

## Canadian Equity Research

3 May 2017

**Rahul Paul** | Analyst | Canaccord Genuity Corp. (Canada) | rpaul@canaccordgenuity.com | 1.416.869.7289  
**Matthew MacPhail, P.Eng** | Associate | Canaccord Genuity Corp. (Canada) | mmacphail@canaccordgenuity.com | 1.416.867.2649

### SPECULATIVE BUY

unchanged

**PRICE TARGET** C\$0.60

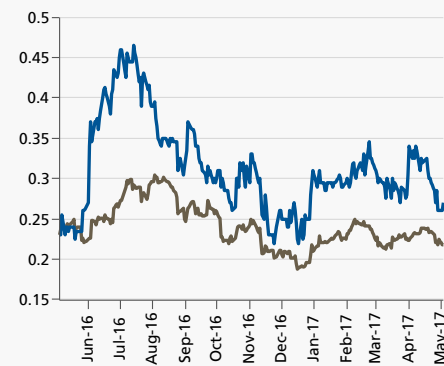
unchanged

Price (2-May) C\$0.27 ; US\$.20

Ticker RPM-TSXV; RPMGF-OTC

52-Week Range (C\$):	0.22 - 0.47
Avg Daily Vol (000s) :	757.1
Market Cap (C\$M):	105
Shares Out., Basic (M) :	387.3
Enterprise Value (C\$M):	130
Cash (C\$M):	12.4
Long-Term Debt (C\$M):	11.9
Net Debt/EBITDA :	1.75
P/NAV (x) :	0.35

FYE Dec	2016A	2017E	2018E	2019E
Production (000oz)	0	41	66	85
Total Cash Costs (US\$/oz)	0	878	873	846
EPS Adj&Dil (C\$)	(0.02)↓	0.03↑	0.08	0.07↓
Previous	(0.00)	0.01	-	0.08
CFPS (C\$)	(0.00)↓	0.03↑	0.09	0.08↓
Previous	0.00	0.01	-	0.10
P/E (x)	(14.9)	10.5	3.3	4.0
P/CFPS (x)	(91.0)	8.2	2.9	3.3



Source: FactSet

Priced as of close of business 2 May 2017

Rye Patch Gold is a Canadian-based emerging precious metals producer. With a portfolio of development and exploration projects (Florida Canyon being the flagship asset), the company is focused on transitioning into Nevada's up-and-coming junior miner.

## Estimates Revised

### Braving the storm to emerge as Nevada's newest gold producer

We maintain our SPEC BUY rating and C\$0.60 target price on Rye Patch following first gold pour from the new leach pad at Florida Canyon, establishing Rye Patch as one of the newest producers in the sector.

**Florida Canyon re-start successful despite unforeseen challenges:** We consider this a significant achievement considering that only a year ago, Rye Patch was a junior developer without a clear path/timeline to production. Following the acquisition of the asset, the company financed and successfully completed the restart project in a relatively short span of time after overcoming a series of challenges including permitting/funding delays and severe winter weather in Nevada that delayed construction of the new leach pad.

**Focus now shifting to the ramp-up,** with commercial production expected by Q3/17. Mining, crushing and stacking are already close to commercial threshold levels of 80%. The key will be to optimize equipment performance and improve availability (a focus in Q2). Recoveries will also need to ramp up to threshold levels, although this could be relatively quick considering the new leach pad and attractive leach cycle.

**Balance sheet needs to be managed:** While the project appears to be on budget, the ~6-month delay seems to have consumed much of the financial contingency originally built into the plan (delays with generating cash flow). We currently estimate a trough cash balance of US\$4M in Q2/17. After debt repayments (US\$1M in Sep 2017 and US\$4M in Dec 2017) and other obligations, we forecast an increasing cash balance in Q3 and beyond (provided no material unforeseen setbacks). The original credit agreement stipulates a minimum cash balance of US\$4M, and as such we believe the balance sheet provides little room for error during the ramp-up period (Q2-Q3/17).

