	2016A	2017E
FY		(0.64)	(0.63)	(0.42)
Revenue (\$M)				
Full Year - Dec		2015A	2016A	2017E
FY		0.0	0.0	0.0



On May 11, 2017, we visited Paramount’s Grassy Mountain Project (“Grassy”). The site is located in Malheur County, Oregon, or about an hour west of Boise, Idaho. Paramount acquired Grassy through its acquisition of Calico Resources in 2016 at a cost of 7.2 million shares which equated about \$8.7 million at the time. For more details on the acquisition, please see our report “Calico Acquisition Approved by Shareholders; Maintaining Buy” which was published on July 6, 2016.

The day was long but impressive. In the morning, we undertook the one-hour drive to Vale, Oregon, followed by a meeting with the local staff. Following our office visit, we drove for about an hour over paved and unpaved roads to reach the site. We saw a total of three drilling rigs, freshly drilled core at the site and the general layout of the area. Following this, we headed back to Vale for a working lunch before returning back to Boise.

Visible gold among the core at the shack. We highlight that there were several samples of visible gold among the core. While this core is predominantly at depth (the sample in Exhibit 2 of Hole GM16-02 was from a depth of 680-685 feet) the site could operate as an open-pit operation and those depths are reasonably easy to reach. We highlight the interval in the picture has 5 feet of material grading 304g/t gold and 54g/t silver. While obviously not representative of the project, this yields high-value ore.

The state is currently grading the road to site. We highlight that during our visit the state was busy grading the road to the mine. Given that this road really reaches nothing else besides some limited farming (we saw shepherds during our drive), we believe this is an indicator the local government cares and supports the project.

Oregon is a more challenging mining environment than Nevada, but we do not care. We note that Oregon is more liberally oriented and generally not as friendly towards mining as neighboring Nevada. That said, we believe that Grassy would have been mined out a long time ago if it was located on the opposite side of the border with Nevada. That said, there is progress towards permitting mines in the eastern parts of the state. As an example, in the past (1994) the state had a ballot measure to stop the use of chemicals (e.g., cyanide) in mining among other limits. We highlight that this measure failed by 57.6% and since then has not been brought forward by any group. In other words, against common wisdom, Oregon can grant licenses allowing companies to work with chemicals at a mine.

We are reiterating our Buy rating on Paramount Gold Nevada while lowering our price target to \$4.00 from \$4.50 per share. This decrease in valuation per share is solely attributable to the increased share count (17.8m shares outstanding vs 15.8m shares in our prior model). Our valuation remains predicated on a DCF of operations at Grassy Mountain utilizing a 10% discount rate, and approximate 10-year mine life for the site. We continue to remain on the sidelines with respect to improved production and based on the current drilling, but expect to revisit these valuation assumptions once additional permitting progress and drilling for the asset has been completed. We continue to maintain a \$30.0 million valuation for the Sleeper project.

Risks. 1) Gold price risk; 2) permitting risk; 3) financing risk; and 4) operating and technical risk.

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Grassy has a Preliminary Economic Assessment (PEA) and NI 43-101 technical report from July 2015 prepared by Metal Mining Consultants. In the study, the authors calculate an M&I resource of 3.26 million tons utilizing an 0.065oz/ton cutoff grade. The study anticipates a nine-year mine life, a 2,076-ton daily capacity and 95% gold recoveries. Notably, this would lead to gold recoveries of 478,550 ounces and additional silver recoveries of 740,087 ounces, or a total of 483,165 gold equivalent ounces.

The core shack was stacked with historical core. We highlight that there were several samples of visible gold among the core. While this core is predominantly at depth (the sample in Exhibit 2 was from a depth of 680 feet) the site could operate as an open-pit operation and those depths are reasonably easy to reach.

