Fundamental Research Corp.
Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

October 20, 2014

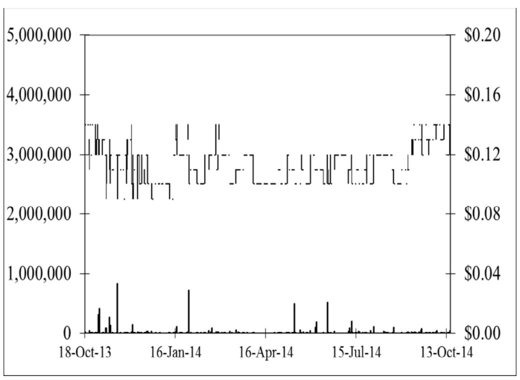
Monarques Resources Inc. (TSXV: MQR) – Releases Prefeasibility Results

Sector/Industry: Junior Mining/Exploration **www.monarquesresources.com**

Market Data (as of October 20, 2014)

Current Price	**C$0.135**
Fair Value	**C$0.50**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.09 - C$0.14
Shares O/S	64,585,204
Market Cap	C$8.72 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.8x
YoY Return	-3.6%
YoY TSXV	-14.7%

*see back of report for rating and risk definitions



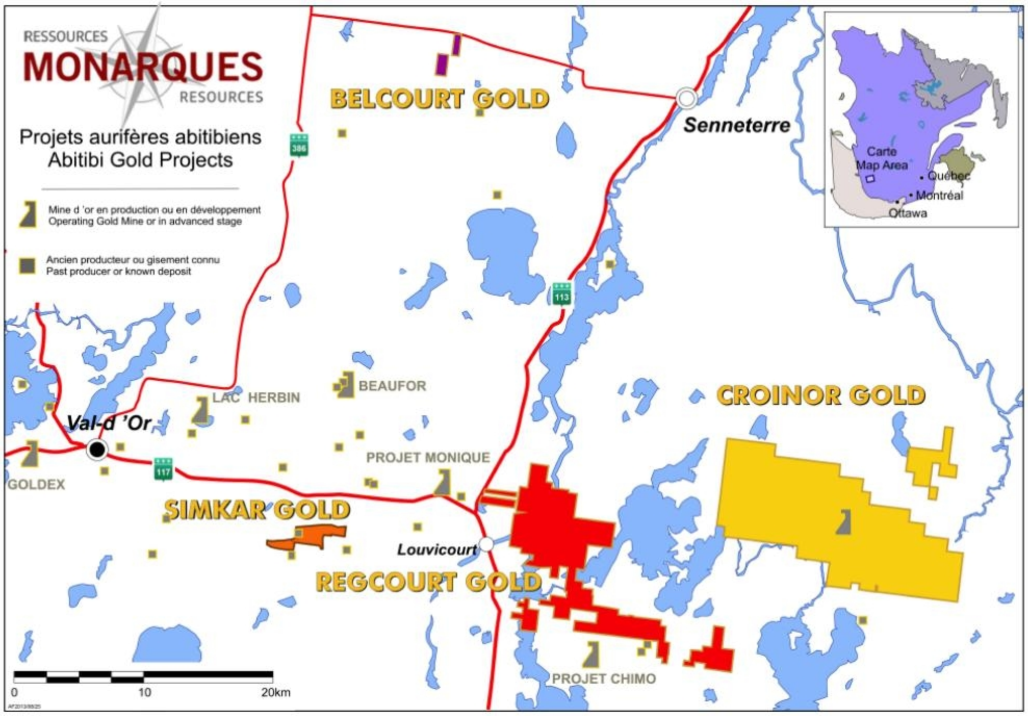
Investment Highlights

- Monarques Resources Inc. ("Monarques", "MQR", "the company") recently announced the results of a prefeasibility study ("PFS") on its Croinor project conducted by InnovExplo Inc. InnovExplo had conducted a preliminary economic assessment ("PEA") in 2012.
- Most results were inline with expectations though we were hoping to see higher reserves used.
- The PFS showed a slight increase in operating and capital cost estimates. The initial (pre-production) capital cost estimate is $20.28 million, excluding initial production revenues and capitalized production costs. The operating cost estimate was raised from $160/t (US$731/oz) to $180/t (US$757/oz).
- InnovExplo also lowered the proven and probable reserve estimate as they raised the cut-off grade. The PFS estimates a 5 year mine life for total production of 114,916 oz. The PEA had assumed total production of 145,073 oz.
- Using an average gold price of US$1,361/oz (C$:US$ - 1.12), the PFS estimated an after-tax Net Present Value ("NPV") @ 5% of $15 million. The PEA had used a higher discount rate of 7%, and estimated an after-tax NPV of $29 million.
- The PFS showed a slight improvement in NPV when the SAMS™ technology is used. This method lowers operating costs to $157/t (US$642/oz).
- Management is currently gearing up for a mine testing program, wherein they will extract 30,000 tonnes of ore, and use custom milling for processing.
- The company intends to pursue project financing based on the PFS results and recommendations.
- MQR's shares continue to be significantly undervalued. The shares are up 23% since we initiated coverage on September 5, 2014.