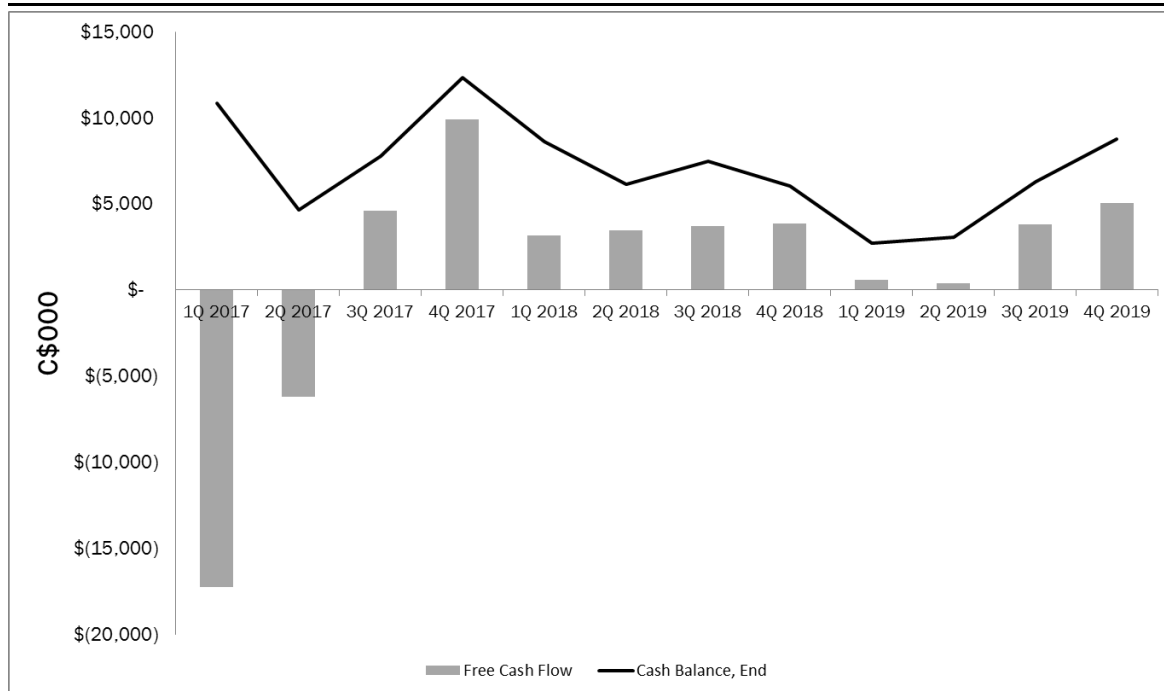
**But financial constraints appear manageable and likely short-term:** We note that the credit agreement was drafted prior to the start of development. We believe the minimum cash requirement could be temporarily waived/reduced since (1) the constraint appears relatively small/short-term, and (2) resulted from factors outside of management control. In the event that Macquarie does not waive this requirement, external funding may be required to provide for some added flexibility. We believe raising equity could be difficult in current market conditions. As such, we believe a more likely scenario (if the need arose) could be a sale of the Coeur Rochester royalty (estimated value of US\$6M, NPV5% as at the end of Q2/17) which could resolve the situation.

**Maintain SPEC BUY, C\$0.60 target:** We have updated our forecasts to reflect lower cash costs in H2/17, explaining our higher 2017 EPS/CFPS forecasts. We have also assumed that the \$5M contingent payment (on the acquisition cost) to be settled in shares (10M shares) and a subordinate \$2.5M loan (as per Rye Patch's option). Although our NAVPS estimate is lower on the added share dilution, our target remains unchanged based on an increased P/NAV multiple (0.75x from 0.70x) reflecting producer status. We note that our targeted multiple represents a 15% discount to the mid-cap producer average, reflecting relatively higher near-term risk.

**We view the inexpensive valuation as an opportunity:** Rye Patch trades at 0.35x P/NAV, a 41% discount to the mid-cap producer average of 0.59x and a 13% discount to even the explorer/developer average. While we acknowledge the near-term ramp-up risks and balance sheet constraints, we believe these issues are manageable and see considerable re-rating potential as the story is further de-risked.

**Next potential catalyst(s):** Ramp-up updates for Florida Canyon (mid-2017E)

**Figure 1: Quarterly free cash flow, and end of quarter cash balance**



Source: Company Reports, Canaccord Genuity estimates

**Note:** Declining cash balance in 2018/19 is the result of assumed spending an expansion at Florida Canyon (spending in 2018, start-up in 2019) and development of Lincoln Hill (spending in 2019, start-up in 2020). We expect that these projects could be postponed to provide additional flexibility if needed.

