

Alio Gold Inc.

ALO-TSX: \$2.83

Rating: Buy

Target: \$8.50 (was \$10.25)

| Estimates | | | | |
|--------------------------------|---------|---------|---------|---------|
| | 2017A | 2018E | 2019E | 2020E |
| CFPS | 0.66 | 0.57 | 0.88 | 1.35 |
| P/CFPS | 3.3x | 3.8x | 2.5x | 1.6x |
| EPS | 0.32 | 0.23 | 0.39 | 0.47 |
| P/E | 6.75 | 9.41 | 5.48 | 4.63 |
| Au Production (koz) | 84 | 128 | 192 | 284 |
| Gold Price (\$/oz) | \$1,261 | \$1,300 | \$1,300 | \$1,300 |
| Costs (US\$/oz) | | | | |
| Total Cash Costs (\$/oz) | \$832 | \$889 | \$773 | \$776 |
| Sustaining Capex (\$/oz) | \$108 | \$25 | \$25 | \$67 |
| G&A (\$/oz) | \$94 | \$60 | \$60 | \$60 |
| Exploration Expense (\$/oz) | \$0 | \$5 | \$5 | \$5 |
| All-In Sustaining Costs (AISC) | \$1,034 | \$979 | \$863 | \$908 |
| Market Data | | | | |
| Price | C\$2.83 | | | |
| Potential Return (%) | 200% | | | |
| Market Cap. (C\$MM) | C\$236 | | | |
| Shr. O/S-Basic (MM) | 84 | | | |
| Shr. O/S-FD (MM) | 86 | | | |
| Management and Directors (%) | 6.72% | | | |
| Enterprise Val. (C\$MM) | C\$202 | | | |
| NAVPS: | \$8.0 | | | |
| Cash (US\$MM) | \$64.0 | | | |
| Debt (US\$MM) | \$32.0 | | | |
| Price/NAV: | 0.27x | | | |
| Fiscal Year End | 31-Dec | | | |



Source: FactSet

Top Holders (Source: Bloomberg)

| | |
|--|------|
| Goldcorp | 5.5% |
| Sentry Investments | 2.2% |
| Connor, Clark & Lunn Investment Management Ltd | 2.1% |
| Renaissance Technologies LLC | 2.1% |

Company Information

| | |
|-----------------------------------|------------------------|
| Flagship Project/Location: | San Francisco / Mexico |
| Att. Global Gold Resource (MMoz): | 2.90 |
| AMC/oz Valuation (C\$/oz) | \$20 |

Rye Patch Dilutes Guerrero; Sets Stage For Rerating

March 20, 2018

ALO announced the proposed acquisition of Rye Patch Gold (RPM-TSX, NOT RATED) in an all-share transaction, a ~35% premium to the 20 day VWAP. At the proposed exchange ratio of 0.48, the purchase price is C\$1.57/share or C\$128 MM. While RPM's flagship 1.1MM oz Florida Canyon project has had a challenging restart primarily as a result of balance sheet issues, Q4 operating results indicate that a corner has been turned that should see the asset generating positive FCF of ~US\$14MM in 2018. We see the transaction positively as we believe that the increased asset diversification from Guerrero and higher cash flow generation should derisk the development of the high margin Ana Paula project. In our view, this should ultimately see ALO garner a higher multiple. We have revised our model to incorporate Florida Canyon estimates resulting in our revised target price of \$8.50 per share (was \$10.25/share). On our pro-forma estimates ALO trades at 3.8x 2018E P/CF and 0.27x NAV, providing a significant opportunity for rerating with management execution. We maintain our BUY rating at our new target price of \$8.50 per share (was \$10.25/share).

TRANSACTION HIGHLIGHTS: Based on an exchange ratio of 0.48 per RPM share, ALO would issue ~39 MM shares, effectively paying C\$1.57 per RPM share or a total consideration of ~C\$128 MM (~US\$98.5 MM). On a pro-forma basis, we expect ~84 MM in basic shares outstanding for ALO. The offer represents a ~35% premium based on the 20-day VWAP for RPM shares. The transaction will require a 2/3 votes of the RPM shareholders and a 50%+1 vote of ALO shareholders. On a pro-forma basis, existing ALO and RPM shareholders will own ~53% and 47% of the combined company, respectively. The purchase price implies a multiple of 0.41x NAV and C\$30/oz (global resource), significantly below recent precedents at 0.89x and C\$103/oz.