Key Financial Data (FYE - June 30) (C $)	2013	2014
Cash	$2,093,271	$1,245,702
Working Capital	$1,769,314	$1,084,618
Mineral Assets	$12,531,059	$3,875,783
Total Assets	$14,682,178	$5,232,586
Net Income (Loss)	-$540,522	-$10,509,087
EPS	-$0.01	-$0.19

Overview

On October 17, 2014, Monarques announced results of a prefeasibility study completed on the 100% owned Croinor project by InnovExplo Inc. The project covers 128 km² on 297 mineral claims, and a mining lease. The following map shows the locations of the four projects that are currently in Monarques' portfolio - Croinor Gold, Simkar Gold, Regcourt Gold, and Belcourt Gold.



Source: Company

The properties are located in the Abitibi Greenstone Belt. As discussed in our initiating report, the region has multiple producers with excess mill capacity, offering Monarques several opportunities to go into production quickly, and with less upfront capital, using custom milling. Croinor and Simkar are the two key projects in the portfolio. **Monarques is expecting to put Croinor into production in the near-term.**

PFS Results

InnovExplo has not made any changes to their original NI 43-101 resource estimate reported in the 2012 PEA. As shown in the tables below, InnovExplo estimates measured and indicated resources of 960,700 tons @ 7.45 gpt totaling 230,000 oz, and inferred resources of 227,800 tons @ 7.03 gpt totaling 51,500 oz. This is based on a 3 gpt cut-off grade.

NI 43-101 RESOURCES CALCULATION									
Cut Off (g/t)	Measured			Indicated			Total Measured + Indicated		
	Tons	Au g/t	Oz Au	Tons	Au g/t	Oz Au	Tons	Au g/t	Oz Au
> 2 g/t	165 200	5.55	29 500	1 192 200	6.05	231 700	1 357 400	5.99	261 200
> 3 g/t	112 400	7.00	25 300	848 300	7.51	204 700	960 700	7.45	230 000
> 4 g/t	80 500	8.41	21 800	599 600	9.18	176 900	680 100	9.08	198 700

NI 43-101 RESOURCES CALCULATION			
Cut Off (g/t)	Inferred		
	Tons	Au g/t	Oz Au
> 2 g/t	358 300	5.36	61 800
> 3 g/t	227 800	7.03	51 500
> 4 g/t	160 100	8.56	44 100

Source: Company

InnovExplo's model was based on 1,560 m strike length, 230 m wide, and up to 500 m depth, below surface

The following table compares the PFS and PEA results. The table also shows the potential impact of using a new mining technology (SAMS™) for narrow, and inclined orebodies, such as Croinor.

	PFS (2014)	PEA (2012)	SAMS™ Scenario
Proven and probable mineral reserves	541,534 t at 6.77g/t	689,169 t @ 6.72 g/t	535,710 t @ 6.84 g/t
Mine life (including 18 months of preproduction)	5 years	6 years	5 years
Daily mine production	425 tpd rising to 675 tpd in Year 4	425 tpd rising to 750 tpd in Year 4	600 tpd
Recovery	97.5%	97.5%	97.5%
Annual gold production	21,259 to 40,540 oz	5,305 to 47,477 oz	
Gold recovered over the life of the mine.	114,916 oz	145,073 oz	115,037 oz
Average operating cost/tonne	$180/tonne	$160/tonne	$157/tonne
Average operating cost/oz	US$757/oz	US$731/oz	US$642/oz
Capital cost	$42.3 million	$39.7 million	$45.9 million
Working capital/sustaining capital included in capital cost	$15.0 million	$19.2 million	
Total all-in cost per ounce	US$1,038/oz	US$959/oz	US$910/oz
Total gross revenue	$175 million	$220 million	$171 million
Total operating cost	$91 million	$104 million	$71.2 million
Total cost of the project	$133 million	$144 million	$117 million
Operating cash flow (before taxes and royalties)	$34.7 million	$66.8 million	$34.6 million
Estimated income taxes and mining duties	$12.5 million	$18.2 million	
Net cash flow (after income taxes and royalties)	$22.1 million	$42.1 million	
Pre-tax NPV (5% discount rate)	$25.0 million		$27.3 million
Pre-tax NPV (7% discount rate)	$21.9 million	$42.8 million	$24.9 million
Pre-tax NPV (10% discount rate)	$17.7 million		
Pre-tax IRR	34%	70%	56%
After-tax NPV (5% discount rate)	$14.9 million		
After-tax NPV (7% discount rate)		$28.8 million	
After-tax NPV (10 % discount rate)		$24.5 million	
After-tax IRR	24%	53%	
Pay-back period	3.8 years	3.0 years	
Preproduction period (including production of 36 kt)	18 months	18 months	
Gold Price	US$1,361/oz	US$1,495/oz	US$1,361/oz
C$/US$	1.12	1.03	1.12