**Figure 2: Operating Summary**

(C\$M except per share data)

FYE Dec 31		2017E	2018E	2019E	2020E
<b>Production &amp; Cost Summary</b>					
Florida Canyon (100%), Nevada, USA	Production Au (000 oz)	41	66	85	109
	Sales Au (000 oz)	52	66	85	109
	Cash Operating Costs (US\$/oz)	\$811	\$799	\$771	\$771
	Total Cash Costs (US\$/oz)	\$878	\$873	\$846	\$847
	All-in-sustaining Costs (US\$/oz)	\$915	\$906	\$872	\$868
Lincoln Hill (100%), Nevada, USA	Production Au (000 oz)	0	0	0	35
	Sales Au (000 oz)	0	0	0	35
	Cash Operating Costs (US\$/oz)	\$0	\$0	\$0	\$70
	Total Cash Costs (US\$/oz)	\$0	\$0	\$0	\$135
	All-in-sustaining Costs (US\$/oz)	\$0	\$0	\$0	\$214
<b>Consolidated</b>	<b>Production Au (000 oz)</b>	<b>41</b>	<b>66</b>	<b>85</b>	<b>144</b>
	<b>Sales Au (000 oz)</b>	<b>52</b>	<b>66</b>	<b>85</b>	<b>144</b>
	<b>Cash Operating Costs (US\$/oz)</b>	<b>\$811</b>	<b>\$799</b>	<b>\$771</b>	<b>\$602</b>
	<b>Total Cash Costs (US\$/oz)</b>	<b>\$878</b>	<b>\$873</b>	<b>\$846</b>	<b>\$675</b>
	<b>All-in-sustaining Costs (US\$/oz)</b>	<b>\$936</b>	<b>\$929</b>	<b>\$890</b>	<b>\$721</b>
<b>Capital Expenditures (US\$ M)</b>					
Florida Canyon (100%), Nevada, USA	Sustaining Capex	\$2	\$2	\$2	\$2
	Growth Capex	\$14	\$15	\$0	\$0
	Total Capex	\$16	\$17	\$2	\$2
Lincoln Hill (100%), Nevada, USA	Sustaining Capex	\$0	\$0	\$0	\$3
	Growth Capex	\$0	\$0	\$15	\$0
	Total Capex	\$0	\$0	\$15	\$3
<b>Consolidated</b>	<b>Sustaining Capex</b>	<b>\$3</b>	<b>\$3</b>	<b>\$3</b>	<b>\$7</b>
	<b>Growth Capex</b>	<b>\$19</b>	<b>\$20</b>	<b>\$20</b>	<b>\$0</b>
	<b>Total Capex</b>	<b>\$22</b>	<b>\$23</b>	<b>\$23</b>	<b>\$7</b>
<b>Operating Parameters</b>					
Florida Canyon (100%), Nevada, USA	Throughput (tpd)	12,144	17,895	22,800	29,080
	Tonnes processed (000 t)	4,433	6,532	8,322	10,614
	Grade processed, Au (g/t)	0.51	0.48	0.45	0.45
	Recovery, Au (%)	56.1%	65.0%	71.1%	71.1%
	Open-pit Strip Ratio (Waste : Ore)	1.50	1.40	1.47	1.47
	Unit site costs (US\$/tonne processed)	\$9.16	\$7.94	\$7.84	\$7.84
Lincoln Hill (100%), Nevada, USA	Throughput (tpd)	0	0	0	3,693
	Tonnes processed (000 t)	0	0	0	1,348
	Grade processed, Au (g/t)	0.00	0.00	0.00	1.25
	Recovery, Au (%)	0.0%	0.0%	0.0%	64.0%
	Open-pit Strip Ratio (Waste : Ore)	0.00	0.00	0.00	0.83
	Unit site costs (US\$/tonne processed)	\$0.00	\$0.00	\$0.00	\$9.54
<b>Consolidated</b>	<b>Throughput (tpd)</b>	<b>12,144</b>	<b>17,895</b>	<b>22,800</b>	<b>32,773</b>
	<b>Tonnes processed (000 t)</b>	<b>4,433</b>	<b>6,532</b>	<b>8,322</b>	<b>11,962</b>
	<b>Grade processed, Au (g/t)</b>	<b>0.51</b>	<b>0.48</b>	<b>0.45</b>	<b>0.54</b>
	<b>Recovery, Au (%)</b>	<b>56.1%</b>	<b>65.0%</b>	<b>71.1%</b>	<b>69.2%</b>
	<b>Open-pit Strip Ratio (Waste : Ore)</b>	<b>1.50</b>	<b>1.40</b>	<b>1.47</b>	<b>1.40</b>