FLORIDA CANYON – SIMPLE HEAP LEACH IN NEVADA: Florida Canyon is a heap leach operation in Nevada with >2MM oz in historical production. After acquiring the asset in 2016, Rye Patch restarted the operations and achieved commercial production in Q4/17. The project has a global resource of ~1.1MM oz at a grade of 0.45 g/t and a low expected strip ratio of 1.47 to 1. The 2016 PEA envisages production of >75k oz/year at a LOM AISC of ~US\$885/oz over a ~9 year mine life. The Lincoln Hill and Wilco satellite deposits that are 30km and 50km from Florida Canyon have the potential to provide an additional combined 30k – 50k oz annually.

VALUATION ADJUSTMENTS: We have adjusted our model to add Florida Canyon to our estimates and a post-transaction share count of 84 MM shares (prior ~44 MM shares). Our Florida Canyon model reflects an average annual production of 69k oz at total cash costs of US\$792/oz over an ~9 year mine life. We estimate ~33k oz in attributable production post June 1 at ~US\$764/oz mine site AISC. This takes our companywide estimate to 128k oz

at US\$979/oz AISC (prior 95k oz at US\$1,030/oz AISC) in 2018 and 192k oz at US\$863/oz in 2019. Our revised corporate NAV is US\$689 MM or US\$ 8.04/share (prior US\$511 MM or US\$10.94/share) and our 2018E CFPS to US\$42 MM or US\$0.57/share (prior US\$27 MM or US\$0.60/share). The net impact is a reduction in our target price to \$8.50 per share (was \$10.25/share).

CONCLUSION: We view the transaction positively as it provides geographical diversification reducing Guerrero exposure from 65% to 47% in our revised estimates. Despite the dilution to our NAVPS and 2018E CFPS, we believe that the increased cash generation will diversify the Company's operations, scale up cash flow generation and derisk the development/funding of the high margin Ana Paula growth asset. This in turn should see ALO garnering higher multiples. In our view, the project is a good strategic fit given management's operational expertise in heap leach operations. Management has indicated that they believe Florida Canyon project has turned a corner with commercial production declared in Q4/17 and significant further ramp up progress in Q1/18. On our pro-forma estimates, ALO trades at 3.8x 2018E P/CF and 0.27x NAV, a significant discount to peers trading at an average of 0.71x and 5.9x. We believe this offers a significant re-rating potential with management execution.

Summary of Transaction

- Based on an exchange ratio of 0.48 per Rye Patch share, ALO will issue ~39 MM shares, effectively paying C\$1.57 per share or a total consideration of C\$128 MM (US\$97 MM). This implies a 35% premium based on the 20-day volume weighted average prices of both companies.
- The purchase price implies a multiple of 0.41x NAV and C\$30/oz (global resource), as compared to recent precedent transactions averaging 0.89x and C\$103/oz.
- Post transaction 84 MM in pro-forma shares outstanding for ALO with the current Rye Patch shareholders owning 47% of ALO shares post closure of the transaction.
- The transaction is dilutive to both our NAVPS (-26%) and 2018E CFPS (-5%).

Asset Summary – Florida Canyon

- Heap leach operation with >2MM oz in historical production from continuous operations since 1986 to Q2/2015.
- RPM acquired the asset in 2016. The Company refurbished the mining fleet, relocated the crusher, built a new leach pad and restarted the mine, achieving commercial production in Q4/17 for a capex of \$29MM.
- The asset has a global resource of ~1.1MM oz at 0.45 g/t. LOM strip ratio of 1.47 and expected recoveries of 71% support solid margins and strong project economics. The 2016 PEA envisages production of >75k oz/year at a LOM AISC of ~US\$885/oz over a ~9 year mine life.
- We see potential for exploration upside at Florida Canyon with mineralized trends open to the NE and SW; and optionality from the Wilco and Lincoln Hill satellite deposits that are within a 50km trucking distance from Florida Canyon and have a combined global resource of ~2MM oz.