As in the PEA, the PFS proposes longhole and the room-and-pillar mining methods. The initial (pre-production) capital cost estimate is $20.28 million, excluding initial production revenues and capitalized production costs. The PEA had estimated $18.26 million. We had used $21.92 million in our models.

Description	Pre-production ($)	Sustaining ($)	Total cost ($)
Capitalized operating cost	*17,223,056*		*17,223,056*
Capitalized revenue	*-10,143,025*		*-10,143,025*
Royalties	500,000		500,000
Mine dewatering and rehabilitation	1,192,469		1,192,469
Surface infrastructure	3,488,670	871,604	4,360,274
Electrical distribution and communication system	5,135,790	660,246	5,796,036
Mining infrastructure	810,787	157,514	968,301
Mobile equipment	3,618,041	5,032,494	8,650,535
Development	4,819,567	8,065,391	12,884,958
Environment	717,813	169,304	887,117
Total	**27,363,167**	**14,653,993**	**42,319,720**

Source: Technical Report

The Croinor property does not have an electric power line that runs into the property. The capital cost estimate includes the cost to extend a 25 kV transmission line from the nearby Chimo mine site.

The mine is currently flooded to the portal entrance. The cost to dewater the mine is estimated to be $1.19 million.

The operating cost estimate was raised from $160/t (US$731/oz) to $180/t (US$757/oz). We had used $176/t in our valuation models.

Based on proven and probable reserves of 541,534t @ 6.77 gpt, the PFS estimates a 5 year mine life with annual production ranging between 21,259 oz and 40,540 oz, for total production of 114,916 oz. The PEA, which used a lower cut-off grade, had assumed production of 145,073 oz.

Using an average gold price of US$1,361/oz (C$:US$ - 1.12), the PFS estimates a before-tax Net Present Value ("NPV") @ 5% of $25 million, and an after-tax estimate of $15 million. The PEA had used a higher discount rate of 7%, and estimated a before-tax NPV of $43 million, and an after-tax NPV of $29 million. The PEA had used an average gold price of US$1,495/oz (C$:US$ - 1.03). **The PFS NPV dropped primarily due to lower production, and higher operating cost estimates.**

The NPV shows a slight improvement when SAMS™ is used. This method lowers operating costs to $157/t (US$642/oz), and increases the before-tax NPV @ 5% to $27 million. The pre-tax internal rate of return jumps from 34% to 56%. InnovExplo recommends that following mine dewatering and rehabilitation, a test stope should be excavated to confirm the viability of the technology.

As discussed in our initiating report, SAMS™ was developed by Quebec based private company Minrail. According to Minrail, their technology has the ability to:

