Sprott | Equity Research

## Monarch Gold (MQR CN)

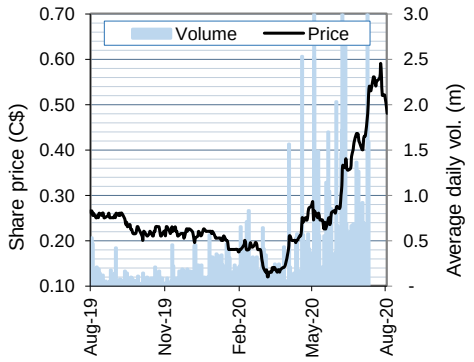
# Big asset upside with Val d'Or optionality

*RECOMMENDATION*: **BUY** *PRICE TARGET:* **C$1.65/sh** *RISK RATING:* **HIGH**

| SHARE DATA | |
|---|---|
| Shares (basic, FD, FF FD) | 270 / 281 / 445 |
| Share price (C$/sh) | C$0.48/sh |
| 52-week high/low | C$0.59 / C$0.12 |
| Market cap (C$m) | 129 |
| SCPe net cash 2Q20 (C$m) | 18.3 |
| 1.0xNAV5% @ C$2050/oz (C$m)* | 1,045 |
| 1.0xNAV5% FD (C$/sh)* | 3.72 |
| Project P/NAV today (x, FD) | 0.15x |
| Average daily value (C$000, 3M) | 1,075 |

| FINANCIALS | FY23E | FY24E | FY25E |
|---|---|---|---|
| Gold sold (000oz) | - | 70 | 163 |
| Revenue (C$m) | - | 189 | 439 |
| AISC (US$/oz) | - | 1,078 | 730 |
| Income (C$m) | (14.2) | 22 | 93 |
| EPS (C$) | - | 0.03 | 0.12 |
| PER (x) | - | 16.7x | 3.9x |
| CFPS (C$) | - | - | - |
| P/CF (x) | - | - | - |
| EBITDA (C$m) | 4.6 | 29.5 | 34.6 |
| EV/EBITDA (x) | 37.7x | 3.8x | 10.6x |

| TIME VALUE: 1850/oz | SQ22 | SQ23 | SQ24 |
|---|---|---|---|
| 1xNAV5% FF FD (C$m)^ | 1,107 | 1,152 | 1,361 |
| 1xNAV5% FF FD (C$/sh)^ | 2.49 | 2.59 | 3.06 |
| **TIME VALUE: 2000/oz** | **SQ22** | **SQ23** | **SQ24** |
| 1xNAV5% FF FD (C$m)^ | 1,107 | 1,152 | 1,361 |
| 1xNAV5% FF FD (C$/sh)^ | 2.49 | 2.59 | 3.06 |




*Source: Fidessa, ^FD for options and mine build*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### A treasure trove in the Abitibi

Monarch's 3.5Moz in the Abitibi is corner stoned by flagship Wasamac with 1.7Moz @ 2.6g/t. That asset can produce almost 150kozpa over 11 years, with both Malartic and Kidd Creek mills vying for the feed for a likely 'no mill' capex drop. After a pause this year to build up reserves, Beaufor's ~ 30koz pa operation should generate good cash flow from next year, with likely bonanza-grade drill results ahead of that. McKenzie Break should do the same given the average 11m @ 11g/t from the new zones, and if SCPe 150koz is defined, this could generate the entire market cap in cash from the 'forgotten third asset'.

### Wasamac underpins large valuation, bidding war to emerge?

Wasamac's ~150koz pa over 11 years at US$630/oz AISC was less attractive at lower gold price given the C$464m capex, and reliance on low-opex rail-veyors in use at Goldex. However, the SCPe $NPV_{5\%-1850}$ of C$781m is less sensitive to opex, while a similar NPV of C$790m under toll-treatment options at Kidd Creek or Malartic reduces capex. In fact, we could see a bidding war ahead; Glencore's Kidd operations benefit from Wasamac's neutralizing ore to remediate their site and defer environmental liabilities. Malartic would similarly benefit with the +100koz from substituting their own low-grade feed with Wasamac ore adding C$900-1.3bn of value based on Agnico and Yamana's EV/EBTIDA. With rail connections to Timmins, even more doors could open.

### Beaufor offers non-dilutive funding

The small Beaufor mine could restart for C$5-6m, producing SCPe 112koz over 4yrs at >5g/t, processed at Monarch's Camflo mill. The 42,000m drill program should return impressive hits for shareholders ahead of that, while extensions at depth could increase the existing SCPe C$30m FCF the project generates.

### Forgotten McKenzie Break could underpin entire market cap in FCF

McKenzie Break, Swanson and Croinor hold 550koz @ 3.7g/t, offering development and sale opportunities. We estimate the new discovery east of McKenzie Break, averaging 11m @ 11g/t in three holes, could already support 150koz. At over US$1,000/oz margin, put through existing mill capacity, this could generate the market cap in cash, and it's only just been discovered.

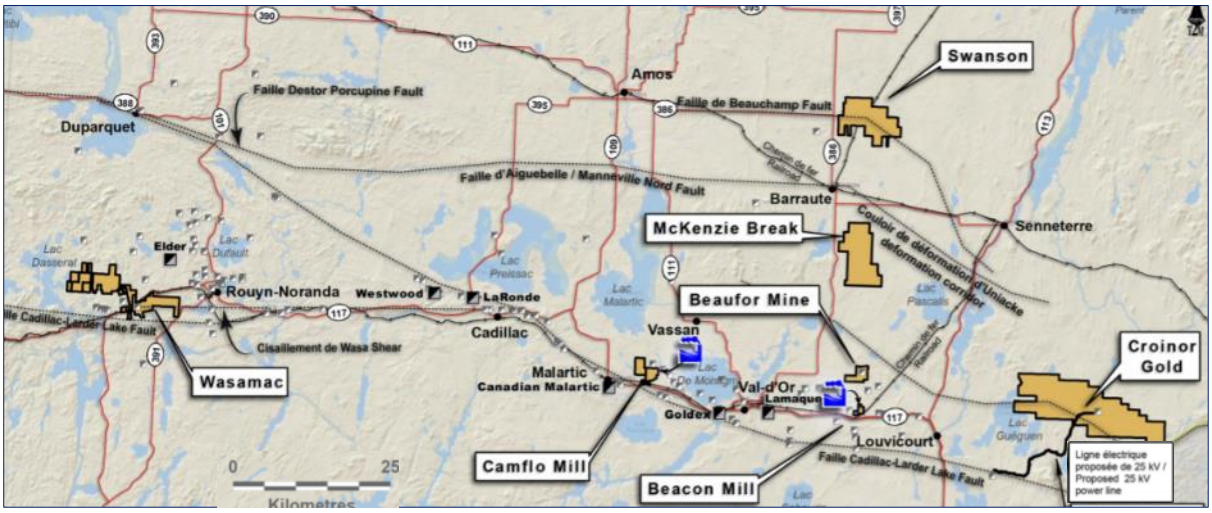
### Recommendation: initiate with BUY rating and C$1.65/sh PT

At US$1,850/oz and a 5% discount, we value Wasamac on a self-build basis at C$781m, Beaufor at C$29m, and add a nominal US$50/oz for ounces outside our DCF for C$36m. Adding cash and cash from options drives our 1xNAV of C$867m or C$3.09/sh. Applying a 0.5xNAV multiple to Wasamac and 0.7xNAV to Beaufor, we initiate with a BUY rating and a C$1.65/sh PT. At these levels, with think the engineering studies underway by potential buyers should combine with a permitting pathway to see substantial value unlocked in a stock trading at just $0.16xNAV_{1850}$.

## Investment thesis

Monarch Gold has been operating in Val d'Or for a number of years having owned and bought/sold a number of licenses in what is prime mining real estate gaining various industry heavy weights as shareholders including Alamos Gold (16%), Yamana Gold (6%), Hecla (4%) Agnico Eagle (3%), retail (29%), family offices (20%), funds (14%) and management (3%). The key change from last year is the move from a diversified asset-holder focussed on toll treatment to a concentrated portfolio focussed on three assets; Wasamac, Mackenzie Break and Beaufor, with fringe assets now sold. The other key change comes with Wasamac ore through regional mills rather than through a new self-built mill. DFS level **Wasamac** has a global resource of 2.8Moz @ 2.6g/t in a thick, steep dipping underground mine, perfect for long hole stoping, and is the company's flagship asset. The **Beaufor** mine offers additional upside in the form of a quick small-production, which can fund drilling or offset Wasamac development costs, with optionality on new high-grade shoots being discovered. **McKenzie Break** (and also Swanson and Croinor) offer discovery upside, particularly at McKenzie Break where we estimate 150koz @ 10g/t could already have been 'de-risked'.