Figure 1: Alio - Rye Patch Pro Forma

| ALO - RPM Transaction | | ALO STAND ALONE | ALO + RPM PRO FORMA (June 1, 2018) | Variance |
|--------------------------|------------|--------------------|--|----------|
| Capital Structure | | | | |
| Share Price | C\$/share | \$2.83 | \$2.83 | |
| Basic S/O | MM | 45 | 86 | 92% |
| Market Cap | C\$ MM | \$127 | \$243 | 92% |
| Cash | US\$ MM | \$53 | \$74 | 40% |
| LT Debt | US\$ MM | \$0 | \$29 | |
| EV | C\$ MM | \$74 | \$198 | 169% |
| Au Eq. Production | | | | |
| 2018 Estimated | koz | 95 | 128 | 35% |
| 2019 Estimated | koz | 113 | 192 | 70% |
| 2020 Estimated | koz | 205 | 284 | 38% |
| Costs | | | | |
| 2018 AISC | US\$/oz | \$1,030 | \$979 | -5% |
| 2019 AISC | US\$/oz | \$893 | \$863 | -3% |
| 2020 AISC | US\$/oz | \$940 | \$908 | -3% |
| Financials | | | | |
| 2018E CFO | US\$ MM | \$27 | \$42 | 52% |
| 2018E CFPS | US\$ | \$0.60 | \$0.57 | -5% |
| Total Corporate NAV | US\$ MM | \$511 | \$689 | 35% |
| Total Corporate NAV | US\$/share | \$10.94 | \$8.04 | -26% |
| Valuation | | | | |
| Blended Valuation | C\$/share | \$7.87 | \$6.30 | -20% |
| Target Price | C\$/share | \$10.25 | \$8.25 | -20% |

Note - Pro Forma numbers are on a pro-rata basis from June 1st

Sources: Company Reports; Clarus Securities

Figure 2: Oreana Trend and RPM Mines



Sources: Company Reports; Clarus Securities

Proforma Estimates and Valuation Adjustments

We have adjusted our model to include Florida Canyon estimates.

Our mine model for Florida Canyon reflects an average annual production of 69k oz at total cash costs of US\$792/oz over an ~9 year mine life. At this point, our model does not include any value for the Lincoln and Wilco deposits which have the potential to add 30-50k oz in annual production.

Our model includes ~33k oz (pro-rata – June 1, 2018) in production at ~US\$764/oz mine site AISC for Florida Canyon which drives our companywide estimate of 128k oz in production at ~US\$979/oz AISC (prior 95k oz at US\$1,030/oz AISC) in 2018 and 192k oz in production in 2019 at US\$863/oz.

While the transaction boosts our estimated NAV and CFO, it is dilutive on a per share basis. Incorporating Florida Canyon in our mine model for ALO, boosts our companywide corporate NAV to US\$689 MM (prior US\$511 MM). NAVPS declines to US\$8.04/share (prior US\$10.94/share). Our 2018E CFO increases to US\$42 MM (prior US\$27 MM) while our 2018E CFPS declines to US\$0.57 (prior US\$0.63/share).

The changes drive our revised target price of \$8.50 per share (was \$10.25/share).

Figure 3: Florida Canyon - Modelled Assumptions

| Florida Canyon Project Modelled Assumptions - CLARUS | | | | | |
|--|------------|--------|------------------------------------|--------------|--------|
| <i>(amounts in C\$ unless stated otherwise)</i> | | | | | |
| Mineable Ounces | Koz | 848 | | | |
| Life of Mine | Years | 9 | | | |
| LOM Average Production | | | LOM Average Operating Costs | | |
| Head Grade | g/t | 0.45 | Mining Costs | (US\$/tonne) | \$1.49 |
| Throughput | Mtpa | 6.6 | Processing Costs | (US\$/tonne) | \$1.90 |
| Strip Ratio | | 1.47 | Crushing Costs | (US\$/tonne) | \$1.09 |
| Recovery | % | 71% | G&A Costs | (US\$/tonne) | \$0.59 |
| Avg. Annual Production | koz | 69 | Cash Costs (US\$/oz) | (US\$/oz) | \$792 |
| | | | Site AISC (US\$/oz) | (US\$/oz) | \$801 |
| Net Asset Value | | | LOM CAPEX | | |
| Project NAV (5%) | US\$ MM | \$182 | Expansion Capital | (US\$ MM) | \$22 |
| Project NAV (5%) | US\$/share | \$2.13 | LOM Sustaining Capex | (US\$ MM) | \$5 |

Sources: Company Reports; Clarus Securities

Price Target Calculator: We value Alio Gold on a blended 50-50 NAV and P/CF based valuation. Our project NAV (50% weighting) incorporates our discounted cash flow valuation for the San Francisco mine at a 3% discount rate and the Ana Paula project at an 5% discount rate. Our P/CF valuation (50% weighting) is based on our estimate of 2018E cash flow per share to which we apply a 8.0x multiple.

Key Risks to Target Price: Please refer to the risks disclosed in the initiating report dated April 19, 2017.