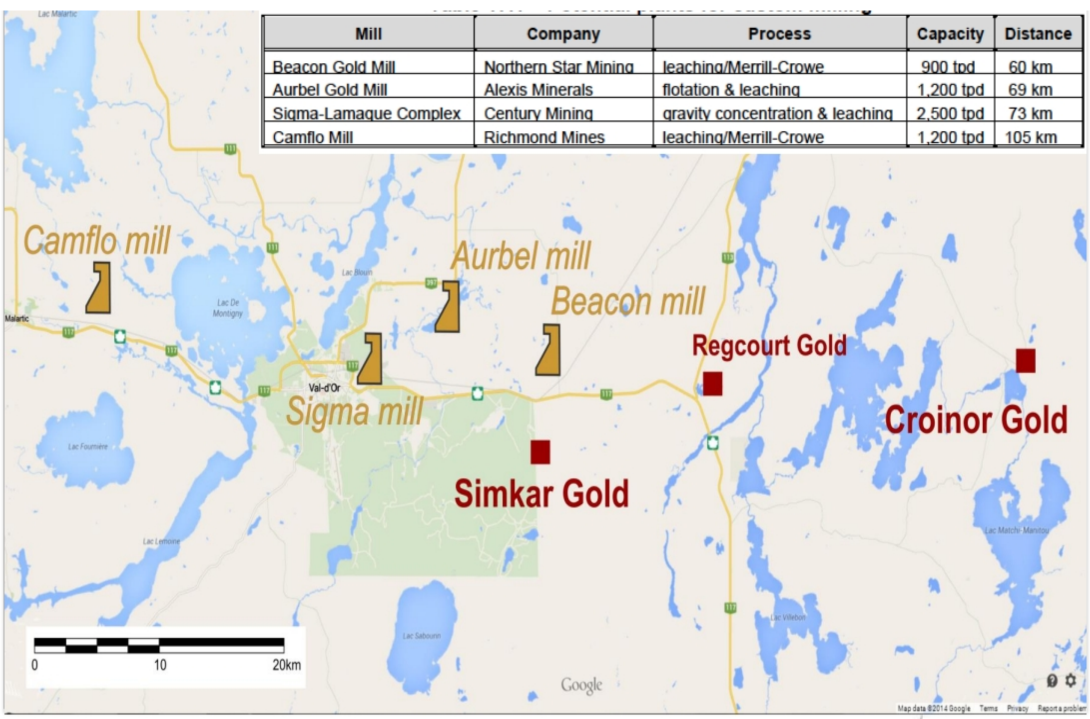
- *extract ore at sloping surfaces between 10 and 45 degrees*
- *mechanize the vast majority of manual tasks that have historically been associated*

with ore extraction

- reduce ore extraction costs to approximately $25 / ton compared to $75-$100 / ton using conventional mining methods
- reduce capital costs for infrastructure such as stopes, ramps and underground access points by 50%.
- be environmentally safe as it produces significantly less surface waste material than conventional ore extraction methods; also, the technology does not use diesel
- provide a safer environment for miners

The technology has been in development since the early 2000s, but has yet to be commercially deployed. Therefore, the long-term viability and efficiency of the technology is currently unproven.

Custom milling - As in the PEA, the PFS assumes ore from Croinor will be processed using custom milling at the Camflo mill. There are four mills located within 120km of the project. Management indicated that they are currently in discussions with various mills in the region to determine the optimal option for its projects. The map below shows the four mills.



Mill	Company	Process	Capacity	Distance
Beacon Gold Mill	Northern Star Mining	leaching/Merrill-Crowe	900 tpd	60 km
Aurbel Gold Mill	Alexis Minerals	flotation & leaching	1,200 tpd	69 km
Sigma-Lamaque Complex	Century Mining	gravity concentration & leaching	2,500 tpd	73 km
Camflo Mill	Richmond Mines	leaching/Merrill-Crowe	1,200 tpd	105 km

Source: Company

- **The Beacon Gold (900 tpd capacity) -** The mill is currently owned by a group of private investors.
- **The Aurbel Gold mill (1,200 tpd)** is owned by QMX Gold Corporation (TSXV: QMX). QMX recently announced that they will seek custom milling options as they

mine out their Lac Herbin mine.

- **The Sigma-Lamaque Complex (2,200 tpd) -** On September 4, 2014, Integra Gold Corp. (TSXV: ICG) announced that it has entered into an agreement to purchase the Sigma-Lamaque milling facility for $7.55 million.
- **Camflo mill (1,200 tpd)**: X-Ore had used this mill for custom milling ore from Croinor from 2003-2005. The mill is owned by Richmont Mines (TSX: RIC), and is 105 km from Croinor. Richmont recently stated that they are seeking custom milling options starting 2015, as their Monique and W Zone mines are expected to run out of ore.

PFS Recommendations

InnovExplo recommends a two phase program totaling $5.66 million.

- Phase 1, estimated at $2.36 million, includes a drilling program to potentially upgrade the inferred resources.
- Phase 2 - upon positive results from Phase 1, Phase 2 drilling of 30,000 m is recommended. The cost of Phase 2 is estimated at $3.30 million.

Development Plan

The project has already received a Certificate of Authorization to operate the mine. The company is required to attain the following permits for the development and operation of the Croinor mine:

- Wood cutting
- Gravel pit
- Construction
- Explosive
- Fuel storage
- Beaver dam dismantling

Management believes they will be able to attain these permits in 3 - 5 months.

In July 2014, Monarques **commenced field work** on Croinor to better evaluate the overall potential of the property. In the program, the company will revisit historical showings, and conduct a geological reconnaissance on geophysical anomalies. Management indicated that they expect announced results from this program in the next two to three weeks.