Source: Company Reports, Canaccord Genuity estimates

**Figure 3: Income Statement***(C\$M except per share data)*

<b>FYE Dec 31</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Revenue	\$86	\$116	\$146	\$262
Operating Costs	(\$69)	(\$76)	(\$95)	(\$140)
Gross Margin	\$17	\$41	\$51	\$122
Corporate G&A, Other	(\$1)	(\$2)	(\$3)	(\$4)
<b>EBITDA</b>	<b>\$16</b>	<b>\$39</b>	<b>\$48</b>	<b>\$118</b>
Depreciation	(\$3)	(\$5)	(\$6)	(\$11)
<b>EBIT</b>	<b>\$13</b>	<b>\$34</b>	<b>\$43</b>	<b>\$107</b>
Interest Expense, Net	(\$3)	(\$2)	(\$1)	(\$0)
Other	\$0	\$0	\$0	\$0
<b>Earnings Before Taxes (EBT)</b>	<b>\$10</b>	<b>\$32</b>	<b>\$42</b>	<b>\$107</b>
Taxes	\$0	\$0	(\$15)	(\$38)
Other	\$0	\$0	\$0	\$0
<b>Earnings (Reported)</b>	<b>\$10</b>	<b>\$32</b>	<b>\$27</b>	<b>\$69</b>
<b>Earnings (Adjusted)</b>	<b>\$10</b>	<b>\$32</b>	<b>\$27</b>	<b>\$69</b>
<b>Weighted Avg Shares O/S (Diluted)</b>	<b>389</b>	<b>397</b>	<b>397</b>	<b>397</b>
<b>EPS (Reported), Basic</b>	<b>\$0.03</b>	<b>\$0.08</b>	<b>\$0.07</b>	<b>\$0.17</b>
<b>EPS (Adjusted), Diluted</b>	<b>\$0.03</b>	<b>\$0.08</b>	<b>\$0.07</b>	<b>\$0.17</b>
Gross Operating Margin (%)	19.4%	34.9%	35.0%	46.6%
EBITDA Margin (%)	18.5%	33.3%	33.0%	45.1%

Source: Company Reports, Canaccord Genuity estimates

**Figure 4: Cash Flow Statement***(C\$M except per share data)*

<b>FYE Dec 31</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Earnings (Adjusted)	\$10	\$32	\$27	\$69
Depreciation	(\$3)	(\$5)	(\$6)	(\$11)
Other	\$6	\$10	\$11	\$22
Operating Cash Flow	\$13	\$37	\$33	\$80
Working Capital Changes	\$0	\$0	\$0	\$0
<b>Cash Flow From Operations</b>	<b>\$13</b>	<b>\$37</b>	<b>\$33</b>	<b>\$80</b>
Capital Expenditures	(\$22)	(\$23)	(\$23)	(\$7)
Other Net Investments	\$0	\$0	\$0	\$0
<b>Cash Flow From Investing Activities</b>	<b>(\$22)</b>	<b>(\$23)</b>	<b>(\$23)</b>	<b>(\$7)</b>
Debt Additions	\$17	\$0	\$0	\$0
Debt Repayments	(\$7)	(\$21)	(\$7)	(\$4)
Equity Financing	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0
Other Net Financing	\$0	\$0	\$0	\$0
<b>Cash Flow From Financing Activities</b>	<b>\$10</b>	<b>(\$21)</b>	<b>(\$7)</b>	<b>(\$4)</b>
Foreign Exchange Changes	\$0	\$0	\$0	\$0
<b>Cash Balance, Beginning</b>	<b>\$11</b>	<b>\$12</b>	<b>\$6</b>	<b>\$9</b>
<b>Net Increase In Cash</b>	<b>\$1</b>	<b>(\$6)</b>	<b>\$3</b>	<b>\$70</b>
<b>Cash Balance, End</b>	<b>\$12</b>	<b>\$6</b>	<b>\$9</b>	<b>\$78</b>
<b>Free Cash Flow</b>	<b>(\$9)</b>	<b>\$14</b>	<b>\$10</b>	<b>\$74</b>
<b>Net Free Cash Flow</b>	<b>\$1</b>	<b>(\$6)</b>	<b>\$3</b>	<b>\$70</b>
<b>Free Cash Flow/ Share</b>	<b>(\$0.02)</b>	<b>\$0.04</b>	<b>\$0.02</b>	<b>\$0.19</b>
<b>Net Free Cash Flow /Share</b>	<b>\$0.00</b>	<b>(\$0.02)</b>	<b>\$0.01</b>	<b>\$0.18</b>
<b>Operating Cash Flow (adjusted)</b>	<b>\$13</b>	<b>\$37</b>	<b>\$33</b>	<b>\$80</b>
<b>CFPS (Adjusted)</b>	<b>\$0.03</b>	<b>\$0.09</b>	<b>\$0.08</b>	<b>\$0.20</b>

