

Monarch Mining Corporation

Beaufor mine restart plans and financing update

Monarch Mining Corporation has moved closer to cash generation by confirming the reopening of its Beaufor mine and its Beacon milling operation by June 2022. It has also commenced recruitment and bolstered its cash through a C\$6m bought deal private placement of shares and warrants. A new resource estimate will be prepared during summer 2021, which could add to the mine life and our valuation, which we keep unchanged at C\$0.99/share, with increased production certainty potentially offsetting share dilution from the placement.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/21e	0.0	(4.0)	(5.9)	0.0	N/A	N/A
06/22e	21.0	(3.2)	(4.6)	0.0	N/A	N/A
06/23e	56.2	15.9	17.9	0.0	5.1	N/A
06/24e	74.6	21.6	19.4	16.3	4.7	17.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Listed in January 2021, no historical data.

Beaufor mine start-up

Monarch has moved into recruiting mode as it prepares for the restart of the Beaufor mine and Beacon mill in June 2022. The mine will be operated from a vertical shaft and a production ramp located 500m from the shaft. Beaufor has produced 1.1Moz of gold at an average grade of 7.5g/t Au since the early 1930s. The 42,500m drilling programme currently underway has already reported good intersections. With 34% of the program completed, some stellar intersections include 783 g/t Au over 0.2 m, 293 g/t Au over 0.5 m and 35.87 g/t Au over 9.8 m. BBA Inc. will prepare a new resource estimate in summer 2021.

Good demand for its bought deal financing

Monarch announced on 7 June that it intends to raise C\$6m capital in a bought deal private placement of 7,500,000 units at a price of C\$0.80/unit with Sprott Capital Partners and Stifel GMP as co-lead underwriters and joint bookrunners. Each unit consists of one ordinary Monarch share and one half of a warrant, with a full warrant entitling the holder to an option to purchase a further Monarch share at C\$1.05/warrant within 24 months. The offering closes on 30 June 2021 and proceeds will be utilised for general and working capital purposes. The additional cash will increase the buffer until Beaufor is cash-generative and potentially accelerate Croinor production coming online, although the 7% increase in issued shares to 74.7m will lead to dilution after the placement is finalised at end June.

Valuation: C\$0.99/share

Our valuation of C\$0.99/share remains unchanged with increased certainty on the Beaufor re-start and comfort that the increase in cash should potentially offset the dilution from the bought deal. Our valuation offers meaningful upside if positive drilling results lead to mine life extensions. Monarch's success in accessing capital markets increases the opportunity of delivering such positive results and the new resource estimates in summer 2021 will be telling.

Corporate announcement

Gold mining

15 June 2021

Price **C\$0.91**

Market cap **C\$63m**

US\$/C\$1.21

Net cash (C\$m) at 31 March 2021 19.0

Shares in issue 69.7m

Free float 84%

Code GBAR

Primary exchange TSX

Secondary exchange OTC

Share price performance



% 1m 3m 12m

Abs 9.6 1.1 N/A

Rel (local) 5.3 -5.4 N/A

52-week high/low C\$1.16 C\$0.60

Business description

Monarch Mining Corporation is a Canadian gold explorer with two near-term projects and two second tier projects in the Abitibi, Quebec, gold belt.