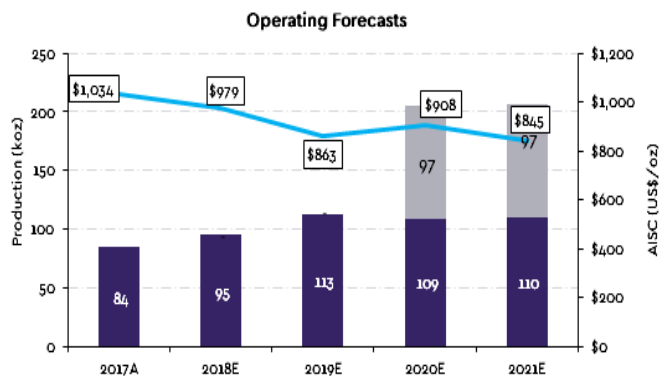
Alio Gold (ALO - TSX), BUY, Target: \$8.50

| | | | | | |
|-----------------|------|----------------|----------|------------------|----------|
| Rating | BUY | Target Price | C\$ 8.50 | Basic Shares O/S | 83.7 |
| 12-Month Return | 200% | Previous Close | C\$ 2.83 | Market Cap. C\$M | C\$236.9 |

USD MM except per share data and unless otherwise noted

| VALUATION | | | |
|--------------------------------------|-------------------|--------------|----------------|
| NET ASSET VALUE (50% WEIGHT) | Discount rate | US\$MM | US\$/share |
| San Francisco (100.0%), Mexico | 3.0% | \$168 | \$1.96 |
| Ana Paula (100.0%), Mexico | 5.0% | \$307 | \$3.58 |
| Florida Canyon (100.0%), Nevada, USA | 5.0% | \$182 | \$2.13 |
| Sub-Total | | \$657 | \$7.67 |
| Multiple to NAV | 1.00x | \$657 | \$7.67 |
| Corporate Adjustments | | | |
| Basic Working Capital | | \$63 | \$0.74 |
| Long-term Debt | | -\$32 | -\$0.37 |
| Value of ITM Instruments | | \$0 | \$0.00 |
| Sub-total | | \$ 32 | \$ 0.37 |
| Total Corporate NAV | US\$/share | \$689 | \$8.04 |
| CASH FLOW VALUATION (50% WEIGHT) | | | |
| CFPS | 2018E | \$42 | \$0.57 |
| Multiple to Cash Flow | 8.0x | \$333 | \$4.57 |
| BLENDED VALUATION | | | |
| Target Price | C\$/share | \$674 | \$8.50 |
| P/NAV | | | 0.27x |

| PRODUCTION ESTIMATES | | | | | |
|---------------------------------------|----------------|----------------|--------------|--------------|--------------|
| Calendar Year | | 2017A | 2018E | 2019E | 2020E |
| San Francisco | koz | 84 | 95 | 113 | 109 |
| Ana Paula | koz | - | - | - | 97 |
| Florida Canyon | koz | - | 33 | 79 | 79 |
| Consolidated Gold Sales | koz | 84 | 128 | 192 | 284 |
| COST ESTIMATES | | | | | |
| Calendar Year | | 2017A | 2018E | 2019E | 2020E |
| Total Cash Costs | US\$/oz | \$832 | \$889 | \$773 | \$776 |
| Sustaining Capex | US\$/oz | \$108 | \$25 | \$25 | \$67 |
| G&A | US\$/oz | \$94 | \$60 | \$60 | \$60 |
| Exploration Expense | US\$/oz | \$0 | \$5 | \$5 | \$5 |
| All-In Sustaining Costs (AISC) | US\$/oz | \$1,034 | \$979 | \$863 | \$908 |



Source: Company reports, Clarus Securities estimates

| FINANCIAL SUMMARY | | | | |
|--|---------------|---------------|---------------|---------------|
| Calendar Year | 2017A | 2018E | 2019E | 2020E |
| Gold Price (US\$/oz) | \$1,261 | \$1,300 | \$1,300 | \$1,300 |
| Realised Gold Price (US\$/oz) | \$1,260 | \$1,300 | \$1,300 | \$1,300 |
| <i>*Realised Gold Price due to Gold Stream</i> | | | | |
| CFPS | \$0.66 | \$0.57 | \$0.88 | \$1.35 |
| P/CFEPS | 3.3x | 3.8x | 2.5x | 1.6x |
| Target/CFPS | 9.8x | 11.4x | 7.4x | 4.8x |
| Income Statement | | | | |
| Revenue | \$105 | \$166 | \$249 | \$369 |
| Operating Expenses | (\$70) | (\$114) | (\$148) | (\$220) |
| Depreciation | (\$5) | (\$19) | (\$29) | (\$60) |
| General & Adm. | (\$9) | (\$8) | (\$12) | (\$17) |
| Other | \$0 | \$0 | \$0 | \$0 |
| Exploration Exp. | \$0 | (\$1) | (\$1) | (\$1) |
| Net Interest Expense | \$1 | (\$1) | (\$9) | (\$9) |
| Taxes Expense | (\$9) | (\$8) | (\$17) | (\$21) |
| Other | (\$3) | \$0 | \$0 | \$0 |
| Net Income | \$12 | \$17 | \$34 | \$40 |

