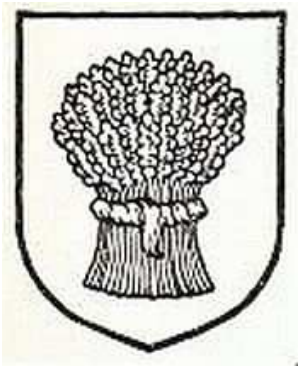
Monday, May 14, 2018



HALLGARTEN & COMPANY

Coverage Update

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Para Resources

(TSX-V: PBR, FSE: A14YF1, OTCQB: PRSRF)

Strategy: LONG

Key Metrics			
Price (CAD)	$0.215		
12-Month Target Price (CAD)	$0.58		
Upside to Target	170%		
12 mth high-low	$0.125-$0.245		
Market Cap (CAD mn)	$ 31.2		
Shares Outstanding (millions)	145.0		
Fully Diluted (millions)	171.0		
	FY17	**FY18e**	**FY19e**
Consensus EPS		n/a	n/a
Hallgarten EPS (CAD)		($0.02)	$0.03
Actual EPS (CAD)	-0.08		
P/E	n/a	n/a	5.4

Para Resources

Setting out on the Gold Road

- + With a producing gold mine and operating mill in Colombia, Para Resources has passed into the all-important producer category
- + Purchase of the Gold Road property, with its plug-and-play mine, will add Para to the roster of US gold producers by the end of 2018
- + The addition of the Tr-Ue properties has massively expanded the grip of Para on the Oatman gold mining district and brought a bevy of significant past-producing mines into the fold
- + Recently published PEA for Gold Road estimates All-in Sustaining Cost of US$632.79 per ounce of gold
- + Low CapEx of US$5.7mn
- + Total annual gold production (Colombia and Arizona) by the end of 2019 could be in excess of 30,000 ozs per annum
- + EBITDA from Gold Road alone could be in excess of USD10mn per annum by 2020
- ✘ Gold price is far from ebullient effecting investor sentiment and the financing climate
- ✘ The start-up of El Limon has been plagued by technical problems and breakdowns putting its significantly behind schedule
- ✘ Financing is not easy despite the mining sector now being two years into its “recovery”

Mighty Morphing Miner

In the beginning there was Brazil… but that was quickly superseded by Colombia then Nicaragua and Peru were to be bolted on until along came Arizona and then Peru was ditched and Brazil and Nicaragua look set to exit stage left. While Nicaragua was production it came at too high a price. Peru and Brazil won’t be missed as they heralded more expenditure and no likely production in the short to medium term. The message is clear and that is that Para is production- focused and will brutally discard anything that doesn’t measure up. How we wish other miners were like this.

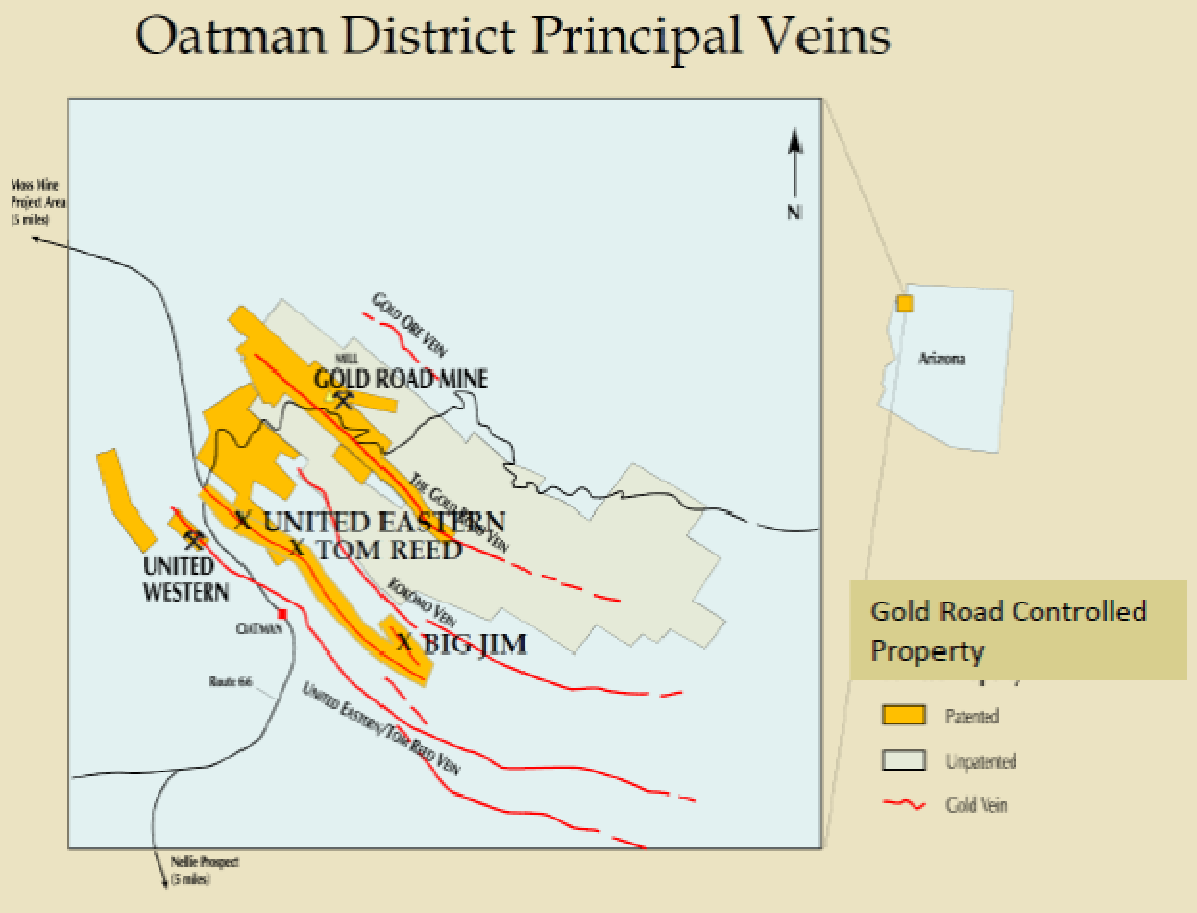
The opportunity that has led Para to feel it can do without other potential constituents in its far-flung empire was its acquisition in early August of the Gold Road Mine in Arizona. Then it acquired neighbouring territory with a history of high-grade production. The PEA which was published in recent days shows an AISC at around half the current gold price auguring for good margins when production restarts. On top of that the capex for the restart is a mere $5.7mn.