As discussed in our initiating report, management is currently gearing up for a mine testing program, wherein they will extract 30,000 tonnes of ore, and use custom milling for processing. The objective of the program is to test the long-term viability of the Minrail technology.

Based on the average grade of 7.45 gpt for measured and indicated resources, the 30,000 tonne program, we estimate, could potentially produce 6,970 oz, and generate US$9.07 million in revenues (assumptions: gold price of US$1,300/oz; recovery rate of 97.5%). Management estimates the total upfront cost of the program at $9 million. The company has started seeking potential joint venture partners, or other sources of financing.

Financials

At the end of FY2014 (ended June 30, 2014) the company had cash and working capital of $0.72 million and $1.08 million, respectively. We estimate the company had a burn rate (cash spent on operating and investing activities) of $0.17 million per month in FY2014. The following table summarizes the company's liquidity position at the end of FY2014.

(in C$)	2013	2014
Cash	$2,093,271	$724,538
Working Capital	$1,769,314	$1,084,618
Current Ratio	5.63	4.98
LT Debt/ Assets	-	-
Monthly Burn Rate (incl. investing activities)	(169,382)	(170,536)
Cash from Financing	$2,723,141	$1,273,862

According to management, the company currently has approximately $0.80 million in working capital. The company intends to pursue project financing based on the PFS results and recommendations.

Stock Options and Warrants

The company currently has 3.70 million options outstanding (weighted average exercise price of $0.25) and 16.29 million warrants outstanding (weighted average exercise price of $0.23). At this time, none of the stock options or warrants are 'in-the-money'.

Valuation and Rating

As most of the key inputs were in line with our estimates, our Discounted Cash Flow (DCF) valuation remains at $0.49 per share (see below). Note that we have continued to evaluate the company based on 100% of the measured and indicated, and 50% of the inferred resources.

DCF Valuation	
Croinor	
Tonnage (M&I + 50% Inf)	1,074,600
Weighted Avg Grade (gpt)	7.41
Recovery	97.50%
Recovered Au (oz)	248,287
Production Rate	425 tpd in Year 1, ramping up to 750 tpd by Year 4
Mine Life (years)	5
Operating costs ($/t) - added a 10% premium to the PEA estimate	$176
Initial Capital Cost (excl pre-production revenues and costs) - $, millions - added a 20% premium to the PEA estimate for conservatism	$21.92
Simkar	
Tonnage (M&I + 50% Inf)	270,745
Weighted Avg Grade (gpt)	5.42
Recovery	97.50%
Recovered Au (oz)	45,754
Production Rate	425 tpd
Mine Life (years)	2
Operating costs ($/t)	$130
Initial Capital Cost - $, millions	$12.50
Long-Term Gold Price (US$/oz)	$1,200
Long-Term C$/US$	1.10
Discount rate	11.5%
Net Asset Value (C$)	**$31,079,064**
Current Working Capital (estimate)	$759,618
Fair Value of MQR	**$31,838,682**
No. of Shares	64,585,204
Fair Value per Share ($)	**$0.49**

The sensitivity of our valuation to gold prices and discount rates is shown below.

		Gold Price (US$/oz)				
		$800	$1,000	$1,200	$1,500	$1,800
	7.0%	-$0.46	$0.09	$0.64	$1.46	$2.28
	9.0%	-$0.45	$0.06	$0.57	$1.33	$2.09
Discount Rate	11.5%	-$0.44	$0.03	$0.49	$1.19	$1.88
	13.0%	-$0.43	$0.01	$0.45	$1.11	$1.77
	15.0%	-$0.42	-$0.01	$0.40	$1.02	$1.63

We reiterate our BUY rating, and maintain our fair value estimate of $0.50 per share. Shares have performed well since we initiated coverage last month. **We continue to believe the next 6 to 12 months will be eventful as the company advances Croinor into production.**

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on gold/silver prices.
- The company does not currently have any operating mines.
- Exploration and development risks.
- Access to capital and share dilution.
- Minrail's technology has yet to be proven commercially.
- Monarques may not obtain the best/optimal custom milling option in the region.
- No NI 43-101 economic studies have been conducted on Simkar.

We continue to rate the shares a risk of **5 (Highly Speculative).**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by MQR to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, MQR has agreed to a minimum coverage term including an initial report and three updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (8%), SELL (5%), SUSPEND (18%).
To subscribe for real-time access to research, visit http://www.researchfrc.com/subscribe.php for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.
Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.