**Figure 1. Monarch assets across the Abitibi belt**




*Source: Monarch*

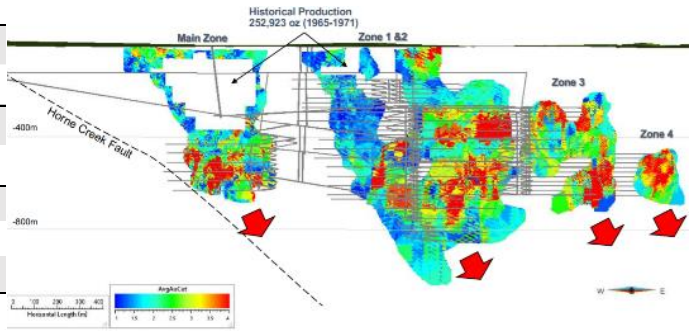
### Wasamac: Rouyn-Noranda's next ~150kozpa underground mine

Wasamac holds reserves of 1.77Moz at 2.56g/t in 21.5Mt to be mined over 11 years. The innovative use of a Rail-Veyor system, like we've seen at Agnico's Goldex, Harmony's Phakisa and Vale's Copper Cliff, means that mining costs are kept low while the 6,000tpd volume is easily met, ramping up over two years, after the two year build.

**Figure 2: (A) Wasamac DFS highlights (B) Rail-Veyor system (C) Wasamac long section**

| | |
|---|---|
| Mining inventory (000t) | 21,454 |
| AuEq grade (g/t) | 2.56 |
| Mining inventory AuEq (000oz) | 1,767 |
| Au recovery (%) | 88% |
| LOM throughput (Mtpa) | 1,950 |
| Production AuEq Y1-5 (000oz pa) | 153 |
| Total build capex (C$m) | 464 |
| Total sustaining capex (C$m) | 165 |
| LOM C1 costs (US$/oz AuEq) | 550 |
| LOM AISC (US$/oz AuEq) | 630 |
| **Gold price (US$/oz)** | **1,300** |
| **Project NPV post-tax (C$m)** | **311** |
| IRR post-tax (%) | 17% |

*Source: Monarch*



### Kidd concentrator: first step to 'unlock' the value of Wasamac

Glencore's Kidd zinc operations lie ~200km away, but are connected to Wasamac via a 12,000tpd railway line that runs through Wasamac's license to Kidd Creek. The 'ah hah' moment for Glencore came with the realisation that Kidd Creek, whose own reserves run out in SCPe 2023 after the operation moved to used only two of its four 3ktpd lines, could see its substantial environmental liabilities not only deferred by toll-milling Wasamac ore, but offset. The Kidd Creek site likely needs a cover over its historic TMFs with non acid forming rock. Given the site extends over 6km$^2$, which could take 10-20Mt of material costing >C$50m. Wasamac's 21Mt of ore provides this 'for free' given its not acid forming, and is in fact neutralising given carbonate components. Further, this could defer a considerable (SCPe multi-hundred-million) environmental liability at Kidd Creek, key for Glencore at a time when they have recently cut their dividend to focus on debt repayments. While the front-end of the plant is reuseable, a back-end (gold circuit) would be required, but this should come at a tiny fraction of the cost of a new plant. Ausenco is now undertaking a review of what conversion requirements are made. We doubt Glencore wants 'in' to the gold mining game, nor would Monarch want the Kidd Creek liabilities, so if this option comes to fruition we would look to a toll-milling agreement as the most likely outcome.

### With surprise second suitor emerging at Canadian Malartic

After signing an MOU with Glencore, Monarch was pleasantly surprised to be approached by Yamana, 50% holder of the JV Canadian Malartic. Its no secret that that low-grade will be mined out in the next decade; while an underground will likely continue, the JV would benefit from 'filling the mill' which is far too large to run on underground feed only at 55,000tpd (running above this recently). Wasamac isn't just a potential future feed either, as its own 2.56g/t ROM feed compares to 0.8g/t at Malartic, meaning the JV could start processing Wasamac ore 'early', seeing a lift in production there. In fact, substituting Wasamac's 2.1Mtpa feed should lift the JVs production by 100koz pa for a simplistic US$100m increase in EBITDA. Agnico and Yamana trade at a forward looking ~10x and ~7x EV/EBITDA, respectively, meaning Wasamac could be worth C$900-1.3bn. This is pretty compelling math for those two producers, so if this outcome eventuates, we would expect Monarch to be the target of a full take-out. So how interested are the counterparties? In June, post Glencore MOU, Yamana invested C$4.2m in a placement with Monarch, a strategic investment coming with a board representative for Yamana. So yes, while we would expect ESG, transport, geotechnical, environmental, engineering and resource modelling to require investigation over the course of the year, Yamana evidently likes what they see so far.

### Malartic worth SCPe C$780m at US$1,850/oz, lifting to US$950m at US$2050/oz

DFS Scenario: We model Wasamac per the DFS before adjusting for LT and US$2050 gold price and various mill scenarios with an identical NPV to the DFS using the same inputs. Lifting the gold price to US$1,850 over doubles the $NPV_{5\%}$ from C$311m to C$781m, or triples it C$948m at US$2,050/oz.

Kidd Concentrator: We reduce initial capex by C$230m for the plant and tailings facility and add C$77m for the Kidd refurbishment and C$16m for a rail siding at Wasamac. We remove plant sustaining-costs of C$66m over the LoM. Maintaining processing costs of C$20/t and adding C$10/t in the form of train loading and hauling costs and for any additional backfill requirements, with waste and tails now stored at Kidd Creek. Finally, we maintain a two year build for this scenario on the basis that the decline lies on the critical path. Interestingly what is saved in capex is lost on toll-treatment costs, for a similar build-start NPV of C$788m at US$1,850/oz and C$955m at US$2,050/oz but the reduced capex sees IRR lift. Clearly the equity requirement will be lower under this scenario, improving the per share upside for Monarch shareholders.

Canadian Malartic: We remove the C$230m in initial plant capex again, but add C$36m for a siding at Wasamac as well as infrastructure for stock management at Malartic. We use the same mining costs here as the Kidd Creek scenario but lift processing costs slightly on the basis of a tolling scenario. Again this returns a similar NPV of C$787m at US$1,850/oz and C$954m at US$2,050/oz. With both Agnico and Yamana currently shareholders, we think M&A is more likely. Using our estimated Malartic processing cost of C$11/t, Wasamac's NPV increases to C$877m at US$1,850/oz or C$1,042m at US$2,050/oz. This tallies well with EV/EBITDA multiples noted above.

**Figure 3: Wasamac project economics**

| | MQR | SCPe DFS | | | SCPe Kidd Ck | | SCPe Malarcitc | |
|---|---|---|---|---|---|---|---|---|
| **Wasamac Mine (100%)** | **DFS** | **DFS** | **1850/oz** | **2050/oz** | **1850/oz** | **2050/oz** | **1850/oz** | **2050/oz** |
| Mining inventory (000t) | 21,454 | >> | >> | >> | >> | >> | >> | >> |
| AuEq grade (g/t) | 2.54 | >> | >> | >> | >> | >> | >> | >> |
| Mining inventory AuEq (000oz) | 1,752 | >> | >> | >> | >> | >> | >> | >> |
| Au recovery (%) | 89% | >> | >> | >> | >> | >> | >> | >> |
| LOM throughput (Mtpa) | 1,950 | >> | >> | >> | >> | >> | >> | >> |
| Production AuEq Y1-5 (000oz pa) | 153 | 154 | >> | >> | >> | >> | >> | >> |
| Production AuEq LOM (000oz) | 1,559 | 1,565 | >> | >> | >> | >> | >> | >> |
| Mining & haul costs (C$/t mined) | 27 | >> | >> | >> | 37 | >> | >> | >> |
| Proc & tailings costs (C$/t milled) | 20 | >> | >> | >> | >> | >> | 24 | >> |
| G&A costs (C$/t milled) | 3.5 | >> | >> | >> | >> | >> | >> | >> |
| LOM C1 costs (US$/oz AuEq) | 550 | 545 | >> | >> | 684 | >> | 729 | >> |
| LOM AISC (US$/oz AuEq) | 630 | 625 | >> | >> | 733 | >> | >> | >> |
| Total build capex (C$m) | 464 | >> | >> | >> | 327 | >> | 270 | >> |
| Total sustaining capex (C$m) | 165 | >> | >> | >> | 99 | >> | >> | >> |
| Exchange rate (USD/CAD) | 1.31 | >> | >> | >> | >> | >> | >> | >> |
| Gold price (US$/oz) | 1,300 | >> | 1,850 | 2,050 | 1,850 | 2,050 | 1,850 | 2,050 |
| **Project NPV post-tax (C$m)** | **311** | **311** | **781** | **948** | **788** | **955** | **787** | **954** |
| IRR post-tax (%) | 17% | >> | 30% | 34% | 39% | 45% | 44% | 50% |
| Payback (years) | 3.90 | 4.25 | 3.00 | 2.75 | 2.50 | 2.25 | 2.25 | 2.00 |