Exhibit 1: Grassy Office and Core Shack in Vale



Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

Visible gold among the core at the shack. We highlight that there were several samples of visible gold among the core. While this core is predominantly at depth (the sample in Exhibit 2 of Hole GM16-02 was from a depth of 680-685 feet) the site could operate as an open-pit operation and those depths are reasonably easy to reach. We highlight the interval in the picture has 5 feet of material grading 304g/t gold and 54g/t silver. While obviously not representative of the project, this yields high-value ore.

Exhibit 2: Visible Gold from Hole GM16-02



Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

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Exhibit 3: Grading of the Access Road to Site



Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

Upon arrival at site, we noticed a total of three drilling rigs. We highlight that all three rigs are currently operating on the \$2 million drilling program, with an additional \$700,000 of spending to be completed. The layout of the site was slightly hillier than we had expected; though, we note that in an open-pit scenario the firm may “mine off” the hill in order to reach the deposit.

Exhibit 4: Layout of Grassy



Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

Exhibit 5: Close-Up of the Drilling Rigs



Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

Exhibit 6: View of the Drilling Rigs from the top of the Mountain by Hole 026-009

Source: Rodman & Renshaw Grassy Site Visit on May 11, 2017

We left the site with a few major thoughts, such as that capital for the site is expected to be reasonably modest. In the PEA, the firm expects initial capital of \$119.7 million, sustaining capital of \$24.5 million and total capital of \$144.2 million. Overall cash costs for the site are expected to be \$880/oz leaving the site with a 2.7-year payback.

The project PEA can likely be improved. As with the Palmarejo Project, that was ultimately sold to Coeur Mining (NYSE:CDE; not rated), the current management team is spending most of its effort in moving the project forward. While we believe there is potential for a strategic investor or a M&A transaction, we highlight the potential for advancement and that management expertise necessary for advancing the project is in place. In fact, with one exception, the Paramount Gold Nevada management team is the same as in the prior iteration of the firm under the Paramount Gold umbrella.

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Local economic stimulus is necessary and appreciated by the local community. Malheur County remains economically depressed with a median household income of \$37,604 in 2015, compared with \$54,074 for Oregon overall. We further note that 24.9% of people in the county live below the poverty line, while Oregon overall stands at 15.2%. In short, the local economy could certainly use about 150 jobs that pay an average of almost \$80,000 per year. As can be seen in various Exhibits in this report, the area is quite remote and we believe that opposition to the mine from "neighbors" rather than NGOs should be limited.