In this coverage update we shall review the latest purchases and the progress thus far.

Arizona – Following the Gold Road

In early August 2017, Para entered into an asset purchase agreement, along with its indirect 88% owned subsidiary, Gold Road Mining Corp., to acquire from Mojave Desert Minerals LLC, all of the assets comprising the Gold Road Mine located in Oatman, Arizona. Then in December of 2017 it added to these holdings by acquiring a number of packages covering vein systems, largely to the south of Gold Road.

The Oatman District is, historically, the largest primary gold producing district in Arizona. Total gold production, including Gold Road, has been more than 2.38 million ounces of Gold (not Au equivalent). The vast majority of the production has come from two sub- parallel vein systems, the Gold Road system and the Tom Reed-United Eastern (Tr-Ue vein) system. In addition to these two systems there is a third vein system, the Pioneer- Midnight system, which is southwest of the Tr-Ue system for which production records are mostly unknown. The distance between these veins is less about two kilometers.



Many of these mines stopped production in 1942 due to the US war effort and were never re-started. They were producing from high-grade underground veins at that time.

The Gold Road vein itself has produced over 700,000 ounces of gold and operated as recently as 2016.

Prior development efforts exposed projected mining blocks at the bottom of the mine. This effort also made available a platform to drill below the lowest levels to determine the additional depth potential of the mine. The Gold Road mineralization is open in both directions along strike and down dip.

Historic production has been 746,040 oz Au at an average grade of 10.8 g/t Au over widths from 4 to 25 feet. Mining has historically been contained within patented (fee simple land) and the majority of the exploration potential is on private land.

The Transaction

The asset purchase agreement for Gold Road covered the acquisition of all of the patented and unpatented claims comprising the Gold Road Mine, the mill site and water rights claims, the mining and milling equipment (500 tpd cyanide leach facility), related buildings, warehouse, vehicles, lab equipment and all assets comprising the facility. The purchase price of USD$6,767,540, consists of a cash payment of USD$767,540 at closing, with the balance of USD$6mn covered by a promissory note that provides for payment of USD$1mn on each anniversary of the closing date, until fully paid. Para may prepay the note without premium or penalty.

Para also agreed to grant to the vendor, a net smelter returns royalty of 2% with respect to product mined at the Gold Road Mine and a 1% net smelter returns royalty on product processed at the Gold Road Mine, or its mill.

The Milling Facility

A modern fully-permitted cyanide leach mill that last operated in June of 2016 is located on the Gold Road site and has been on care & maintenance since closure. The latest PEA signals that no major capital costs need to be incurred to restart the mill.

The mill is a 500 tpd carbon-in-pulp mill that has historically achieved typical recovery of 93% to 95% on run of mine mineralized material. Minimal recommissioning costs are expected as the mill last ran in July of 2016. Permitting is complete for the mill's nameplate capacity to be doubled to 1,000 tpd and tailings capacity for 1,750,000 tons (10 years @ 500tpd) has been constructed. An additional 1,800,000 tons of tailings capacity has been permitted, but not constructed. Milling cost is approximately $25/ ton at a grind of 90% passing 320 mesh.

The mill is within easy hauling distance of the entire Oatman district and the mill was designed to treat mineralized material from any mine in the district. Permitting allows mineralized material from the district to be treated with no modification of the Gold Road Mill permit.

On the following page can be seen the Gold Road complex showing the mine entrance, mill and dry stack tailings.

Sufficient mining blocks are available to support a 250 tpd production rate for two years with only minimal development. Three more years of blocks have been estimated but will require development and verification sampling. These blocks have been assayed at an average grade of 7.75 gpt Au with vein widths at 1.5 to 1.8 meters. The mine has been dewatered, electrical power and compressed air are available at all levels and the ventilation system fans have been re-installed.

The ore is amenable to cyanidation at a fine grind. The metallurgy of the ore is well known through both historical milling and recent milling at the Gold Road Mine. Cost of milling is well known and recovery is expected to be 92%.

Based on its due diligence the company believes there is potential to have Gold Road producing 35-50,000 ounces a year, with a goal of producing more than 100,000 ounces by 2020.