| Cash Flow | | | | |
|-----------------------------------|---------------|---------------|----------------|---------------|
| Operating CF | \$25 | \$42 | \$75 | \$116 |
| Dividend | \$0 | \$0 | \$0 | \$0 |
| Borrowings | \$0 | \$124 | \$3 | \$0 |
| Repayments | (\$0) | \$0 | \$0 | (\$3) |
| Share Issuance | \$37 | \$15 | \$0 | \$0 |
| Financing CF | \$40 | \$139 | \$3 | (\$3) |
| Investing CF | (\$56) | (\$36) | (\$171) | (\$25) |
| Change in Cash | (\$2) | \$144 | (\$93) | \$88 |
| Free Cash Flow (bef div and fin.) | \$2 | \$25 | (\$96) | \$91 |
| Balance Sheet | | | | |
| Cash & Equivalents | \$31 | \$176 | \$83 | \$171 |
| Current Assets | \$87 | \$235 | \$141 | \$229 |
| Current Debt | \$0 | \$0 | \$3 | \$0 |
| Current Liabilities | \$25 | \$42 | \$45 | \$42 |
| Long-term Debt | \$0 | \$0 | \$121 | \$124 |
| Shareholder Equity | \$197 | \$301 | \$335 | \$375 |

| MODELLED OUNCES | | | | |
|--------------------------------------|------|------|------|----------------|
| Gold Assets | Mt | g/t | koz | Mine Life (yr) |
| San Francisco (100.0%), Mexico | 39.5 | 0.50 | 635 | 7.0 |
| Ana Paula (100.0%), Mexico | 13.5 | 2.36 | 1021 | 8.0 |
| Florida Canyon (100.0%), Nevada, USA | 59.3 | 0.44 | 848 | 8.8 |

Clarus Securities Equity Research Disclosures

The analyst has visited the Company's mining operations in Mexico. Partial payment or reimbursement was received from the issuer for the associated travel costs.

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Within the last 24 months, Clarus Securities Inc. has received compensation for investment banking services with respect to the securities of this company.

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Equity Research Ratings

Buy: Attractively valued and expected to appreciate significantly from the current price over the next 12-18 months.

Speculative Buy: Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.

Accumulate: Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12-18 months.

Hold: Fairly valued and expected to trade in line with the current price over the next 12-18 months.

Sell: Overvalued and expected to decline from the current price over the next 12-18 months.

Under review: Pending additional review and/or information. No rating presently assigned.

Tender: Company subject to an acquisition bid: accept offer.

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Research Update

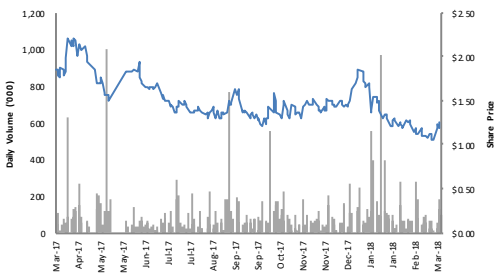
March 19, 2018

Rating: TENDER *(from BUY)*
Price Target: \$1.60 ↓ *(from \$3.25)*
Last Price: \$1.26
Ticker: RPM-V

Market Data

| | |
|--|---------------|
| Target return (incl. dist.): | 27.0% |
| Distribution/yield: | \$0 / 0% |
| Units outstanding (M, FD): | 81.1 |
| Market capitalization (\$M): | 102 |
| Net Asset Value (NAV) (\$/sh): | 3.25 |
| 52-week range (\$): | 1.05 - 2.37 |
| Last fiscal year ended: | Dec. 31, 2017 |
| Average weekly volume: | 492,639 |
| Currency (unless otherwise indicated): | CAD |

| Forecasts | F17E | F18E | F19E |
|-----------|--------|------|------|
| EPS (\$) | (0.02) | 0.23 | 0.19 |
| Previous | n/c | n/c | n/c |
| CFPS (\$) | (0.02) | 0.28 | 0.24 |
| Previous | n/c | n/c | n/c |



Company Profile

Rye Patch Gold Corp. is a junior gold and silver mining and development company in central Nevada, US. Rye Patch's Florida Canyon mine is expected to start commercial production soon, with cash flow from the project funding development of the Lincoln Hill and Wilco projects.