Next events

Q421 results August 2021

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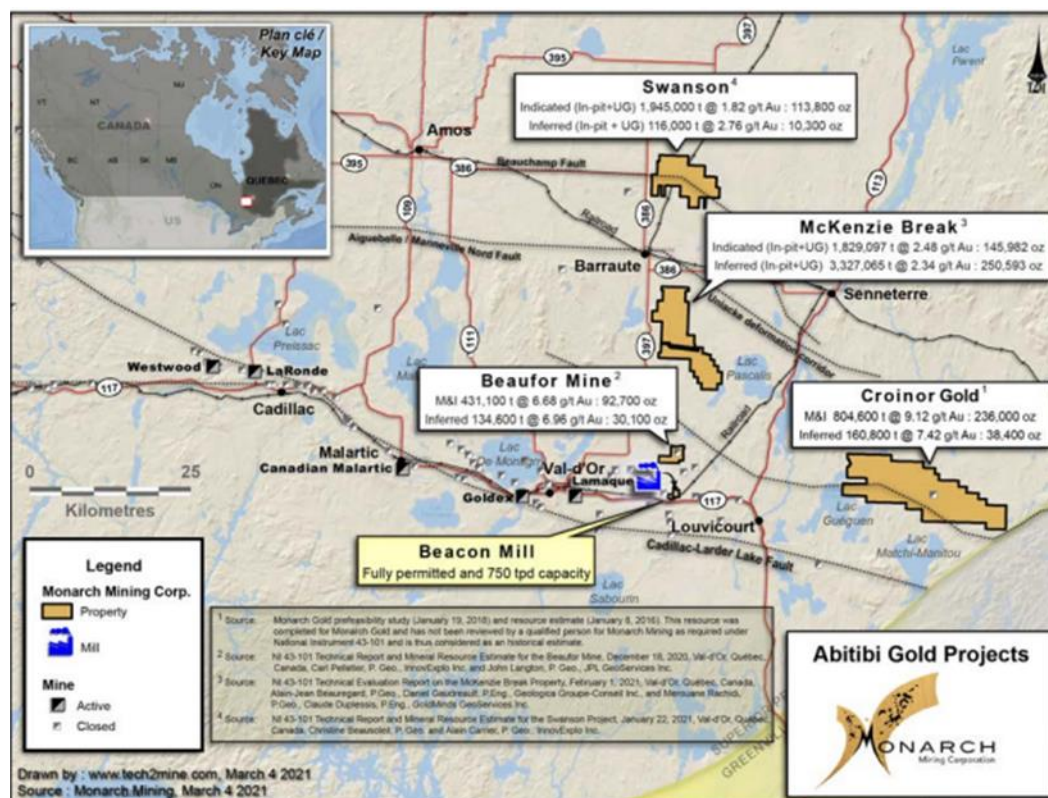
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Explorer and producer in early 2022

Monarch mining has the potential to become a 25–65Koz pa gold producer in one of the most prospective areas for gold exploration in the world (Exhibit 1). With its track record of adding 11oz of gold for every metre of exploration drilled in the Abitibi gold belt, there is every reason to believe that the current 63,200m drilling programme could add significant resources to its 917Koz measured, indicated and inferred (MI&I) resources.

Exhibit 1: Location of Monarch's projects, Abitibi, Quebec



Source: Monarch Mining, 2021

Furthermore, the board members have a proven track record of creating value for shareholders through M&A, for the acquisition of distressed/forgotten assets and the ability to monetise them. CEO Jean-Marc Lacoste, CFO Alain Lévesque and VP corporate development Mathieu Séguin have been active in investment banking and held positions as company directors with experience in M&A activity for most of their careers. The culture of the board is one of M&A and serial deal-making, targeting uplifts in value to the company's shareholders. Based on planned exploration, we feel confident that the company can extend resources and achieve mine life extensions to generate significant valuation uplift as management will push hard for accretive, cash-generative corporate activity.

Main risk: Highly geared to mine life

We see the principal risk and sensitivity to Monarch Mining as extending the life of the mines, or failure to do so, and bringing the Croinor mine into production before FY24, which is our base case (see Exhibit 2). This is in addition to the normal risks of execution and the gold price.

We note that Monarch's first project, Beaufor, is at a pre-production stage and our valuation is conditional on management executing the project according to the assumptions we set out in our recent [initiation note](#) and within the cost and timing parameters given.

Our various sensitivity analyses showed a base case value of around C\$0.99/share, with conservative upside to C\$1.81/share through mine life extensions and capital raises on some of the properties. We plan to review our valuation when the current placement is finalised at the end of June. As a maximum downside, however, we calculate that based on our current model the gold price would need to fall to US\$800/oz for the share value to reflect a break-even based on the economics of Beaufor and Croinor.

The overriding key sensitivity lies in achieving the life extension of Croinor and bringing in funding to do this. For the purposes of our model (at a notional price of C\$0.90), assuming funding of C\$22m in FY22, we estimate that this could add C\$0.21/share to our current valuation (see Exhibit 2) before any mine life extension and a further C\$0.38/share with a two-year life extension.

Exhibit 2: Base case valuation and sensitivities to bringing Croinor into production in 2022 and earlier funding

C\$/share	Funding options	No extension for Beaufor or Croinor		Two-year extension for Croinor		Three-year extension for Croinor	
		Core	Full	Core	Full	Core	Full
Beaufor start-up October 2021 and Croinor in 2025	No capital raise	0.69	0.99	1.16	1.46	1.37	1.67
Beaufor start-up in October 2021 and Croinor in 2022	Capital raise of C\$22m in 2022 with a 60:40 debt:equity split	0.90	1.20	1.28	1.58	1.51	1.81

Source: Edison Investment Research

Conclusion: High risk, high reward

Monarch has a well-established, highly experienced management team. We see no reason why the exploration programme will not add significant new resources to the company's MI&I resources statement and management is aware that this is the way to add the most value to the fledgling company. Although the gold price has receded from its highs of August 2020, the positive correlation of the share price to the gold price shows how highly geared the share is to this driver. The confirmation of Beaufor's production commencing in June 2022, and Monarch's success in accessing capital markets and enhancing its cash position, should increase comfort levels.