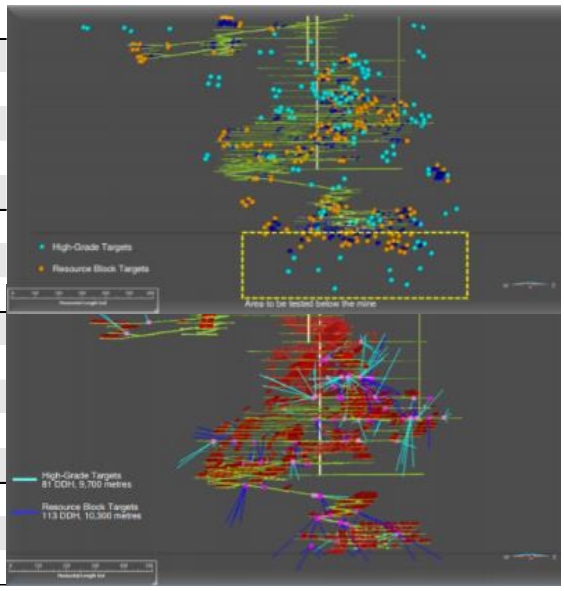
*Source: SCPe*

## Quick Beaufor restart to fund up to 25% of Wasamac build

Beaufor produced more than 1.1Moz at >6g/t until it went on care and maintenance in mid-2019 due to a lack of delineated reserves. With 30koz in reserves at 6.8g/t and a resource of 100koz at 7.8g/t (at US$1,280/oz) (according to the 2017 InnovExplo report) we think that Beaufor is well positioned for C$5m restart in the next year – capex is kept low through the use of Camflo mill 50km away; Camflo has historically processed Beaufor ore at 98% recovery. We model production of 112koz over 2.5 years at an AISC of US$739/oz. In the lead up to a restart, we expect a 42,000m drill program targeting near mine extensions and growth at depth to return some splashy bonanza-grade news flow. As exemplified by Kiena Deeps, there is always potential for Val d'Or underground mines to turn up new 'jewel boxes' as well.

**Figure 4: (A) Beaufor DCF outputs (B) drill targets at depth (C) near mine exploration**

| **Beaufor Mine (100%)** | **1300/oz** | **1850/oz** | **2050/oz** |
|---|---|---|---|
| Mining inventory (000t) | 700 | 700 | 700 |
| Au grade (g/t) | 5 | 5 | 5 |
| Lom production (koz) | 112 | 112 | 112 |
| LoM (years) | 4.0 | 4.0 | 4.0 |
| Mill capacity (ktpa) | 538 | 538 | 538 |
| Exploration spend (C$m) | 8.4 | 8.4 | 8.4 |
| Restart capex (C$m) | 6 | 6 | 6 |
| Sustaining capex (C$m) | 17 | 17 | 17 |
| Mining & hauling costs (C$/t mined) | 90 | 90 | 90 |
| Processing costs (C$/t milled) | 39 | 39 | 39 |
| G&A costs (C$/t milled) | 4.0 | 4.0 | 4.0 |
| C1 cost (US$/oz) | 790 | 790 | 790 |
| AISC (US$/oz) | 934 | 934 | 934 |
| Gold price (US$/oz) | 1,300 | 1,850 | 2,000 |
| **NPV5% (C$m)** | **-5** | **30** | **40** |
| **IRR (%)^** | **0%** | **332%** | **438%** |




*Source: SCP estimates, ^excludes exploration, Monarch*

### Other Val d'Or assets offer Monarch non-dilutive funding options

No stranger to M&A having bought and sold a number of operations in the past, Monarch retains this optionality with McKenzie Break, Swanson and Croinor, having recently sold Fayolle to IAMGold for C$11m. In the shorter term we expect these operations to provide similarly splashy news flow to Beaufor, with McKenzie Break step outs returning 14m @ 14.3g/t and 7m @ 5.3g/t (both with a high grade core) in July. We add a nominal US$50/oz for each of Monarch's Abitibi assets (other than the modelled Wasamac and Beaufor):

- McKenzie Break: 166koz @ 3.46g/t x US$50/oz = US$8.3m
- Croinor: 274koz @ 8.9g/t x US$50/oz = US$13.7m
- Swanson: 111koz @ 2g/t x US$50/oz = US$5.5m

## Valuation

With so many strategic options, not to mentioned M&A take-out potential, we value the operations at build start on a fully diluted basis for options, but don't dilute for mine-build. We consider the DFS scenario with a LT gold price of US$1,850/oz for a Wasamac $NPV_{5\%-1850-DFS}$ of C$781m while Beaufor returns a $NPV_{5\%-1850-DFS}$ of C$29m, adding a nominal C$36m for "other assets", C$18m in net cash and C$3m in cash from options takes our $1xNAV_{5\%-1850-DFS}$ to C$867m or C$3.09/sh. We show sensitivities to the NPV below. Most importantly, even throwing very aggressive mining figures at Wasamac still sees the NPV >C$500m.

**Table 1. SOTP valuation for Monarch**

| SOTP *project* valuation* | C$m | O/ship | NAVx | C$/sh |
|---|---|---|---|---|
| Wasamac @ build start (1Q22) | 781 | 100% | 0.50x | 1.39 |
| Beaufor mine @ 1st pour (1Q21) | 29 | 100% | 0.70x | 0.07 |
| Other assets | 36 | 100% | 1.00x | 0.13 |
| SCP net cash 2Q20 | 18 | 100% | 1.00x | 0.07 |
| Cash from options | 3 | 100% | 1.00x | 0.01 |
| Asset NAV5% C$1850/oz | 867 | | | 1.67 |
| **Shares diluted for options but not mine build* | | P/NAV5% 2Q20 | | 0.18x |

| Asset value: 1xNPV project @ build start (C$m, ungeared)* | | | | | |
|---|---|---|---|---|---|
| Project NPV (C$m)* | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| 10.0% discount | 423 | 485 | 546 | 608 | 669 |
| 7.5% discount | 545 | 617 | 688 | 760 | 831 |
| 5.0% discount | 696 | 781 | 865 | 948 | 1,031 |
| Ungeared project IRR: | 28% | 30% | 32% | 34% | 36% |
| Project NPV (C$m)* | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| Mining cost C$26.7/t | 696 | 781 | 865 | 948 | 1,031 |
| Mining cost C$36.7/t | 610 | 695 | 780 | 864 | 948 |
| Mining cost C$46.7/t | 522 | 608 | 694 | 779 | 864 |

*Source: SCP estimates*

Modelling Monarch on a fully-diluted (for mine build) basis is very difficult given the capex figure could well be far lower on toll-treating basis, and thus required equity dilution cold be low. Also it is difficult to forecast the price at which that is raised. Nonetheless, modelling C$223m debt, C$295m in equity raised at 0.5xNAV for Monarch and C$30m Beaufor FCF gives our 480m FD share count. Netting of finance costs and central G&A, and discounting to today takes our $1xNAV_{5\%-1850-DFS}$ to C$726m. This lifts to C$1bn by SQ23, or C$2.00/sh on a FF FD basis.

**Table 2. SOTP valuation for Monarch**

| *Group* valuation over time | SQ20 | SQ21 | SQ22 | SQ23 | SQ24 |
|---|---|---|---|---|---|
| Wasamac mine (C$m) | 726 | 762 | 852 | 1,093 | 1,319 |
| Beaufor mine (C$m) | 29 | 33 | 21 | 5 | 1 |
| Other assets (C$m) | 36 | 36 | 36 | 36 | 36 |
| Group G&A and finace (C$m) | (87) | (69) | (65) | (64) | (54) |
| Net cash prior qtr (C$m) | 4 | - | 75 | (114) | (149) |
| Cash from options (C$m) | 3 | 3 | 3 | 3 | 3 |
| NAV FF FD (C$m) | 711 | 766 | 923 | 959 | 1,156 |
| *FD shares in issue (m)* | *281* | *281* | *480* | *480* | *480* |
| 1xNAV5%/sh FF FD (C$/sh) | 2.53 | 2.73 | 1.92 | 2.00 | 2.41 |

| Geared company NAV diluted for mine build, net G&A and finance costs | | | | | |
|---|---|---|---|---|---|
| 1Q22 1xNAV FF FD (C$m)^ | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| 10.0% discount | 617 | 695 | 773 | 850 | 927 |
| 7.5% discount | 728 | 815 | 902 | 988 | 1,073 |
| 5.0% discount | 862 | 959 | 1,055 | 1,152 | 1,248 |
| Geared project IRR: | 27% | 29% | 32% | 34% | 37% |
| 1Q22 1xNAV FF FD (C$/sh)^ | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| 10.0% discount | 0.97 | 1.18 | 1.39 | 1.61 | 1.83 |
| 7.5% discount | 1.30 | 1.54 | 1.79 | 2.05 | 2.31 |
| 5.0% discount | 1.71 | 2.00 | 2.29 | 2.59 | 2.89 |

*^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity*

*Source: SCP estimates*

## Recommendation

We base our price target on our 1Q22 bulid-start $1xNAV_{5\%-1850-DFS}$ of C$867m or C$3.09/sh. We apply a 0.5xNAV multiple for Wasamac and a 0.7xNAV for "quick start" Beaufor for a combined NAV multiple of 0.54x diluting shares for options but not mine build. As such, **we initiate with a BUY rating and a price target of C$1.65/sh**. At the current share price, we estimate Monarch is trading at just $0.16xNAV_{5\%-2,000-DFS}$.