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Associate: Alex Macisaac | alex.macisaac@iagto.ca | 1.647.943.7620

Passing the Baton to a Better Equipped Miner, Tender to Offer

Event

This morning, Rye Patch Gold announced a business combination with Alio Gold Inc. (ALO-T, Not Rated), whereby Alio Gold will acquire all outstanding Rye Patch shares in a friendly deal. A conference call will be held today at 11:00am EDT (call 1.855.427.9509 or [click here](#) for the link).

Highlights

- **Deal Pricing:** Rye Patch shareholders will receive 0.48 common shares of Alio Gold in exchange for one Rye Patch share, a 35% premium over the 20-day VWAP (equivalent to \$1.57/sh or \$128M total undiluted). The offer is 25% above Friday's close. Rye Patch shareholders will own 47% of the combined entity. The deal is expected to close on May 25, 2018. As seen in Exhibit 1, Rye Patch is very cheap on a dollars-per-ounce in the ground metric.
- **Upside for Rye Patch:** While the Florida Canyon project has been derisked following the \$20M financing in January, having additional support from Alio's cash flow generating assets and experienced technical team will help overcome any hurdles while the ramp-up continues. Alio's \$51.6M cash reserve further mitigates risk.
- **Alio Gold Profile:** Alio is a junior producer with one production asset, one development-stage asset, and one exploration asset, all in Mexico. Their Ana Paula Project hosts 1.5Moz Au in M&I resources, while the San Francisco Mine hosts a 1.3Moz Au M&I resource (inclusive of reserves). 2017 production totalled 83.5Koz, with 2018 guidance of 90-100Koz. Goldcorp (G-T, Not Rated) and the Lundin Group are both major shareholders.

Valuation

We use a long-term gold price of US\$1,600/oz, and have accordingly adjusted costs higher. We used a 7% discount for the producing Florida Canyon Mine, and a 10% discount for the Lincoln Hill Mine (start production in 2020) and the Wilco Mine (start production in 2022) to reach our former NPV valuation of \$3.25/sh.

Bottom Line

While the offer for Rye Patch's recently commissioned mine in Nevada (with a 200Koz Au p.a. plant), is highly undervalued, Alio brings a lot to the table in terms of cash, technical ability, and risk reduction. We note that many Rye Patch shareholders were disenchanted, and some of the larger holders have already agreed to tender their shares, as have management. Additionally, the 15.3M warrants with an exercise price of \$1.65 are a deterrent to a materially higher offer. While a competing offer is possible, it appears unlikely.

We are changing our recommendation to Tender from Buy and reducing our target price to C\$1.60/sh to reflect the offer, down from \$3.25/sh previously. Our prior target was based on the successful build up at Rye Patch and a gold price increasing to US\$1600/oz. With 47% ownership of Alio going forward, Rye Patch shareholders will still enjoy the growth in production and gold prices, but at a much reduced technical, managerial and financial risk.

Exhibit 1: Resource and Production Valuation

| | PRB | WDO | OSK | KOR | RPM Current | RPM Offer | SBB | BGM | ALO |
|--------------------------|-------|---------|-------|------|-------------|-----------|------|-------|-------|
| US\$/oz (P&P + M&I) | \$119 | \$71 | \$101 | \$66 | \$22 | \$31 | \$50 | \$533 | \$25 |
| US\$/oz 2018E Production | - | \$3,048 | - | - | \$1,058 | \$1,497 | - | - | \$738 |

Source: iA Securities

Exhibit 2: Prior Target Price Calculation (US\$1,600/oz Gold)

| Project | NPV (M\$) |
|----------------------|---------------|
| Florida Canyon (7%) | 264.3 |
| Lincoln Hill (10%) | 63.6 |
| Wilco (10%) | 35.3 |
| Corporate Costs (7%) | -69.5 |
| Total | 293.7 |
| /Share | \$3.25 |

Source: iA Securities

Investment Recommendation Rating System

- Strong Buy:** Expected to provide a substantial return over the next 12 months, with a lower level of risk than comparable investments.
- Buy:** Expected to provide a reasonably positive return over the next 12 months.
- Speculative Buy:** Expected to provide a positive return over the next 12 months, but with a high level of risk, or based on a future uncertain event.
- Hold:** Expected to remain in a trading range near the current share price for the next 12 months.
- Sell:** Expected to deliver a negative return over the next 12 months.
- Under Review:** Currently available information is inadequate to provide an investment rating.
- Tender:** Investors should tender their shares to the current offer.

Company related disclosures:

| Issuer Company | Ticker | Applicable Disclosures |
|----------------------|--------|------------------------|
| Rye Patch Gold Corp. | RPM-V | 1, 3, 7, 9 |

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Alio Gold Inc.