Exploration Potential and Plans

In October, 2009, an appraisal of the property and resource was performed by SRK and it concluded that there were 207,000 ounces of gold in the Inferred category. The latest PEA (discussed further along)

tweaked this slightly higher to 213,000 in the same category. The company feels that the exploration potential is substantial as the vein is open to the east and down dip. To the west, the vein has been lost and is probably displaced by a fault.

Exploration for the Gold Road mine is proposed to be achieved from underground drill stations. Drilling from the surface cannot be achieved economically due to terrain limitations, depth and the dip of the vein. The 800 (820-840) level was driven with the goal of using it to explore the vein through drifting along the vein, but also with the goal of utilizing it as access to drive crosscuts into the hanging wall for drill stations. Five crosscuts are proposed with the purpose of exploring the best areas first. Both core drilling and underground reverse circulation drilling techniques would be utilized to maximize the number of penetrations at the least overall cost without compromising data quality.

The Updated PEA

In early May 2018, Para published an NI 43-101 compliant PEA, prepared by RPM Global on the Gold Road mine. The most noteworthy features were:

- ✓ Pre-tax Net Present Value ("NPV") at a 5% discount rate of US$81.3 million (CAD$104 million1) and Internal Rate of Return ("IRR") of 238%
- ✓ Post-Tax NPV at a 5% discount rate of US$56.7 million [CAD$ 72.58 million) and IRR of 174%
- ✓ Pre-tax Net Cash Flow of US$103.96 million (CAD$133.07M1) Undiscounted cash flow after income and mining tax of US$72.89 million
- ✓ Payback period of 1.5 years
- ✓ Initial capital of US$5.7 million
- ✓ Life of Mine of seven years with 1.1 million tons of potential mill feed at an average diluted grade of 0.19 ounces of gold per ton (6.5 g/t)
- ✓ Initial mining rate of 250 tons per day, increasing to 500 tons per day in Year 3
- ✓ Total All-in Sustaining Cost of US$632.79 per ounce of gold
- ✓ Assumed long term price of gold is US$1,200 per ounce

The company has already developed strategies to quickly ramp up production in 2019 to 500 TPD, increase the head-grade by developing working faces in historically higher-grade rock and to take advantage of the currently higher price of gold than was used in the study.

The company is executing an exploration plan intended to increase the resources at Gold Road and seek higher grade material along the Tr-Ue Vein. It plans to recommence operations at Gold Road in September of 2018 and expects to achieve full production by mid-2019. The PEA reports that the mill

and mine infrastructure is in excellent shape and requires very little in the way of capex. The only major capex is required to install a shaft and headframe to reduce the cost of extracting ore for the mine. Production can be achieved using 20-ton rubber wheeled trucks up the two-mile-long decline while the shaft is under construction.

Geology

The Oatman mining district lies on the western flank of the Black Mountains of northwestern Arizona, a fault-bounded range situated near the eastern edge of the Basin and Range Province (Clifton et al., 1980). The Black Mountains are composed of a sequence of rhyolitic to basaltic Tertiary volcanic rocks which rest unconformably on Proterozoic-age metamorphic basement rocks.

Closely-spaced northwest- to north-northwest-trending normal faults of moderate displacement cut the volcanic sequence and host the important gold-bearing epithermal veins of the district. The mineralized veins generally have a quartz-calcite-adularia-gold (electrum) mineralogy. Two of the important vein-hosting structures, the Gold Road vein system and the Tom Reed-United Eastern vein system, have accounted for about 90% of the total gold production in the Oatman mining district. At least twenty additional structures have been mapped in the area. According to the NI43-101 report on the property from last December the structures remain poorly explored, but highly prospective.