## Risks

- Modelling risk – mining dilution or poor modelling could drive lower than expected grades at Wasamac. This is mitigated by the mine plan comprised entirely of reserves, with data from historic mining also.
- Permitting risk – this is inherent in the project and will be until the project is fully permitted – this is expected to be in 2H21.
- Operating costs – mining costs used in the study are relatively low and so we have evaluated the project value should these costs increase. A 10% lift in mining costs sees NPV reduced by 4%. This risk is mitigated / more than offset by current gold prices.
- Capital costs – while costs were calculated at the DFS level and so largely based on quotes, many of these costs would have changed since the study was done in 2018. A 10.5% contingency mitigates this risk.

## Catalysts

- 2H20-21: Beaufor and McKenzie Break drill results *(SCPe 'market grabbing' grades likely)*
- 4Q20/1Q21: Results of Ausenco study at Kidd Operations
- 1H21: Beaufor restarts
- 2H21: Wasamac permitted
- 1Q22: Wasamac build start
- 2Q24: Wasamac first pour

| | | | | | |
|---|---|---|---|---|---|
| **Ticker:** MQR CN | **Price / mkt cap:** | C$0.48/sh, C$129m | **Project PNAV today:** | 0.19x | **Asset:** Wasamac |
| **Author:** B Salier / C Tonkin | **Rec / 0.4xNAV PT:** | BUY, C$1.67/sh | **1xNAV$_{1Q21}$ FF FD:** | C$2.53/sh | **Country:** Canada: QC |

| Commodity price | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Gold price | | | 1,953 | 1,878 | 1,850 |

| SOTP *project* valuation* | C$m | O/ship | NAVx | C$/sh |
|---|---|---|---|---|
| Wasamac @ build start (1Q22) | 781 | 100% | 0.50x | 1.39 |
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| Other assets | 36 | 100% | 1.00x | 0.13 |
| SCP net cash 2Q20 | 18 | 100% | 1.00x | 0.07 |
| Cash from options | 3 | 100% | 1.00x | 0.01 |
| Asset NAV5% C$1850/oz | 867 | | | 1.67 |
| **Shares diluted for options but not mine build* | | | P/NAV5% 2Q20 | 0.16x |

| Asset value: 1xNPV project @ build start (C$m, ungeared)* | | | | | |
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| 10.0% discount | 423 | 485 | 546 | 608 | 669 |
| 7.5% discount | 545 | 617 | 688 | 760 | 831 |
| 5.0% discount | 696 | 781 | 865 | 948 | 1,031 |
| Ungeared project IRR: | 28% | 30% | 32% | 34% | 36% |
| Project NPV (C$m)* | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| Mining cost C$26.7/t | 696 | 781 | 865 | 948 | 1,031 |
| Mining cost C$36.7/t | 610 | 695 | 780 | 864 | 948 |
| Mining cost C$46.7/t | 522 | 608 | 694 | 779 | 864 |
| NPV5 (C$m)* | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| Min Inventory 21.5Mt | 696 | 781 | 865 | 948 | 1,031 |
| Min Inventory 25.0Mt | 799 | 891 | 982 | 1,074 | 1,164 |
| Min Inventory 30.0Mt | 903 | 1,003 | 1,102 | 1,201 | 1,300 |

**Project level NPV, excl finance costs and central SGA, discounted to build start*

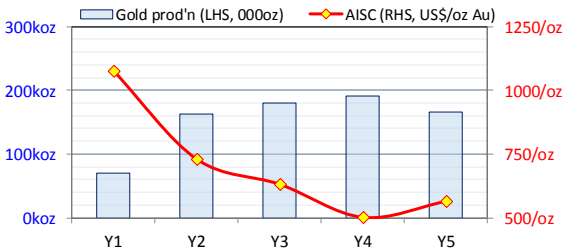
| *Group* valuation over time | SQ20 | SQ21 | SQ22 | SQ23 | SQ24 |
|---|---|---|---|---|---|
| Wasamac mine (C$m) | 726 | 762 | 852 | 1,093 | 1,319 |
| Beaufor mine (C$m) | 29 | 33 | 21 | 5 | 1 |
| Other assets (C$m) | 36 | 36 | 36 | 36 | 36 |
| Group G&A and finace (C$m) | (87) | (69) | (65) | (64) | (54) |
| Net cash prior qtr (C$m) | 4 | - | 75 | (114) | (149) |
| Cash from options (C$m) | 3 | 3 | 3 | 3 | 3 |
| NAV FF FD (C$m) | 711 | 766 | 923 | 959 | 1,156 |
| *FD shares in issue (m)* | *281* | *281* | *480* | *480* | *480* |
| 1xNAV5%/sh FF FD (C$/sh) | 2.53 | 2.73 | 1.92 | 2.00 | 2.41 |
| Equity ROI from spot (% pa) | | 468% | 152% | 104% | 91% |

| Geared company NAV diluted for mine build, net G&A and finance costs | | | | | |
|---|---|---|---|---|---|
| 1Q22 1xNAV FF FD (C$m)^ | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| 10.0% discount | 617 | 695 | 773 | 850 | 927 |
| 7.5% discount | 728 | 815 | 902 | 988 | 1,073 |
| 5.0% discount | 862 | 959 | 1,055 | 1,152 | 1,248 |
| Geared project IRR: | 27% | 29% | 32% | 34% | 37% |
| 1Q22 1xNAV FF FD (C$/sh)^ | $1750oz | $1850oz | $1950oz | $2050oz | $2150oz |
| 10.0% discount | 0.97 | 1.18 | 1.39 | 1.61 | 1.83 |
| 7.5% discount | 1.30 | 1.54 | 1.79 | 2.05 | 2.31 |
| 5.0% discount | 1.71 | 2.00 | 2.29 | 2.59 | 2.89 |

*^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity*

| Wasamac prod. Y1 = Mar24 | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|
| Gold eq production (000oz) | 70 | 163 | 179 | 191 | 165 |
| C1 cost (US$/oz) | 687 | 485 | 491 | 475 | 534 |
| AISC cost (US$/oz) | 1,078 | 730 | 631 | 502 | 565 |

*AISC = C1 + ug sustaining capex. Y1 = 12M to Feb 2025*




*Source: SCP estimates*

| Total M&I&I resource | | | |
|---|---|---|---|
| Wasamac resource | 34Mt | 2.63g/t | 2882koz |
| Beaufor | 0.4Mt | 7.76g/t | 98koz |
| Other assets | 4.6Mt | 3.74g/t | 551koz |
| Total M&I&I resource | 39Mt | 2.82g/t | 3531koz |

| Funding: uses | | Funding: sources | |
|---|---|---|---|
| Mine build capex | C$464m | CPe 2Q20 cash + options cash* | C$13m |
| SCPe G&A to 1st Au | C$13m | Pre-Wasamac Beaufor CF | C$32m |
| SCPe pre-production expl'n | C$26m | Mine debt @ 60% gearing | C$223m |
| SCPe finance costs + wkg cap | C$10m | Mine build equity at 0.5xNAV | C$295m |
| Total uses | C$512m | Total proceeds | C$563m |
| **Cash from options expiring pre first pour* | | Buffer | C$50m |

| Share data | Basic | FD | FF FD with build |
|---|---|---|---|
| Basic shares (m) | 270 | 281 | 480 |

| Ratio analysis (yr to Jun) | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Average shares out (m) | 249.1 | 268.3 | 292.2 | 379.3 | 524.6 |
| EPS (C$/sh) | 0.00 | - | 0.00 | 0.03 | 0.01 |
| CFPS (C$/sh) | - | - | - | - | - |
| EV (C$m) | 130.5 | 133.7 | 172.4 | 115.8 | 375.4 |
| FCF yield (%) | - | - | - | - | - |
| PER (x) | 246.1x | - | 179.8x | 15.8x | 44.2x |
| P/CF (x) | - | - | - | - | - |
| EV/EBITDA (x) | 50.9x | - | 47.0x | 4.7x | 13.2x |

| Income statement (yr to Jun) | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Net revenue (C$m) | 31.7 | 1.1 | 19.6 | 54.9 | 57.7 |
| COGS (C$m) | 27.3 | 0.3 | 12.0 | 25.3 | 24.0 |
| **Gross profit (C$m)** | **4.4** | **0.8** | **7.6** | **29.6** | **33.7** |
| D&A, attrib (C$m) | - | - | 0.3 | 3.2 | 6.3 |
| Admin (C$m) | 5.1 | 2.6 | 3.6 | 4.0 | 4.4 |
| Expensed exploration (C$m) | 0.3 | - | - | - | - |
| Finance cost (C$m) | 0.4 | 0.1 | 0.0 | - | 4.9 |
| Royalty (C$m) | - | - | 0.3 | 0.9 | 0.9 |
| Forex, other (C$m) | (3.6) | (0.8) | - | - | - |
| Taxes (C$m) | 1.7 | 0.0 | 2.5 | 10.0 | 11.5 |
| **Net income (C$m)** | **0.5** | **(1.2)** | **0.8** | **11.5** | **5.7** |