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Grassy Mountain

	<u>2017E</u>	<u>2018E</u>	<u>2019E</u>	<u>2020E</u>	<u>2021E</u>	<u>2022E</u>	<u>2023E</u>	<u>2024E</u>	<u>2025E</u>	<u>2026E</u>	<u>2027E</u>	<u>2028E</u>	<u>2029E</u>
Ore Processed (000's)	-	-	-	325	325	325	325	325	325	325	325	325	325
<i>growth</i>					0%	0%	0%	0%	0%	0%	0%	0%	0%
Gold grade (g/t)	-	-	-	5.32	5.32	5.32	5.32	5.32	5.32	5.32	5.32	5.32	5.32
Gold Recovery	-	-	-	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Annual gold production	-	-	-	52.8	52.8	52.8	52.8	52.8	52.8	52.8	52.8	52.8	52.8
% growth				-	0%	0%	0%	0%	0%	0%	0%	0%	0%
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Silver grade (g/t)	-	-	-	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Silver Recovery	-	-	-	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
Annual silver production	-	-	-	82	82	82	82	82	82	82	82	82	82
% growth				-	0%	0%	0%	0%	0%	0%	0%	0%	0%
Silver sales price	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Gold:Silver ratio	65	65	65	65	65	65	65	65	65	65	65	65	65
Total gold equivalent produced	-	-	-	54.1	54.1	54.1	54.1	54.1	54.1	54.1	54.1	54.1	54.1
% growth				-	0%	0%	0%	0%	0%	0%	0%	0%	0%
Revenue				\$70,287	\$70,287	\$70,287	\$70,287	\$70,287	\$70,287	\$70,287	\$70,287	\$70,287	\$70,287
Cost per tonne	-	-	-	\$600	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
Operating costs				\$32,440	\$30,548	\$30,548	\$30,548	\$30,548	\$30,548	\$30,548	\$30,548	\$30,548	\$30,548
Gross profit (in 000's)	-	-	-	37,847	39,739	39,739	39,739	39,739	39,739	39,739	39,739	39,739	39,739
CapEx (in 000's)	(2,000)	(2,000)	(120,000)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
Tax (in 000's) 30%								(11,172)	(11,172)	(11,172)	(11,172)	(11,172)	(11,172)
Royalties 2.5%				\$935	\$982	\$982	\$982	\$982	\$982	\$982	\$982	\$982	\$982
Operating cash flow	(2,000)	(2,000)	(120,000)	34,412	36,258	36,258	36,258	25,086	25,086	25,086	25,086	25,086	25,086
Cash flow discount rat: 10%													
PV of operating cash flow	(2,000)	(1,818)	(99,174)	23,504	22,513	20,467	18,606	11,703	10,639	9,672	8,793	7,993	7,267
Total current cash flow				\$38,164									
Shares outstanding				17,779									
Project NAV per share				\$2.15									
Annual gold production	-	-	-	53	53	53	53	53	53	53	53	53	53
Annual silver production	-	-	-	82	82	82	82	82	82	82	82	82	82
Total gold equivalent	-	-	-	54	54	54	54	54	54	54	54	54	54
Total PV of operating cash flow	\$38,164												
Plus cash & equivalents	3,717												
Plus Sleeper	\$30,000												
Less debt	-												
Total current value	\$71,881												
Common shares	17,779												
Warrant	-												
Options	-												
Fully diluted shares	17,779												
PZG share price in \$	\$1.59												
PZG NAV in US\$	\$4.04												
NAV Premium for target price	0%												
Rounded Price Target	\$4.00												

Source: Rodman & Renshaw estimates.

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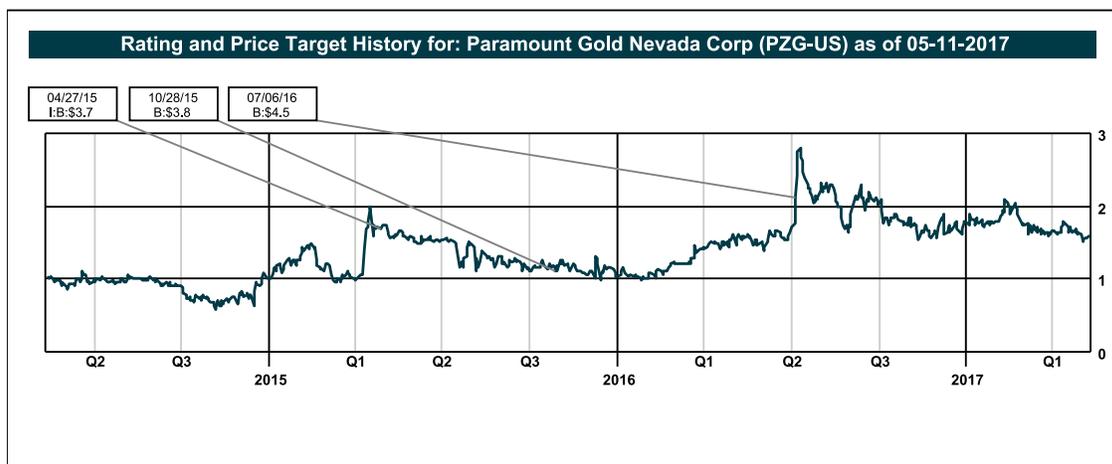
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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector.



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Distribution of Ratings Table as of May 11, 2017

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	221	94.04%	77	34.84%
Neutral	13	5.53%	0	0.00%
Sell	0	0.00%	0	0.00%
Under Review	1	0.43%	1	100.00%
Total	235	100%	78	33.19%

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