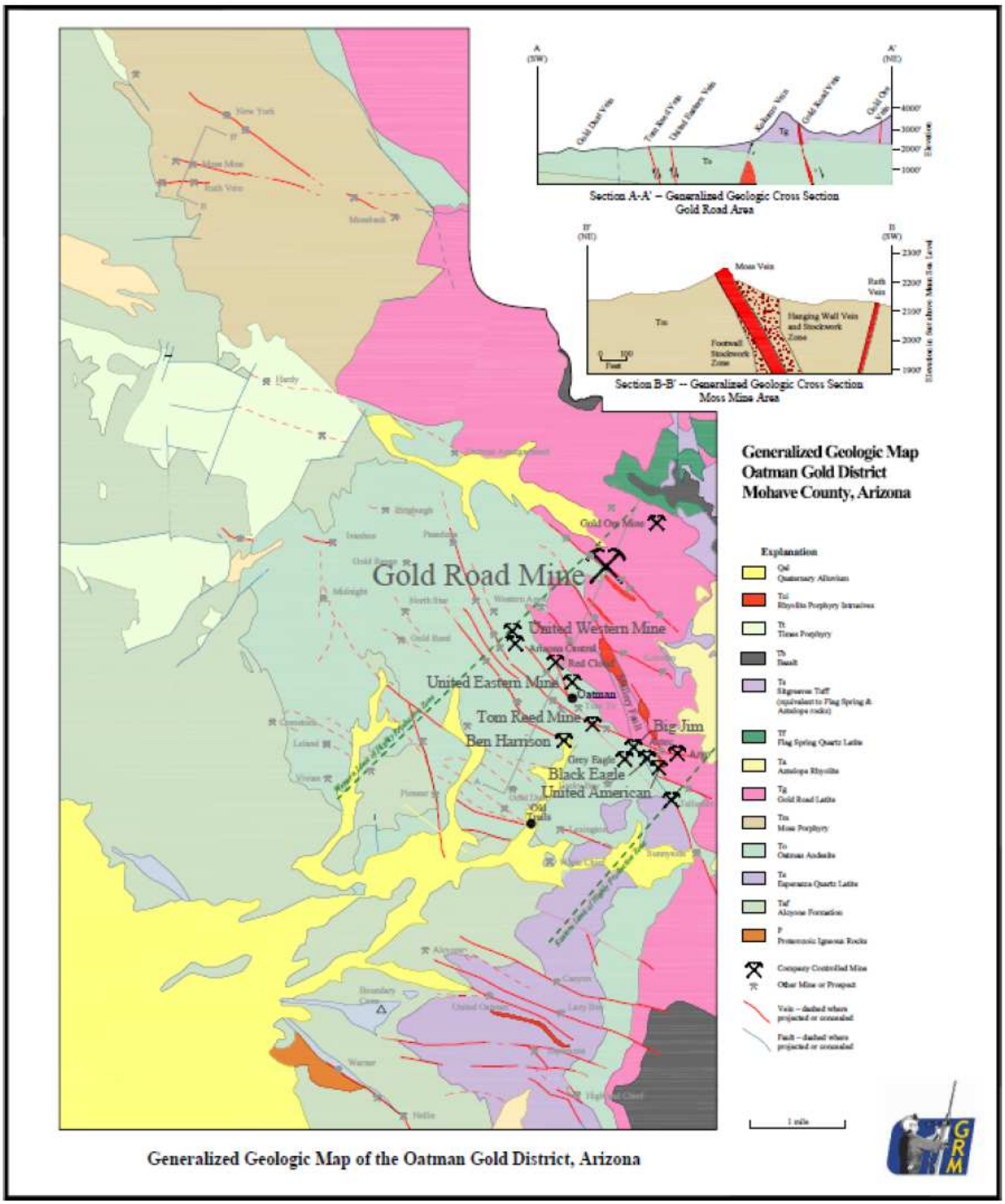
At Oatman, the majority of the past productive ore shoots did not outcrop. Only the Gold Road vein and the Ben Harrison orebody of the Tom Reed mine outcrop. The others were discovered between 50 and 500 feet (15 and 152 m) below the surface. Typically, the surface expression of blind ore bodies was subtle to non-existent and did not have a distinctive geochemical signature. Recognizing these subtle alteration patterns will probably play a major role in locating other blind ore bodies in the district.

All mineralization in the district is in epithermal quartz, calcite, adularia veins containing cyanide leachable gold, and silver. The absence of environmentally sensitive constituents (RECRA metals) and acid- generating minerals significantly reduces permitting and reclamation issues.

With specific reference to the Gold Road property, the NI43-101 states that the mineralization consists of quartz-calcite-adularia veins within the northwest-trending Gold Road fault zone. The fault zone can be over 150 feet (46 m) wide and quartz vein(s) may occupy one or more strands within the structure. Vein strands usually occupy the footwall, hanging wall or a central portion of the structure, but strands may occur in two or all three of these positions within the same area. Where the fault zone is narrow (such as areas within the Gold Road latite) vein material may occupy the entire structure.

The “main” Gold Road vein occupies a strong fault fissure, typical of the district. This structure was formed by several separate movements before, during and after gold mineralization. The strike of the sinuous vein varies from N50°W to N66°W and generally dips 65° to 85° to the northeast, though locally the vein can be vertical or dip steeply to the southwest. The vein system outcrops continuously for about 7500 feet (2286 m) on the Property (Figure 7-3), including a segment that is in ore grade

mineralization on the surface for over a mile (1524 m). Most of the ore has been mined in wide lenses within dilatant zones of the vein structure. The wider dilatant zones of the vein may be related to areas of north- to northeast-curving concavity along the sinuous normal fault.



Mineral Resource Estimate

Resources were supported by 14,768 channel samples. The database contains 19,400 assay data excluding the 16 drill holes which were not used in the resource estimate. The channel samples were taken within the mined stopes and the development workings. Channels are spaced every five feet along the drifts.

All the Inferred mineral resources are reported using a 0.1 opt Au cutoff, which is roughly the current economic cutoff. In order to meet the international requirement of reasonable prospect for eventual economic extraction, the mineral resources quoted in this report are constrained within a maximum vertical distance of 200 ft from a drift.

Below can be seen the latest Gold Road Mineral Resource estimate at 0.1 opt Au cutoff

Gold Road Resource Estimate

Distance (ft)	Au (opt)	Tons	Ounces
<50	0.23	159,776	36,244
50-100	0.21	268,099	56,636
100-200	0.22	549,908	121,016
Total	0.22	977,784	213,896

The Mine Plan

The underground mine historically used Shrinkage Stoping Mining (SSM). During the most recent mining phase haulage of the mineralized material and waste to the surface was with underground trucks. RPM Global reviewed the continued use of SSM for the Gold Road Mine and has also reviewed an alternative mining method known as Raise Access Mining. Raise Access Mining (RAM) incorporates an Alimak-style raise climber to develop the access raise in ore.