| Cash flow (yr to Jun) | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| EBIT (C$m) | 2.6 | (1.1) | 3.4 | 21.5 | 22.1 |
| Add back D&A (C$m) | - | - | 0.3 | 3.2 | 6.3 |
| Less tax + net interest (C$m) | 2.1 | 0.1 | 2.6 | 10.0 | 16.4 |
| Net change in wkg cap (C$m) | (3.6) | (0.2) | (1.2) | (0.7) | (1.8) |
| Add back other non-cash (C$m) | (3.8) | (0.5) | 0.4 | 0.4 | 5.3 |
| **Cash flow ops (C$m)** | **(7.0)** | **(1.9)** | **0.3** | **14.3** | **15.5** |
| PP&E - build + sust. (C$m) | 3.5 | 9.7 | (9.4) | (57.4) | (200.4) |
| PP&E - expl'n (C$m) | (8.6) | (8.5) | (18.2) | (3.5) | - |
| **Cash flow inv. (C$m)** | **(5.1)** | **1.2** | **(27.6)** | **(60.9)** | **(200.4)** |
| Share issue (C$m) | 2.9 | 6.4 | - | 145.0 | - |
| Proceeds from warrants (C$m) | 0.1 | 0.0 | - | - | - |
| Debt draw (repay) (C$m) | (0.8) | (0.7) | (5.8) | - | 140.2 |
| **Cash flow fin. (C$m)** | **2.2** | **5.7** | **(5.8)** | **145.0** | **140.2** |
| Net change in cash (C$m) | (9.9) | 5.0 | (33.0) | 98.4 | (44.8) |
| *EBITDA (C$m)* | 2.6 | (1.1) | 5.5 | 15.8 | 27.9 |

| Balance sheet (yr to Jun) | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Cash (C$m) | 6.4 | 10.1 | (22.9) | 75.5 | 30.7 |
| Acc rec., inv, prepaid (C$m) | 4.1 | 2.0 | 2.8 | 3.6 | 5.4 |
| PP&E + other (C$m) | 62.1 | 67.8 | 95.1 | 152.8 | 346.9 |
| **Total assets (C$m)** | **73** | **80** | **75** | **232** | **383** |
| Debt (C$m) | 17.3 | 15.0 | 9.2 | 9.2 | 154.3 |
| Accounts payable (C$m) | 4.2 | 2.4 | 2.0 | 2.0 | 2.0 |
| Others (C$m) | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 |
| Total liabilities (C$m) | 27.4 | 23.4 | 17.3 | 17.3 | 162.4 |
| Sh'hlds equity + wrnts (C$m) | 66.9 | 77.9 | 78.3 | 223.7 | 224.1 |
| Retained earn'gs + rsvs (C$m) | (21.7) | (21.4) | (20.6) | (9.1) | (3.4) |
| **Liabilities + equity (C$m)** | **73** | **80** | **75** | **232** | **383** |

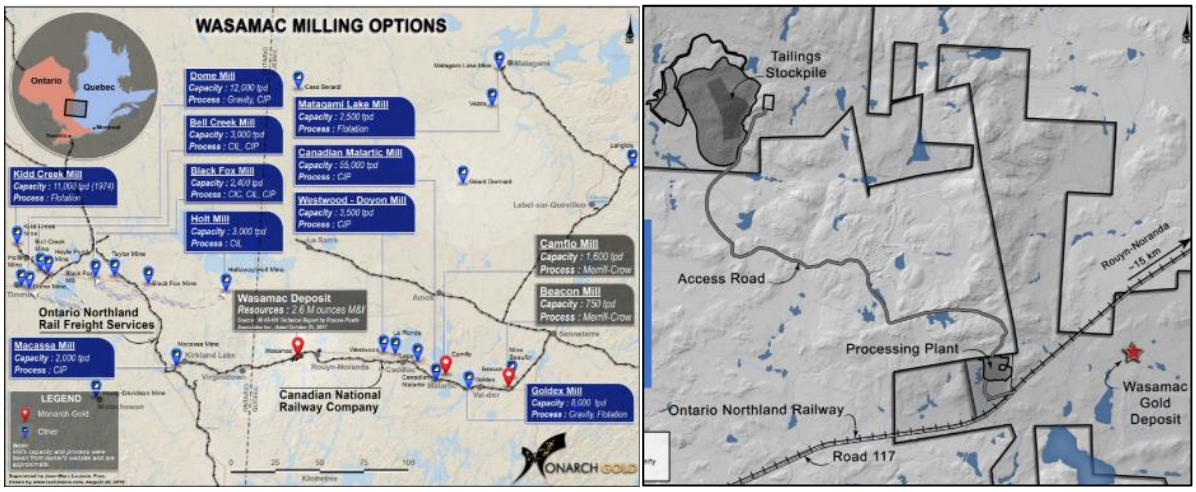
## Wasamac

Wasamac lies on ~760ha across three mining concessions and is located on the Abitibi greenstone belt in south west Quebec, 15km south west of Rouyn-Noranda via tarred road. Rouyn-Noranda, a mining town with a population of 41,000, provides various mining services, with daily flights from Montreal. The national railway line links Wasamac to Kirkland Lake in the west and Canadian Malartic and Goldex (amongst others) in the east. A 25kV hydropower line runs past the property along the main road while a 125kV power line passes the project 8km away. The project lies on flat Abitibi Plains, with -12°C winter temperatures meaning geochemical surveys are conducted from May to October, with year round drilling and geophysical surveying.

Historical exploration started in 1936 led to a 60m shaft and one level of development. The main Wildcat zone was discovered from there, with a 340koz @ 5.3g/t deposit outlined, accessed through a 55° angled shaft to 350m and five underground levels developed in the late 1940's. Commercial production began in the late 1960's and saw mining of 253koz @ 4.2g/t over six years in the Main and No. 1 zones before low gold prices led to closure. Richmont took control in the 1980's with sporadic drilling focussed on a dip extension and the shaft pillar, before 2002-2204 drilling led to a 1.3Mt @ 7g/t resource with a 4.45g/t cut-off. Additional drilling to 2012 outlined a 560koz @ 2.56g/t M&I and 2Moz @ 2.6g/t inferred resource at a 1.5g/t cut-off – this fed into a PEA which contributed to the current DFS and formed the basis for the current 2.6Moz M&I resource in the Main Zone and Zones 1-4.

The underground mine has a shaft to 420m with seven levels, and is currently flooded. A non-acid generating tailings dump lies on the property. Monarch has the surface and water rights to the property. The EIA was launched, and project notice given, in November 2019. Wasamac was selected as a pilot project for an interdepartmental approach to mine permitting which aims to fast track permitting. As this is a pilot, we still expect an 18-24 month permitting process. There is a 1.5% royalty payable to Richmont on commercial production.