Financials

Our forecasts for Monarch remain unchanged and will be updated after the bought deal share placement has been finalised and the June 2021 final results are released.

Exhibit 3: Financial summary

C\$000s	Sep 2020	2021e	2022e	2023e	2024e
Year end 30 June	Pro forma	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0	0	20,998	56,214	74,626
Cost of Sales	0	0	(11,256)	(31,339)	(43,739)
Gross Profit	0	0	9,742	24,875	30,887
EBITDA	(1,883)	(3,790)	(2,758)	16,250	22,078
Operating Profit (before amort. and except.)	(1,883)	(3,790)	(2,758)	16,250	22,078
Amortisation	0	(2,500)	(1,328)	(1,477)	(1,509)
Exceptionals	188	250	1,500	500	0
Other	0	0	0	0	0
Operating Profit	(1,695)	(6,040)	(2,586)	15,273	20,569
Net Interest	(69)	(206)	(430)	(390)	(531)
Profit Before Tax (norm)	(1,952)	(3,996)	(3,188)	15,860	21,547
Profit Before Tax (FRS 3)	(1,764)	(6,246)	(3,017)	14,883	20,038
Tax	467	0	0	(3,397)	(8,053)
Profit After Tax (norm)	(1,485)	(3,996)	(3,188)	12,464	13,496
Profit After Tax (FRS 3)	(1,297)	(6,246)	(3,017)	11,486	11,985
Average Number of Shares Outstanding (m)	66.3	68.0	69.7	69.7	69.7
EPS - normalised (c)	(2.2)	(5.9)	(4.6)	17.9	19.4
EPS - normalised and fully diluted (c)	(2.2)	(5.7)	(4.5)	17.4	18.9
EPS - (IFRS) (c)	(2.0)	(9.2)	(4.3)	16.5	17.2
Dividend per share (p)	0.0	0.0	0.0	0.0	16.3
Gross Margin (%)	N/A	N/A	46.4	44.2	41.4
EBITDA Margin (%)	N/A	N/A	(13.1)	28.9	29.6
Operating Margin (before GW and except.) (%)	N/A	N/A	(13.1)	28.9	29.6
BALANCE SHEET					
Fixed Assets	36,504	36,504	37,989	38,313	65,944
Intangible Assets	14,319	14,319	14,319	14,319	14,319
Tangible Assets	13,282	13,282	14,767	15,090	42,721
Investments	8,903	8,903	8,903	8,903	8,903
Current Assets	20,920	19,439	13,627	29,628	17,093
Stocks	1,192	1,192	1,167	3,123	4,146
Debtors	2,122	2,122	2,129	5,698	7,565
Cash	14,000	14,520	8,727	19,201	3,777
Other	3,605	1,605	1,605	1,605	1,605
Current Liabilities	(2,698)	(2,695)	(2,558)	(7,070)	(9,856)
Creditors	(2,666)	(2,666)	(2,529)	(7,041)	(9,826)
Short term borrowings	(32)	(29)	(29)	(29)	(29)
Long Term Liabilities	(10,671)	(8,797)	(9,123)	(9,949)	(10,275)
Long term borrowings	(26)	(29)	(29)	(29)	(29)
Other long-term liabilities	(10,644)	(8,768)	(9,093)	(9,919)	(10,245)
Net Assets	44,056	44,452	39,935	50,922	62,906
CASH FLOW					
Operating Cash Flow	0	(3,464)	(2,550)	15,561	22,300
Net Interest	0	(206)	(430)	(390)	(531)
Tax	0	0	0	(2,897)	(8,053)
Capex	0	(500)	(2,813)	(1,800)	(29,140)
Acquisitions/disposals	0	0	0	0	0
Financing	0	4,690	0	0	0
Dividends	0	0	0	0	0
Net Cash Flow	0	520	(5,793)	10,474	(15,424)
Opening net debt/(cash)	0	(13,941)	(14,461)	(8,668)	(19,142)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	(0)	0
Closing net debt/(cash)	(13,941)	(14,461)	(8,668)	(19,142)	(3,718)

Source: Monarch Mining accounts, Edison Investment Research. Note: We do not show historical figures and instead show pro forma FY20 figures published in September 2020, reflecting that on 10 November 2020 Yamana bought the Wasamac mine and Camflo mill from Monarch Gold and, as such, there are no historical numbers that are relevant to Monarch Mining.

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