Gold Road used a form of RAM in a test stope in the past with mixed results. In RPM's opinion the use of RAM is the preferred method and has thus been used in the PEA as part of the restart and full mining method for the mine. RAM provides a safer mining process, with limited- to no-exposure of the miners to unsupported ground, as well as lower operating cost.

RPM also reviewed alternative haulage methods using the current truck haulage decline (11,000 ft. one way) as well as a truck/shaft ore haulage scenario. The former involves enormous timespans and is very fuel-intensive because of distance covered. As expected the truck/shaft method was the preferred alternative due to costs and efficiency.

Metallurgical Test work and Mineral Processing

The processing parameters for Gold Road mineralized material have long been established by both actual processing of the mineralized material over many years and by metallurgical test work. The gold is present as very fine particles in extremely hard, chalcedonic quartz. Processing requires grinding to 80% passing 325 mesh and 24-hour leaching which results in about 95% gold extraction.

Excluding the processing in the early-1900s, about one million tons of Gold Road mineralized material grading about 0.2 opt Au have been processed by the following two plants:

- A 400-tpd counter-current-decantation/Merrill-Crowe plant, operated from 1937 to 1941
- A 500-tpd carbon-in-pulp (CIP) plant, operated from 1996 to 2016

The latter plant is still in existence and is in good condition. Tailings from the current plant are filtered and dry-stacked in a tailings storage facility close to the plant.

CapEx and OpEx

The total capital costs for the restart of the Gold Road Mine are US$5.74mn and this includes US$5.24mn for the restart, preliminary development and shaft/hoist installation and purchase of the raise climbers completed in Year 1. Estimated capital cost to bring the ore-processing plant into operational condition is US$0.5mn. All other development and other capital cost are considered to be sustaining capital for the remaining LOM. No capital costs are anticipated for the infrastructure.

The underground mine operating costs were developed on a per foot of advance basis for the waste development. Other operating costs, includes raise mining (in mineralized material), production mining, contractor labor and management and Gold Road site management for the underground mine. Total mining costs are US$66.34 per ton.

Estimated ore-processing operating costs are US$27 per ton. Estimated G&A costs are US$15 per ton of mineralized material processed, or about US$2.5mn per annum.

Gold Road

Production Assumptions

	Units	LOM Value
Mineralized Material	Tons	1,110,274
Gold - Mined Grade	Au ozs/t	0.19
Gold Recovery	%	95%
Payable Gold	ozs	203,569
Gold Price Assumption	US$/oz.	$1,200

Gold Road

Economic Assumptions and Results

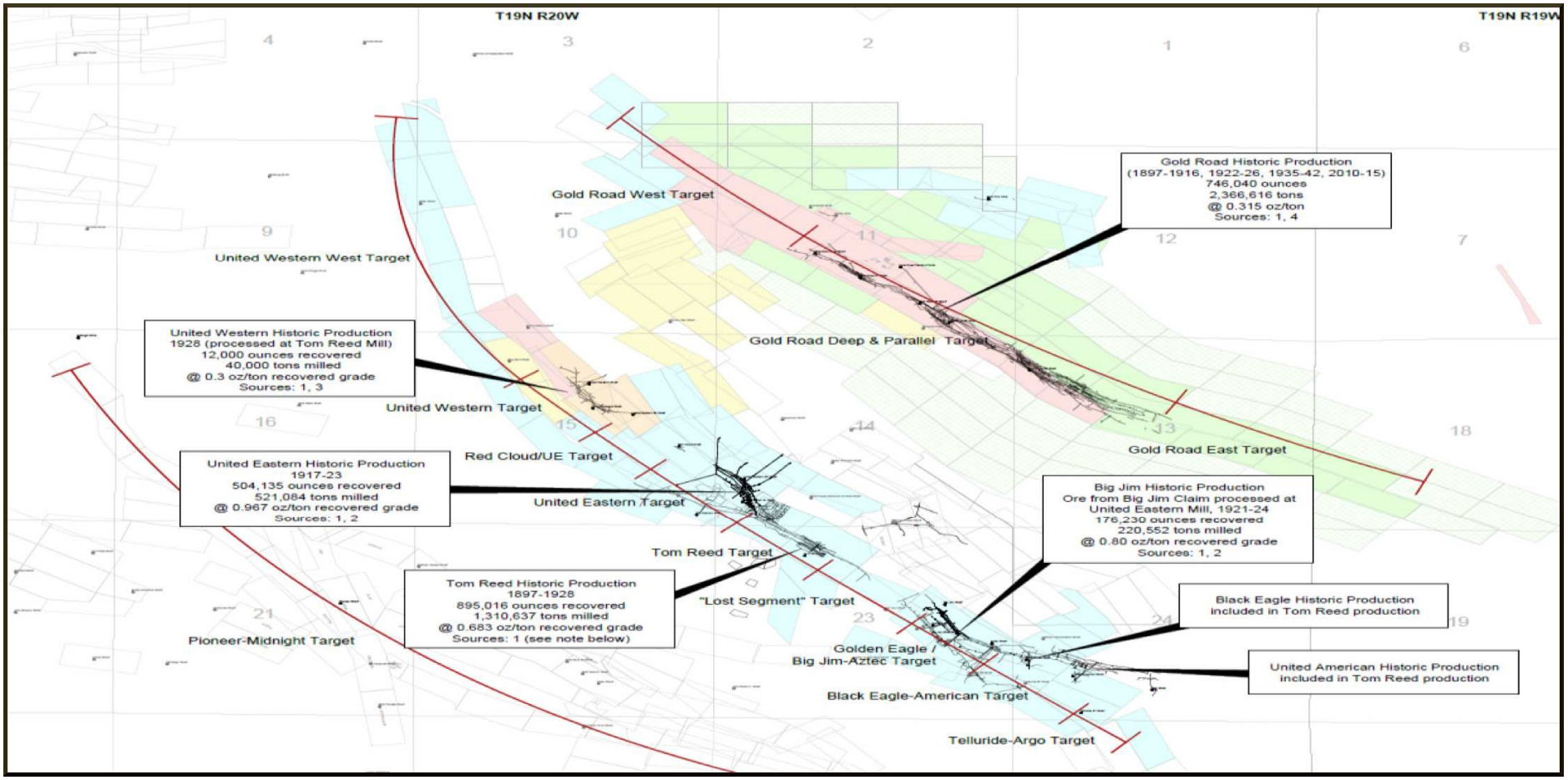
	Units	LOM Value
Net Revenue	US$ mns	$238.18
Capital Cost	US$ mns	$5.74
Sustaining Capital	US$ mns	$6.45
Total Capital	US$ mns	$12.20
Total Operating Cost	US$ mns	$110.36
Total All-in Sustaining Cost (AISC)	US$/oz. gold	$632.79
Total All in Cost	US$/oz. gold	$659.29
Payback Period	Years	1.5 yrs
Cumulative Net Cash flow	US$ mns	$103.96
Pre Tax NPV @ 5 %	US$ mns	$81.31
Pre Tax IRR	%	238%
Post Tax NPV @ 5 %	US$ mns	$56.74
Post Tax IRR	%	175%