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Mining | Precious Metals - Gold

Company Brief

| | |
|---------------------------|------------------|
| Rating | Underperform |
| Target Price | C\$7.25 |
| Current Price (Mar-16-18) | C\$3.17 |
| Suitability | High Risk/Growth |

Rye Patch Acquisition Dilutes Mexico, But Also Shareholders

Event – Alio Gold announced the acquisition of Rye Patch Gold Corp. (RPM-TSX-V).

Analysis – Our initial impression of the transaction to acquire Rye Patch Gold is negative. While we welcome the geographical diversification given the recent challenges in Guerrero, it comes at the cost of substantial share dilution and the addition of debt to the balance sheet. Furthermore, with Rye Patch’s Florida Canyon underperforming significantly in 2017, there will be questions around asset quality that may present an overhang until more operating data is presented through 2018. Although there appears to be potential value to unlock through production growth opportunities within Rye Patch’s portfolio, with the transaction dilutive on both a NAV and cash flow basis (based on consideration of Rye Patch consensus estimates), these opportunities may not get rewarded by investors immediately. We will evaluate the proposed transaction to determine the impact to our estimates.

Details

- ◆ Alio will acquire Rye Patch Gold Corp. (RPM-TSX-V) in an all equity transaction that values Rye Patch at C\$128 mln. Rye Patch is currently operating the Florida Canyon heap leach project in Nevada and had recently announced a strategic review process. Based on consensus estimates, the transaction values Rye Patch at 0.40x NAV and 7x 2018 CFPS. This compares to Alio’s current trading multiples of 0.31x NAV and 4.7x 2018 CFPS based on RJL estimates.
- ◆ Key components of the transaction include:
 - Each common share of Rye Patch will be exchanged for 0.48 common shares of Alio Gold. This implies a value of C\$1.57 per Rye Patch share, a 35% premium to Rye Patch shareholders, based on the 20-day VWAP.
 - Alio is expected to issue 39.0 mln shares and existing Alio shareholders will own 53% of the combined company, with the remaining 47% going to Rye Patch shareholders.
 - The combined company will have US\$74 mln in cash, US\$29 mln of debt. Rye Patch’s primary debt holder, Macquarie Bank Ltd., has agreed to not exercise its right to require immediate repayment on the ~US\$25 mln Florida Canyon project loan. Discussions on the restructuring of the loan are currently ongoing, and the expected principal outstanding is expected to be reduced to US\$15 mln at the closing on the transaction due to repayments.
 - The deal is subject to a Rye Patch shareholder vote with 66 2/3% approval. The transaction has been unanimously approved by the board of directors of both companies and some shareholders of Rye Patch have entered into lock-up and support agreements with Alio to vote in favour. Although the amount locked-up was not specified, we note that there are a number of common shareholders which may help support the transaction being approved.
 - The transaction is expected to close on May 25, 2018
 - A break-up fee of C\$4.0 mln will be paid to either side should the transaction be terminated.
- ◆ Based on consensus production estimates, Alio expects that the merged company will produce 165 koz Au in 2018, with the pro-forma cost profile lowered. While performance at Florida Canyon has improved in recent quarters, the project struggled through much of 2017 due to a number of operating issues, resulting in



Valuation

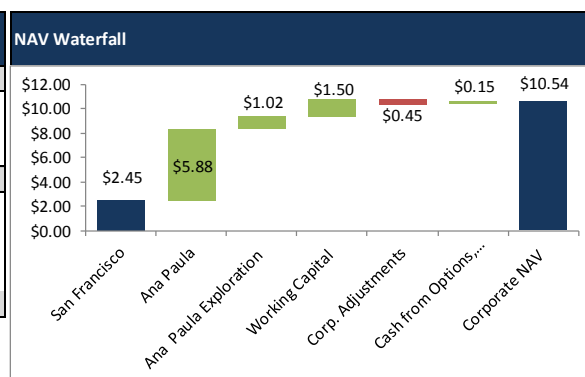
Our C\$7.25 target is derived by applying a 50 – 50 weighting on 6.0x NTM CFPS estimate and 1.0x NAV (see Exhibit 1). These multiples are based on consideration of historic and current multiple of 6.6x for Alio’s junior producing peers, with our CFPS multiple below peers to reflect the higher cost structure and shorter mine life.

annual production of 28 koz Au and 20 koz Ag, well below forecasted production of 79 koz Au (based on January 2017 PEA).