**Figure 5: (A) Wasamac location relative to nearby mills (B) Wasamac license area**

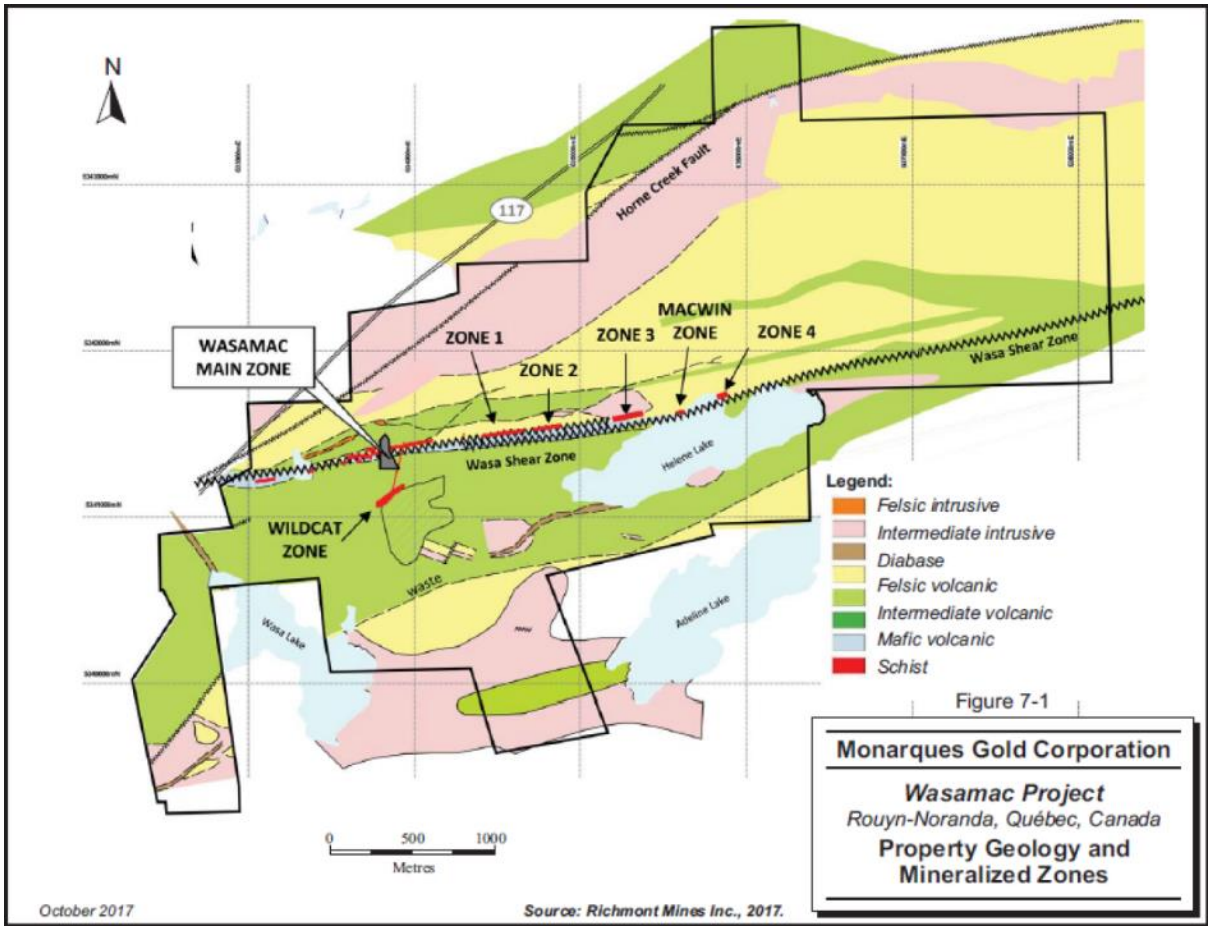



*Source: Monarch*

## Geology

Wasamac is hosted by a typical Abitibi assemblage of mafic to felsic Archean volcanics with diorite sills. The area has produced >300million ounces of gold over the past 120 years. Locally the deposit is hosted in the Blake River Group, the youngest volcanic sequence in the province, and is bounded by two faults to the north and south. The group is characterised by folded cyclic andesite-rhyolite units underlain by sedimentary rocks and intruded by post-tectonic or synvolcanic mafic gabbro-diorite sills. Two large granitoids lie just north of the Wasamac property and cross through the volcanics while the Wasa shear zone (WSZ) separates the property into the south eastern mafic portion and the northern felsic tuff/ rhyolite portion. The WSZ is an 80m wide, 50° north dipping, 265° azimuth, reverse fault, is strongly hydrothermally altered and is related to most gold on the property. Mineral assemblages within the WSZ consist of chlorite, carbonate, hematite, albite and sericite while gold is associated dissemination of fine pyrite in altered portions.

**Figure 6: Local geology at Wasamac property**




*Source: Monarch*

## Mineral resource estimate

Surface and underground drilling delineated a 2.6Moz M&I resource and a 1.7Moz underground reserve. Additional drilling, a reduced cut-off grade, removal of in-situ material around stopes and expansion to the east (Zone 4) in the period from 2011 to 2017 saw 2Moz converted from inferred to indicated, while indicated grades increased slightly but M&I grades dropped. Dilution ranges from 8% in the main zone to 15% in Zone 4 from the hanging and foot wall, and 5% from backfill, for a total average dilution of 16.2% at grades of 0.4-0.8g/t while stope recovery averages 86.4%.

**Table 3. Resources and reserve for Wasamac**

| | Tonnes (Mt) | Grade (g/t Au) | Ounces (koz) |
|---|---|---|---|
| Measured resource | 4.0 | 2.52 | 323 |
| Indicated resource | 25.9 | 2.72 | 2,265 |
| **Total M&I resource** | **29.9** | **2.70** | **2,588** |
| Inferred resource | 4.2 | 2.2 | 294 |
| **Total resource** | **34.0** | **2.63** | **2,882** |

*Source: Monarques, resources include reserves, 1g/t cut-off grade, US$1,500/oz gold price, USD:CAD $0.80*

| | Tonnes (Mt) | Grade (g/t Au) | Ounces (koz) |
|---|---|---|---|
| Proven | 1.0 | 2.66 | 88 |
| Probable | 20.4 | 2.56 | 1,679 |
| **Total reserves** | **21.5** | **2.56** | **1,767** |

*Source: Monarques, C$26.72/t mined mining cost, C$2.20/t milled tailings cost, C$17.79/t milled proc cost, 1.31 exchange rate, 88.2% rec.*

## Mining and processing

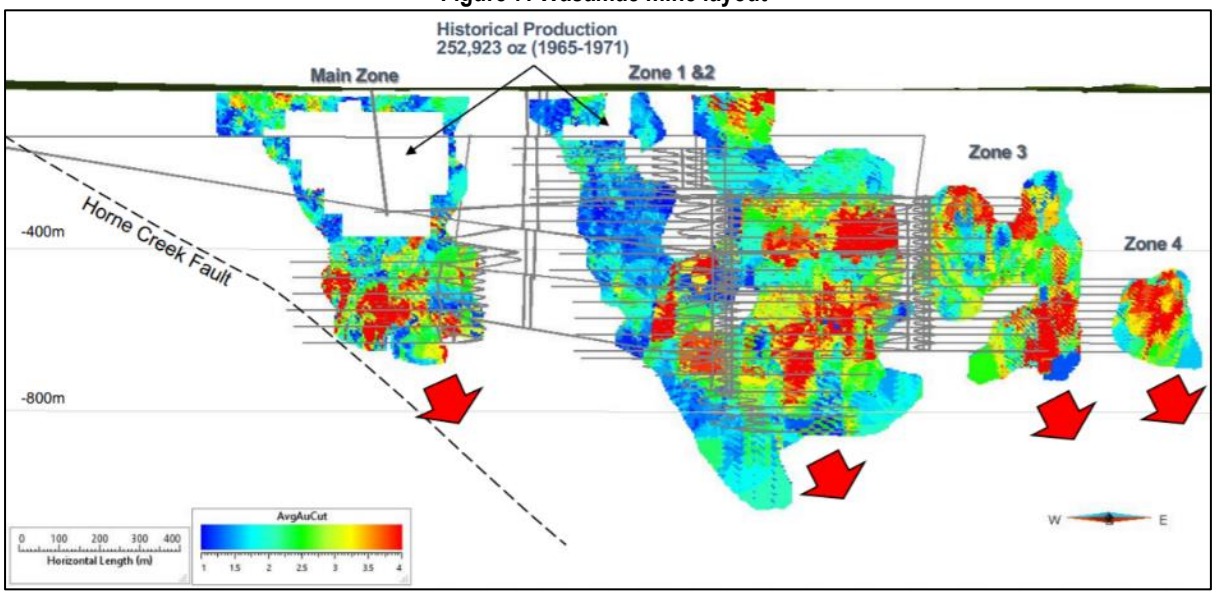
Underground mining will be carried in five zones, the Main Zone (MZ) and Zones 1-4 (Z1-4). The method to be used is top down long hole stoping with an integrated Rail-Veyor which will be fed by reclaim feeders and up to six 7t LHDs for a total 6,000tpd operation. Stopes are designed to be 20m high and 15m on strike with a minimum mining width of 4m and will be filled with paste backfill. The MZ is a dip extension of previous mined workings and contemplates a 30m sill pillar between historic and new workings.

Rehabilitation and dewatering of the existing infrastructure will take place over 15 months while a 4x4m twin decline is sunk, and three twin ramps access the various zones. The twin decline averages 7.5% gradient for a total of ~2.5km to just above MZ where three twin-ramps will provide access to each zone. The system sees workers and supplies make use of the intake airway/ rubber tire ramp while the Rail-Veyor system uses the return airway. Z2 extends to 840m vertical depth, the deepest part of the operation.

The Rail-Veyor was selected so that ore could be transported under Highway 117 to surface infrastructure north of the road while maintaining a low opex with capex similar to that of a shaft. High-speed development is planned at 6m/day, for an expected two years from first blast to commercial production with shaft bottom reached in after four years when full production is met. Total lateral development amounts to ~137,000m with ~7,000m of vertical development. Other operations making use of the Rail-Veyor system are Agnico Eagle's Goldex, Harmony Gold's Phakisa and Vale's Copper Cliff.

Ore is relatively hard with BWi ~16kwh/t but less competent than host rock for a Geological Strength Index (incorporates strength and joint sets) of ~50 versus ~64 in the hanging wall and footwall.

**Figure 7: Wasamac mine layout**




*Source: Monarch*

A number of processing scenarios exist, with the DFS based on the construction of a ~16Mw, 2.2Mtpa crush, stockpile, two-stage 60um grind, 48 hr leach, carbon-in-pulp, cyanide destruction plant. Tailings that are not used as backfill will be dry stacked after being pumped 6.3km along a private road and dewatered. Recoveries range from 82% in Z1 to >92% in MZ and Z3. There is excess water in the process of 18m$^3$/h. Other processing options include tolling treatment at Agnico/Yamana JV Canadian Malartic or Glencore's Kidd concentrator, both are less than 100km away by train and so ROM can be transported at low cost.

## Economics

Using the DFS scenario which includes the plant build, initial capex is spent over the two years of construction and the first year of ramp-up. We model a two year build with first pour in 2024. Approximately half of all initial capex is spent on the plant and tailings facility while lateral development makes up most of the sustaining capital throughout the LoM. The company applied a broad 10.5% contingency.