The NPV is still robust with changes of 10% in gold prices and capital and operating costs. The table below shows the sensitivities to these changes.

Golden Road

Economic Sensitivities

	Change in % from Base Case	Au Price US$	NPV at 5% Discount mns
Gold Price	Base Case	1200	$58.20
	-20.00%	960	$28.70
	-10.00%	1080	$42.70
	10.00%	1320	$70.70
	20.00%	1440	$84.70
OPEX	Base Case	1200	$58.20
	-20.00%	1200	$70.00
	-10.00%	1200	$63.30
	10.00%	1200	$50.10
	20.00%	1200	$43.50
CAPEX	Base Case	1200	$58.20
	-20.00%	1200	$61.30
	-10.00%	1200	$59.70
	10.00%	1200	$56.60
	20.00%	1200	$55.00


T19N R20W
T19N R19W
Gold Road West Target
Gold Road Historic Production
(1897-1916, 1922-26, 1935-42, 2010-15)
746,040 ounces
2,366,616 tons
@ 0.315 oz/ton
Sources: 1, 4
United Western West Target
United Western Historic Production
1928 (processed at Tom Reed Mill)
12,000 ounces recovered
40,000 tons milled
@ 0.3 oz/ton recovered grade
Sources: 1, 3
Gold Road Deep & Parallel Target
United Western Target
Red Cloud/UE Target
Gold Road East Target
United Eastern Historic Production
1917-23
504,135 ounces recovered
521,084 tons milled
@ 0.967 oz/ton recovered grade
Sources: 1, 2
United Eastern Target
Big Jim Historic Production
Ore from Big Jim Claim processed at
United Eastern Mill, 1921-24
176,230 ounces recovered
220,552 tons milled
@ 0.80 oz/ton recovered grade
Sources: 1, 2
Tom Reed Target
Tom Reed Historic Production
1897-1928
895,016 ounces recovered
1,310,637 tons milled
@ 0.683 oz/ton recovered grade
Sources: 1 (see note below)
"Lost Segment" Target
Black Eagle Historic Production
included in Tom Reed production
Pioneer-Midnight Target
Golden Eagle /
Big Jim-Aztec Target
United American Historic Production
included in Tom Reed production
Black Eagle-American Target
Telluride-Argo Target

Grabbing the Whole District

As mentioned earlier, in December of 2017, Para announced that it has entered into agreements with multiple parties to secure access to additional mineral claims and historic mines adjacent to Gold Road Mine/Mill complex.

Gold Road Mining Corp., Para's 88% owned subsidiary, has entered into lease and purchase agreements with three different groups that own claims in the Oatman District. All of the agreements allow GRM to explore and mine on the acquired properties with fixed price purchase options.

It should be stressed that the Gold Road Mining complex includes the 500 tpd cyanide leach facility designed specifically to treat the Oatman-type mineralized material. The mill is permitted to receive mineralized material from any of the mines with similar mineralized material.

The view of Para's management is that the acquisition of the major target areas followed by exploration and development will increase utilization and extend life of what it is terming globally the Oatman Project. Under this scenario the potential feed for the mill can come from three principal vein systems.

- Gold Road Vein
- Tom Reed – United Eastern (Tr-Ue vein)
- Pioneer – Midnight Vein

If exploration is successful, the rate of production in ounces per year is expected to be increased rapidly.