Source: Company Reports, Canaccord Genuity estimates

**Figure 5: Balance Sheet***(C\$M except per share data)*

<b>FYE Dec 31</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Cash & Equivalents	\$12	\$6	\$9	\$78
Other Current Assets	\$14	\$14	\$14	\$14
<b>Total Current Assets</b>	<b>\$27</b>	<b>\$20</b>	<b>\$23</b>	<b>\$93</b>
Long-term Assets	\$135	\$153	\$171	\$166
<b>Total Assets</b>	<b>\$162</b>	<b>\$174</b>	<b>\$194</b>	<b>\$259</b>
Current Debt	\$21	\$7	\$4	\$1
Other Current Liabilities	\$25	\$25	\$25	\$25
<b>Total Current Liabilities</b>	<b>\$45</b>	<b>\$32</b>	<b>\$29</b>	<b>\$26</b>
Long-term Debt	\$12	\$5	\$1	\$0
Other long-term liabilities	\$40	\$40	\$40	\$40
<b>Total Liabilities</b>	<b>\$97</b>	<b>\$77</b>	<b>\$69</b>	<b>\$66</b>
Shareholder's Equity	\$70	\$102	\$129	\$198
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>\$167</b>	<b>\$178</b>	<b>\$198</b>	<b>\$264</b>
<b>Shares (End of Period), M</b>	<b>397</b>	<b>397</b>	<b>397</b>	<b>397</b>
<b>Book Value per Share</b>	<b>\$0.18</b>	<b>\$0.26</b>	<b>\$0.32</b>	<b>\$0.50</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 6: Previous Forecasts

FYE Dec 31		2017E	2018E	2019E	2020E
<b>Production &amp; Costs</b>					
Consolidated (Previous)	Production Au (000 oz)	41	66	93	144
	Sales Au (000 oz)	52	66	93	144
	Cash Operating Costs (US\$/oz)	914	820	771	602
	Total Cash Costs (US\$/oz)	981	894	846	675
	All-in-sustaining Costs (US\$/oz)	1,040	950	887	721
% Change (Current vs Previous)	Production Au (000 oz)	0%	0%	-8%	0%
	Sales Au (000 oz)	0%	0%	-8%	0%
	Cash Operating Costs (US\$/oz)	-11%	-3%	0%	0%
	Total Cash Costs (US\$/oz)	-10%	-2%	0%	0%
	All-in-sustaining Costs (US\$/oz)	-10%	-2%	0%	0%
<b>Financial Summary (C\$)</b>					
Consolidated (Previous)	EBITDA (\$M)	\$9	\$37	\$53	\$118
	EPS (Adjusted), Diluted	\$0.01	\$0.08	\$0.08	\$0.18
	CFPS (Adjusted), Diluted	\$0.01	\$0.09	\$0.10	\$0.21
	Total Capex (\$M)	\$22	\$23	\$23	\$7
	Free Cash Flow (\$M)	(\$23)	\$11	\$15	\$73
	Cash Balance, End	\$8	\$7	\$10	\$71
% Change (Current vs Previous)	EBITDA (\$M)	82%	5%	-8%	0%
	EPS (Adjusted), Diluted	256%	7%	-16%	-2%
	CFPS (Adjusted), Diluted	127%	5%	-15%	-2%
	Total Capex (\$M)	0%	0%	0%	0%
	Free Cash Flow (\$M)	-61%	24%	-33%	0%
	Cash Balance, End	60%	-17%	-14%	10%