**Table 4: Wasamac DFS capital costs**

| Initial capital costs | Total cost (C$m) |
|---|---|
| Processing plant and TMF | 230 |
| Mining costs | 146 |
| Owners costs and indirects | 39 |
| Contingency | 49 |
| Total initial capital costs | 464 |
| Total sust. capital costs | 165 |

*Source: Monarques*

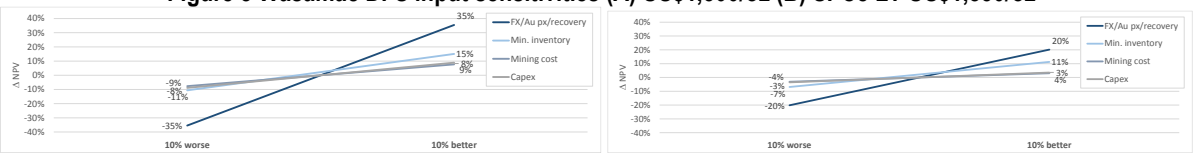
Operating costs are kept low through the use of the Rail-Veyor system. Cash costs are in line with Agnico Eagle's Goldex operation which has made use of the Rail-Veyor system since 2017. Processing costs are generally in line with peers with similar size plants and similarly hard ore.

**Table 5: Wasamac DFS operating costs**

| Mining LOM operating costs | Ave. cost (C$/t milled) | Plant LOM operating costs | Ave. cost (C$/t milled) |
|---|---|---|---|
| Lateral dev. (operating) | 3.51 | Reagents | 6.02 |
| Production | 14.09 | Grinding media | 2.29 |
| Mine services | 4.67 | Maintenance and parts | 1.64 |
| Technical services | 1.43 | Process consumables | 1.43 |
| Supervision and management | 1.70 | Personnel | 2.81 |
| Definition drilling | 0.22 | Utilities (Power and gas) | 3.59 |
| Equipment leasing payment | 1.11 | **Total** | **17.79** |
| **Total** | **26.72** | **Other costs** | **Ave. cost (C$/t milled)** |
| C1 costs (US$/oz) | 550 | Tailings, waste and water man | 2.20 |
| AISC (US$/oz) | 630 | Site G&A | 3.53 |

*Source: Monarques*

**Figure 8 Wasamac DFS input sensitivities (A) US$1,300/oz (B) SPCe LT US$1,850/oz**

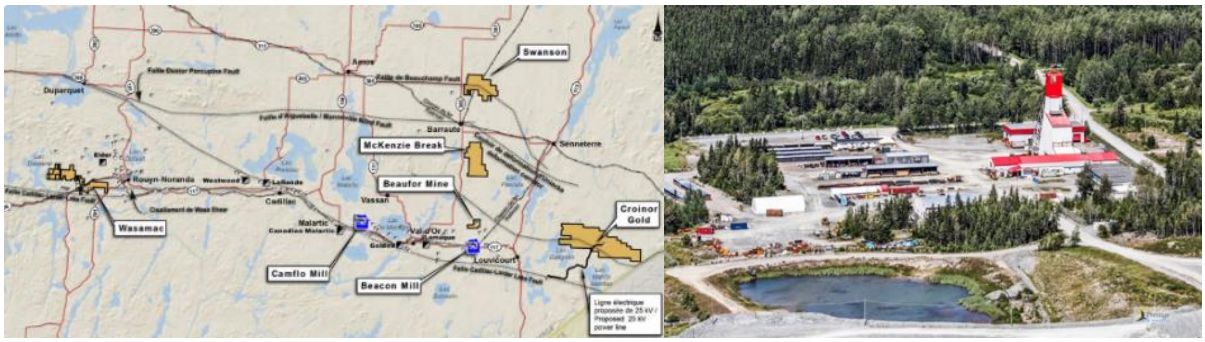



*Source: SCP estimates*

## Beaufor mine

Monarch's 100% owned Beaufor Mine covers claims over 5.9km$^2$ located just northeast of Val d'Or. The mine operated from 1933 to 1951 and from 1993 to 2018, producing ~15koz in FY2018 before going on care and maintenance in mid-2019. Historical grades average ~7.5g/t, and the mine has produced >1.1Moz from three shafts. The company's ex-Barrick Camflo mill is 50km away and has processed Beaufor feed at a ~98% recovery since 1994. Surface infrastructure is in place and no additional permits are required to recommence operations.

**Figure 9: Beafor mine and Camflo mill**




*Source: Monarch*

### Geology

Beaufor is an Archean orogenic deposit hosted in the Bourlamaque granodiorite batholith. Mafic dykes undercut the granodiorite and are closely related to mineralisation particularly with regards to structure. Gold is hosted in quartz-tourmaline filled shear-fractures with the granodiorite. Stacked veins are 5cm to 5m wide (with most 30cm to 120cm wide) and generally strike north west to south east, dipping gradually towards the south west. Currently resources stand at 100koz, although we flag that this was calculated at US$1,280/oz gold and a 3.95g/t-4.66g/t cut-off (lower for long hole stoping, higher for room and pillar).

**Table 6. Resources and reserves at Beaufor**

| | Tonnes (Mt) | Grade (g/t Au) | Ounces (koz) |
|---|---|---|---|
| Measured resource | 74.4 | 6.71 | 16 |
| Indicated resource | 271.7 | 7.93 | 69 |
| **Total M&I resource** | **346.1** | **7.67** | **85** |
| Inferred resource | 46.1 | 8.34 | 12 |
| **Total resource** | **392.2** | **7.76** | **98** |

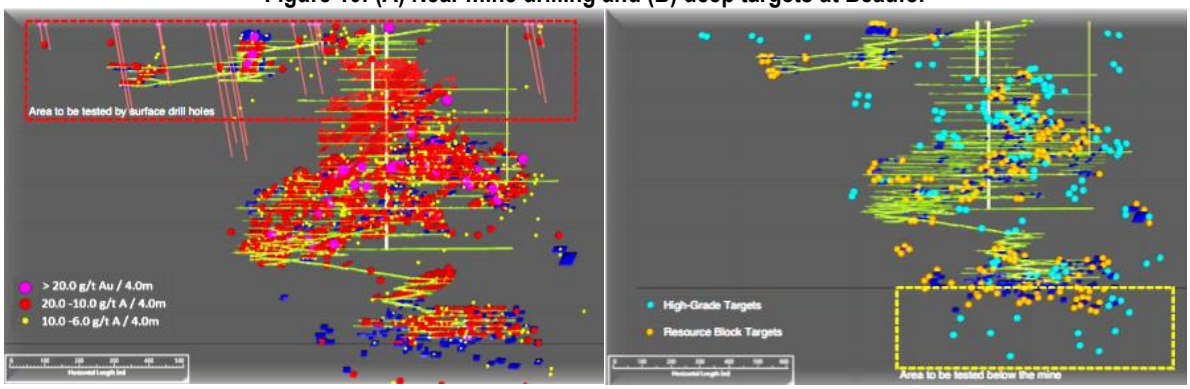
*Source: Monarques, resources exclude reserves, 3.95-4.66g/t cut-off, Aupx US$1,280/oz, CAD/USD 1.28, min. 2.4m vein width*

| | Tonnes (Mt) | Grade (g/t Au) | Ounces (koz) |
|---|---|---|---|
| Proven | 281.0 | 5.95 | 5.4 |
| Probable | 111.5 | 7.05 | 25.2 |
| **Total reserves** | **392.5** | **2.42** | **30.6** |

*Source: Monarques, 3.95g/t - 4.66g/t cut-off, dilution 10-15% in LH, CAD/USD 1.28, Aupx US$1,280/oz, 98% rec.*

A 42,000m drill program will target near mine extensions as well as a depth extension with the goal of a restart in 12-18 months. A long-section showing existing development is presented below, with resource drilling targets highlighted in the yellow-dashed box generally at the bottom of the decline. Reserve-conversion drilling is targeted for higher up in the mine, with a blend of the two likely to support future production. While there is good optionality on a Kiena Deeps style high-grade lode. Investors should reasonably expect a succession of high-grade drill results from ongoing reserve conversion.

**Figure 10: (A) Near mine drilling and (B) deep targets at Beaufor**

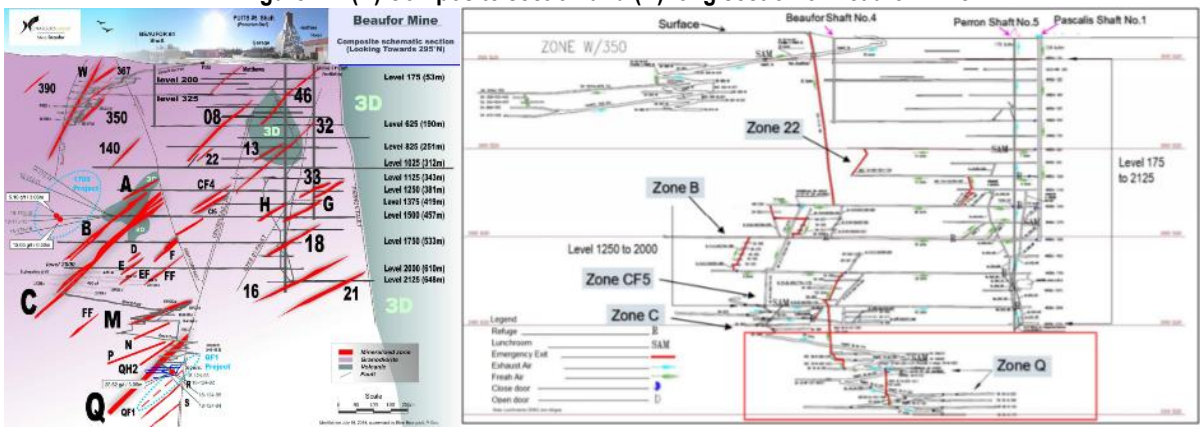



*Source: Monarch*

## Mining and processing

Beaufor was previously long hole stoped in steeper dipping areas (zone Q) and room and pillar in shallower dipping areas (zone QH). A vertical shaft accesses the mine to ~700mbs where a decline extends to ~930mbs. A 2017 technical report noted 140kt of mining at 6.83g/t in zones Q, QH, C, 22 and CF5 before the expected closure 18 months later. Pre-closure mining was in line with this at 100ktpa with ore skipped to surface in 500t bins from Perron shaft.