Mine	Production Period	Tons	Average Grade Opt (g/t)	Au Ozs Recovered
United Western	1928-1940	40,000	0.30 (9.3)	12,000
United Eastern	1917-1923	550,000	1.12 (34.74)	616,000
Tom Reed/Tip Top	1915-1928	250,000	0.7 (21.71)	175,000
Ben Harrison	1897-1928	250,000	0.7 (21.71)	175,000
Big Jim/Aztec	1921-1924	500,000	0.75 (23.26)	176,230
Black Eagle	1920's	200,000	0.5 (15.51)	100,000
United American	1920's	140,000	0.5 (15.51)	70,000
Total		**1,930,000**	**0.69 (21.40)**	**1,324,230**

Exploration Potential of the Tr-Ue Vein System

The Tr-Ue vein system is a high priority target. The goal is to discover additional mineralized shoots like those historically mined by the United Eastern and the Tom Reed companies.

- United Eastern Company (729,959 oz. gold at an average grade of 1.1 oz Au/ton (37.71 g/mt) Au over widths of 4 to 45 feet thick)
- Tom Reed Company (907,016 oz. gold at an average grade 0.672 oz Au/ton (23.04 g/mt) Au over widths of 4 to 35 feet thick.

The historic grade and width of the veins at United Eastern and the Tom Reed mines were significantly better than at the Gold Road Vein. Subject to the success of the planned exploration program to prove out the historical numbers, the addition of feed material from these two historic operations could imply a significant increase on annual gold production.

Para has secured option agreements with various property owners covering 69 patented and 2 unpatented claims. In addition, Para has staked an additional 72 unpatented claims surrounding these patented claims. Para now covers all the known significant historical mines in the Tr-Ue vein system.

Historical production from these claims on the Tr-Ue vein system was 1,930,000 tons at an average grade of 21.4 grams per ton, yielding 1,324,230 ounces of gold between 1897 and 1940.

Historic mines located along the Tr-Ue vein system and throughout the district occur in veins of epithermal origin hosted in volcanic country rock consisting primarily of either the Tertiary Gold Road Latite or the Oatman andesite.

The historical chutes on the Tr-Ue system produced approximately 200 to 500 thousand ounces and graded from 0.6 to 1.1- ounce (18.66 – 34.21 grams) gold per ton.

Approximately seven major chutes have been mined. The thicker chutes were between 30 and 50 feet thick and were 300 to 600 feet long. An average chute is estimated at 10 feet thick. The depth of the stopes is unknown as the vein was still present on the lower levels of the workings although thinner and lower grade.

The report recommends a US$7mn multi-year phased exploration program consisting of 135 drill holes, representing approximately 30,000 meters of drilling on seven targets. Each of the targets potentially contain multiple mineralized chutes each potentially containing 300,000 to 700,000 tons of mineralized material grading 0.3 to 1.0 ounces of gold per ton (90,000 to 700,000 ounces of gold). Exploration including geophysics and an aggressive drilling program are being planned for 2018.

Para has included in their purview, a study of the historic results of drilling and production at the Tom Reed, United Eastern and United Western mines.

Tailings

In addition, there are in excess of 1.3 million tons of tailings in the district that can be reprocessed. The tailings run from 0.622 to 1.8 g/t Au. Historically, the mill has recovered 70% of the gold from these tailings.

Colombia

The company's activities in Colombia are termed the El Limon Project but in fact they are not really a *project* but a working mine and milling operation. This activity is carried out near the town of Zaragoza. We covered this project extensively in our initiation of coverage last year so refer investors to that piece for background.

One of the notable features of the project is the presence of over 1,000 small artisanal miners. The company's proposal was to not only mine the underground deposit at El Limon but to toll-mill material from these artisanal workings to supplement ore from its own underground production at El Limon to keep a steady flow of material through the mill and process plant.

Strategy

The strategy at El Limon has been to upgrade the existing mine by eliminating some of its limitations. Underground mining at El Limon is restricted by the size of the main winch (located underground) to 75 tpd. The strategy to remedy this is to take the shaft vertically up to surface and then install a new winch at the top of the shaft.

In addition, the company's strategy is to gain economies of scale by buying in ore. Nearly 60 independent gold mining operations are located in very close proximity to the El Limon production facility. Many of these are operating on Para's concession territory. These operators are being targeted as sources of ore to be purchased by Para and fed into the milling operation of the company.

The material mined by the small local miners is very similar in nature to the material being mined at El Limon. The economic model of the processing of the third party ore is that the local miners are paid 35-

42.5% of the assayed gold in the rock delivered to the mill, based on the current price of gold. The final product sold by El Limon is gold/silver doré from this comingled ore.

The existing process set-up at El Limon consists of two-stage crushing, milling, gravity separation, flotation, cyanidation, Merrill-Crowe precipitation and smelting.

The crushing plant (pictured above) historically operated one shift per day at 10-12 tonnes per hour but has capacity of 20 tonnes per hour, providing sufficient crushed rock to feed the mill. The crushing plant consists of a jaw crusher, cone crusher, vibrating screen and associated belts and bins.

Para Resources completed a $6.6mn upgrade program in 2017 at the crushing plant via the installation of a second ball mill, a new thickener, new flotation circuit and an upgraded CIP process circuit. Mill throughput was increased to 200tpd for mined rock and 400tpd for milled rock and tailings.