Source: Company Reports, Canaccord Genuity estimates



Figure 7: NAV Summary

	5%				% Contribution	
	US\$000	US\$/Share	C\$000	C\$/Share	to Operating NAV	to Consolidated NAV
<b>GOLD/SILVER ASSETS</b>						
<b>Gold/Silver Mines/Advanced Projects</b>						
Florida Canyon (100%), Nevada, USA	\$233,356	\$0.52	\$297,945	\$0.66	76.7%	85.0%
Lincoln Hill (100%), Nevada, USA	\$42,959	\$0.09	\$54,849	\$0.12	14%	16%
<b>Sub-total Gold/Silver Mines/Projects</b>	<b>\$276,315</b>	<b>\$0.61</b>	<b>\$352,795</b>	<b>\$0.78</b>	<b>91%</b>	<b>101%</b>
<b>Gold/Silver Exploration Assets</b>						
Wilco (100%), Nevada, USA	\$25,000	\$0.06	\$31,920	\$0.07	8%	9%
<b>Sub-total Gold/Silver Exploration Assets</b>	<b>\$25,000</b>	<b>\$0.06</b>	<b>\$31,920</b>	<b>\$0.07</b>	<b>8%</b>	<b>9%</b>
<b>Gold/Silver Royalties</b>						
Rochester 3.4% NSR	\$5,820	\$0.01	\$7,431	\$0.02	2%	2%
<b>Sub-total Gold/Silver Royalties</b>	<b>\$5,820</b>	<b>\$0.01</b>	<b>\$7,431</b>	<b>\$0.02</b>	<b>2%</b>	<b>2%</b>
<b>Other Gold/Silver Assets &amp; Liabilities</b>						
Hedging Gains (Losses), Au & Ag	(\$2,741)	(\$0.01)	(\$3,499)	(\$0.01)	-1%	-1%
<b>Sub-total other gold/silver assets &amp; liabilities</b>	<b>(\$2,741)</b>	<b>(\$0.01)</b>	<b>(\$3,499)</b>	<b>(\$0.01)</b>	<b>-1%</b>	<b>-1%</b>
<b>Total Gold/Silver NAV</b>	<b>\$304,395</b>	<b>\$0.67</b>	<b>\$388,646</b>	<b>\$0.86</b>	<b>100%</b>	<b>111%</b>
<b>TOTAL OPERATING NAV</b>	<b>\$304,395</b>	<b>\$0.67</b>	<b>\$388,646</b>	<b>\$0.86</b>	<b>100%</b>	<b>111%</b>
<b>CORPORATE ADJUSTMENTS/OTHER</b>						
Corporate G&A	(\$4,679)	(\$0.01)	(\$5,974)	(\$0.01)		-2%
Working Capital (Basic)	(\$14,766)	(\$0.03)	(\$18,854)	(\$0.04)		-5%
Long Term Debt	(\$25,409)	(\$0.06)	(\$32,442)	(\$0.07)		-9%
Value of Dilutive Instruments (Options & Warrants)	\$15,032	\$0.03	\$19,193	\$0.04		5%
<b>Total Corporate Adjustments/Other</b>	<b>(\$29,823)</b>	<b>(\$0.07)</b>	<b>(\$38,077)</b>	<b>(\$0.08)</b>		<b>-11%</b>
<b>TOTAL NAV</b>	<b>\$274,572</b>	<b>\$0.61</b>	<b>\$350,569</b>	<b>\$0.77</b>		<b>100%</b>

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

### Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

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### Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: May 03, 2017, 03:57 ET

Date and time of production: May 03, 2017, 03:57 ET

### Target Price / Valuation Methodology:

Rye Patch Gold Corp. - RPM

Our 12-month target price of C\$0.60 is based on 0.75x our operating NAVPS estimate plus net working capital and other corporate adjustments.

### Risks to achieving Target Price / Valuation:

Rye Patch Gold Corp. - RPM

There are risks associated with any mining investment which include commodity price risks, permitting and technical (development and operating risk), as well as social, legal and political risks. In addition, investors should also note the SPECULATIVE qualifier associated with our rating that reflects the materially higher financial/development/ramp-up risks that apply to pre-cash flow exploration/development companies.

Others risks to our rating and to achieving our 12-month target price for Rye Patch include ramp-up risks at Florida Canyon particularly in light of the limited balance sheet flexibility to withstand any material setbacks. As outlined in our note, we see a number of options to resolve the balance sheet constraints but cannot guarantee a positive outcome. Any major ramp-up setbacks at Florida Canyon and/or a failure to renegotiate the credit agreement/raise additional funds could have an adverse impact on the stock price and our rating/or target.

Other risks include, but are not limited to resource conversion/exploration risk as well as development/permitting risks at Lincoln Hill and Wilco.

### Distribution of Ratings:

#### Global Stock Ratings (as of 05/03/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	570	60.19%	39.47%
Hold	280	29.57%	18.57%
Sell	27	2.85%	11.11%
Speculative Buy	70	7.39%	70.00%
	947*	100.0%	

\*Total includes stocks that are Under Review

### Canaccord Genuity Ratings System

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

### Risk Qualifier

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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An analyst has visited the material operations of Rye Patch Gold Corp.. Partial payment was received for the related travel costs.

Rye Patch Gold Corp. Rating History as of 05/02/2017



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