**Figure 11: (A) Composite section and (B) long section of Beaufor mine**




*Source: Monarch*

We model a restart in 2021 with 700kt processed over 4 years at an average of 5.2g/t for a total of 112koz of production. Camflo mill, 50km away, will be used by the operation to process ore. The mill has a throughput capacity of 1600tpd with a 92% availability, this amounts to ~135ktpq, significantly more than maximum ~100ktpq

that we model. The plant consists of a crushing and grinding circuit as well as a Merril-Crowe system utilising cyanidation and zinc powder precipitate. Beaufor has been using the plant since 1994 and recoveries are ~98%.

### Economics

We expect restart costs of ~C$5-6m for the operation and think this is achievable on the basis that the mine recently went into care and maintenance. We expect C$5m of this expenditure to come in the form of development capex as new areas are accessed. Exploration costs of C$8.4m were attributed to corporate costs rather than the project. We base mining costs on peers which use similar methods while processing costs were based on a sliding scale from 2017 where C$/t milled is based on mill utilisation. There is a 3% NSR on the property (of which 2% can be bought back)

**Table 7: Beaufor mine economic analysis**

| Beaufor Mine (100%) | 1300/oz | 1850/oz | 2050/oz |
|---|---|---|---|
| Mining inventory (000t) | 700 | 700 | 700 |
| Au grade (g/t) | 5 | 5 | 5 |
| Lom production (koz) | 112 | 112 | 112 |
| LoM (years) | 4.0 | 4.0 | 4.0 |
| Mill capacity (ktpa) | 538 | 538 | 538 |
| Exploration spend (C$m) | 8.4 | 8.4 | 8.4 |
| Restart capex (C$m) | 6 | 6 | 6 |
| Sustaining capex (C$m) | 17 | 17 | 17 |
| Mining & hauling costs (C$/t mined) | 90 | 90 | 90 |
| Processing costs (C$/t milled) | 39 | 39 | 39 |
| G&A costs (C$/t milled) | 4.0 | 4.0 | 4.0 |
| C1 cost (US$/oz) | 790 | 790 | 790 |
| AISC (US$/oz) | 934 | 934 | 934 |
| Gold price (US$/oz) | 1,300 | 1,850 | 2,000 |
| **NPV5% (C$m)** | **-5** | **30** | **40** |
| **IRR (%)^** | **0%** | **332%** | **438%** |

Source: SCPe, ^excludes exploration spend

## McKenzie Break

Monarch acquired 100% of the 326ha McKenzie Break (MB) project from Agnico Eagle for a total C$4.6m in 2017. The property lies 35km of Val d'Or in the Abitibi region and is easily accessible by road.

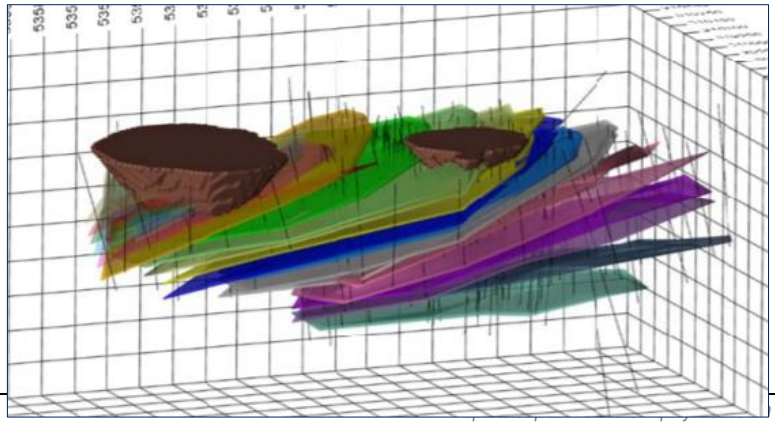
### Geology

The property lies on the Abitibi greenstone belt. Known gold mineralisation in the area occurs at the Pascalis batholith contact in a shallow indenture. This indenture is underlain by mafic to felsic volcanics and is cut by quartz diorite dykes, and likely contact metamorphosed given the highly anomalous magnetic signature. Mineralisation occurs in three main zones all striking northwest, dipping at 20-25° north east (i) Upper Zone (green), 1cm to 2m (average 20-30cm) with free, coarse gold in subparallel quartz-chlorite ribbon veins, (ii) Mid Zone (orange), quartz-carbonate-sericite schist (iii) South No.4 Zone – in non-magnetic diorite, 600m long in a N-S direction, >90m down dip, grades of 1-3g/t over 3-6m, shallower dipping than other zones.

**Figure 12: (A) Isometric of MB – 2018 (B) MB resource**

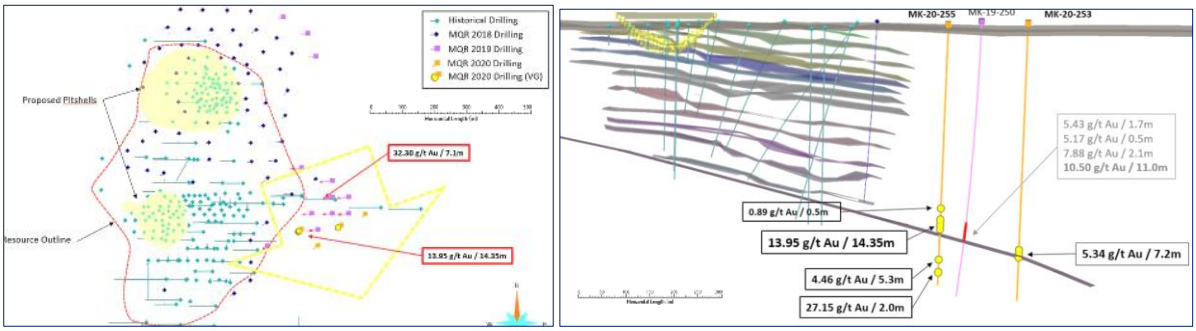
| | Tonnes (kt) | Grade (g/t Au) | Contained Au (koz) |
|---|---|---|---|
| Indicated reosurce (pit) | 939.9 | 1.59 | 48 |
| Indicated resource (UG) | 281.7 | 5.9 | 53 |
| **Total M&I resource** | **1222** | **2.59** | **102** |
| Inferred resource | 574.8 | 3.46 | 64 |
| **Total resource** | **1796** | **2.87** | **166** |

*Source: Monarques*



A step change came in the potential upside with deeper step-out drilling by Monarch in 2Q20. The company moved toward the east, and down dip, with initial drilling returning an extremely strong 14m @ 14g/t and 7m @ 5.3g/t, both with a high grade core. Our view: *we think the initial drilling area could support perhaps 100koz. However, the new drilling is very much a step change given the thickness and grade, which also make it eminently more underground mineable than shallower stacked lodes. Simply taking a 20m radius around existing intercepts already adds SCPe 50koz @ 11.3g/t. Looking geometrically at Figure 13A even 150m x 100m by an average 11m thick of the three pierce points into the new zone adds 150koz at 10g/t. Make no mistake, we expect this to grow, but even if it doesn't, milling just this through Beaufor would generate ~C$140m of FCF before capex. High grades mean small tonnes, and thus limited development capex and low opex. Given the asset is open in all directions, the great irony is that this 'third project' could underpin the entire companies market cap right now.*

**Figure 13. (A) Plan map showing drilling and (B) recent drilling highlights of 14m @ 14g/t**




*Source: Monarch*

## Mining and processing

Two scenarios were considered for Mackenzie Break (i) a bulk low grade open pit targeting the upper zones and (ii) an underground which would target deeper, narrower high grade zones. Given the recently discovered high-grade zone at depth, we expect continued drilling to bottom out that resource / reserve potential. Processing could be done at the 750tpd Merrill-Crowe Beacon Mill or at Camflo in conjunction/after Beaufor. Certainly a high-grade underground could easily truck to either mill.

## Valuation

We value McKenzie Break at a nominal US$50/resource oz for a total US$8.3m as part of a more holistic C$36m for resources defined by the company outside our modelled mine plans. We eagerly await further drilling here, which has every potential to drive a step-change in our valuation.

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| TENDER: | 0 |
| NOT RATED: | 0 |
| TOTAL | 22 |

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