Work is ongoing to survey and assay the four levels of historical working where “room and pillar” mining method was used and the historical tailings. The historical tailings have been assayed and have an average grade of over 3g/t. These tailings require little if any milling and be screened and the majority will be fed into the process after the ball mill.

During the time the processing plant was being rehabilitated, underground development work was being undertaken, opening two new working faces on Levels 6 and 7.

Production

El Limon restarted limited production in June 2016 but due to some manufacturer's defects on a long lead time item, the installation of the second ball mill was delayed. Since operations at El Limon have re-started, mining costs have been $85-92 per ton and processing costs have been $65-$67 per ton.

El Limon is at cash flow break-even at production of 62tpd producing 450 ounces per month. Uptime during the commissioning phase has been 66.6% while gold recovery has been greater than 43% and has been steadily climbing. The range of head grade during commissioning phase has been 2.5g/t – 8.54 g/t (and is improving and expected to be greater 8 g/t average). The average monthly gold production during commissioning phase : 168.29 ounces.

The original start up at El Limon occurred in May/June of 2017, after a US$7mn rehabilitation and plant upgrade. That initial planned production ramp up was hampered by a through-put constraint at the filter press. This bottleneck prevented production from ramping up to the design limit of 225 tpd. While the problem was being identified and remediated, production was limited.

The filter presses were replaced with a larger scale belt filter. Sourcing of the necessary equipment and parts took four months but the equipment was then installed and tested. Milling operations recommenced on the 15th of November 2017 with a six month ramp up schedule to full production expected in June 2018. The plant has been optimizing recovery and availability with lower grade feed material in order to ensure gold is not lost in the early stages.

El Limon - Production

		Dec - 17	Jan - 18	Feb - 18
Availability	%	52%	54%	73%
Productivity	tpd		211.2	298.8
Throughput	tonnes	3,037	3,516	4,280
Head grade	g/t	3.55	4.8	2.77
Recovery	%	73%	80%	64%
Production	oz	253.1	437.6	358.1
Dore	oz	161	256.2	94.7

Doré sales dropped in February due to issues with the Merrill Crowe and the jig which have since been corrected.

The company installed a new jig and replaced the main gear and motor on the cone crusher in March so

production was down for a couple of weeks. In early May underground mining recommenced supplemented by bringing in ore from the small miners. Para will begin processing the higher-grade feed during May and should see a jump in doré production.

Earnings Outlook

El Limon remains in pre-production mode, from the Canadian accounting sense. With the latest improvements one would hope that the company will be able to declare commercial production in 3Q18.

Hopefully production will be enabled from Gold Road towards the end of the current year with commercial production achieved relatively swiftly in the first half of 2019.

Risks

The risks multiply with the more countries or metals one is involved in.

- Gold price weakness
- Local political difficulties
- Deterioration in relations with artisanal miners
- Financing difficulties
- Finite resources

With Para the risk is currently mainly with the gold price as it is for most gold miners. Our premise is for gold to stay roughly unchanged for several years to come. The operations in Colombia are very low cost with processing margins being enhanced by the credits from toll-milling of artisanal material. At Gold Road the latest PEA puts the Opex per ounce at roughly half the current gold price providing a substantial cushion against an extended period of gold price weakness.

The countries/states where Para operates have jurisdictions that are pro-mining (and in the case of Colombia El Limon is not in one of the areas with “local difficulties”). Arizona is a mining friendly regime also and the Gold Road mine is permitted and has a recent operating history without any reasons for concern from local authorities.

Relations with local miners should stay good as having a bespoke processing operation is very much in their interest.

Delays in Colombia have thwarted initial cashflow projections which were aimed at making operations (and expansion) self-funding. The company will need to raise funds either through the equities markets or a gold streaming or prepay to meet the rather low CapEx demands of the Gold Road reboot.

As for expanding resources, the concession in Colombia is vast with enormous potential for gold mineralisation (as the artisanal presence proves). The Arizona territory is clearly with potential for substantial resource expansion as past focus has been on production only,

Conclusion

Para Resources will have two gold mines in operation by next year which is a rapid escalation of production by any standards. Moreover it will be geographically diversified with operations in Colombia and Arizona, thus minimizing exposure to any one jurisdiction.

In Colombia, Para is thinking outside the box and adhering to the mantra of "Production, Production, Production", with its own doré output augmented with throughput from tolling for artisanal miners. As artisanal miners must sell their ore at a discount to its gold content due to lack of alternatives, Para is positioned to make meaningful margins on its processing irrespective of the direction of the gold price.

Gold Road is essentially a plug-and- play operation with the mine in good order after a relatively short period of care & maintenance. The canny addition of the rest of the district bulks up the potential flow of future material making Para a mid-tier player in the Arizona gold mining space. The EBITDA from Gold Road could be over USD$10mn per annum by 2020. We suspect Gold Road will rapidly overhaul El Limon as the main asset at Para and be seen as the "fish that got away" by competing miners in the south-west of the US.

Para's management has shown that they are not ones to let the grass grow under their feet. Neither are they inclined to persist with an idea after it has been found to be wanting. The swift discarding of Brazil, Peru and Nicaragua has freed up management time to focus on the opportunity in Arizona and its fast-track to production and cashflow.

Therefore we reiterate our **Long** position in Para Resources in the Model Mining Portfolio with our 12-month target price being CAD$0.58.

Important disclosures

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