- ◆ Rye Patch has addressed a number of the operating issues and as a result, Alio believes that the project will add incremental cash flow to support the build of Ana Paula. Alio also highlighted the potential for expansion at Florida Canyon. Rye Patch's current corporate presentation forecasts production growth from approximately 80 koz Au to approximately 125 Koz Au by 2020 with further growth from two additional satellite deposits.
- ◆ Importantly, the transaction will provide geographical diversification for Alio, which is a key consideration given the recent increased risks in Guerrero.
- ◆ Alio will hold a conference call this morning at 11:00 am EST (8:00 am PST) today. Dial-in is (855) 427-9509 and conference ID is 5577778.

Exhibit 1: NAV Breakdown

| Projects | (Cdn\$Mln) | Per Sh. | Multiple | Adj. Per Sh. |
|------------------------------|----------------|----------------|----------|----------------|
| Net Asset Value - DCF | | | | |
| San Francisco | \$129.5 | \$2.45 | 1.00x | \$2.45 |
| Ana Paula | \$311.3 | \$5.88 | 1.00x | \$5.88 |
| Ana Paula Exploration | \$54.1 | \$1.02 | 1.00x | \$1.02 |
| Project NAV | \$495.0 | \$9.35 | | \$9.35 |
| Working Capital | \$79.2 | \$1.50 | | \$1.50 |
| Long Term Debt | \$0.0 | \$0.00 | | \$0.00 |
| Corp. Adjustments | -\$23.6 | -\$0.45 | | -\$0.45 |
| Cash from Options, Warrants | \$7.9 | \$0.15 | | \$0.15 |
| NAV | \$558.5 | \$10.54 | | \$10.54 |



Source: Raymond James Ltd.

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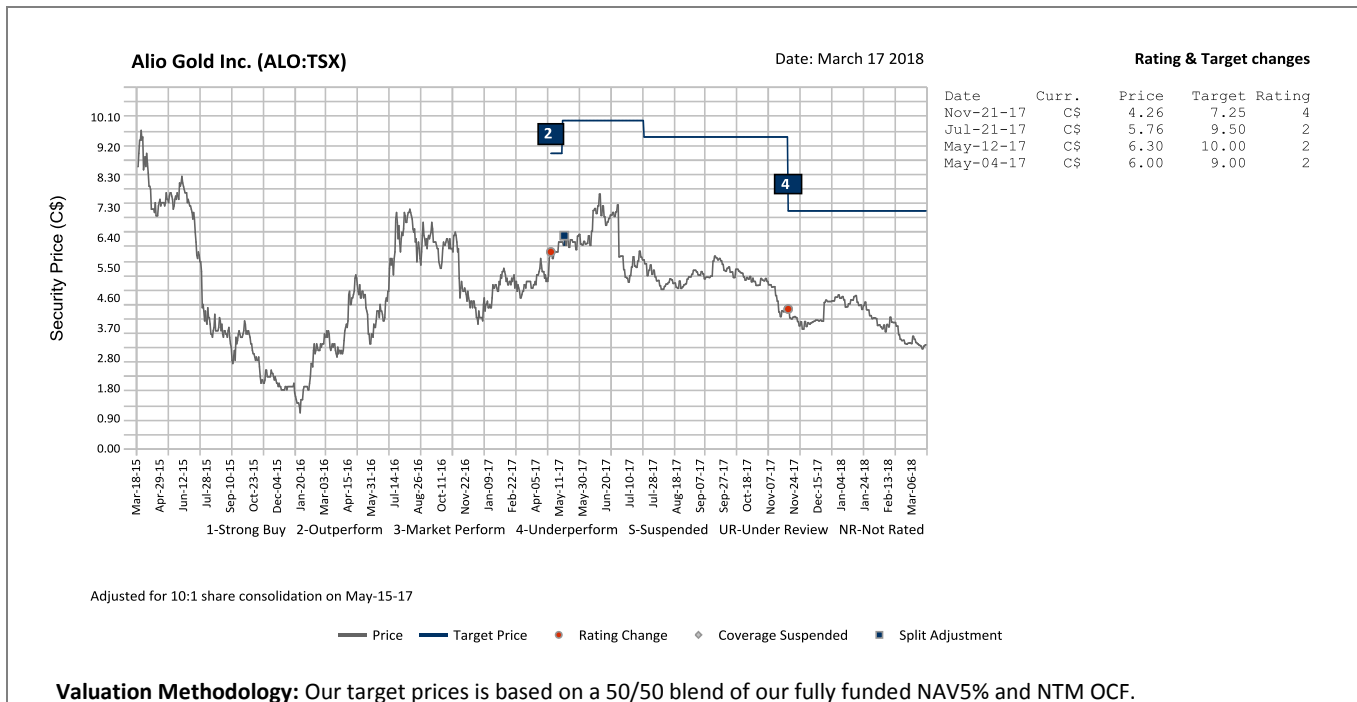
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