Sirios Resources Inc. (TSXV: SOI) – Attractive M&A Target Next to Goldcorp’s Éléonore Gold Mine – Initiating Coverage

Sector/Industry: Junior Resource

Investment Highlights

- Sirios Resources Inc. (“Sirios”, “company”) holds a portfolio of gold focused exploration assets in James Bay, Quebec.
- The flagship asset, named the Cheechoo gold property, is just 10 – 15 km from Goldcorp’s (TSX: G) Éléonore gold mine – one of Canada’s newest and largest gold mines. **Goldcorp is also Sirios’ largest investor, and holds 17% of the total outstanding shares.**
- In 2016, Sirios was awarded the “Discovery of the Year” by the Quebec Mineral Exploration Association (AEMQ) for the Cheechoo gold project.
- Cheechoo holds a low-grade deposit, with pockets of high to very-high grade areas. A maiden resource estimate is expected in 2019. **Our preliminary speculative estimate is 1.27 Moz of contained gold.**
- We believe an attractive initial resource will open doors to a number of possible M&A opportunities for Sirios.
- At the end of Q2-2018 (ended December 31, 2018), the company had $2.74 million in cash.
- **We are initiating coverage with a BUY rating, and a fair value estimate of $0.44 per share.**

Risks

- The value of the company is highly dependent on commodity prices (primarily gold).
- The company does not currently have any operating mines or properties with NI 43-101 compliant resources.
- Potential M&A activity may take longer than expected.
- Exploration and development risks.
- Access to capital and share dilution.
Sirios Resources, founded in 1994 by CEO Dominique Doucet, is based out of Montreal, Quebec. Mr. Doucet is a veteran with close to 45 years of experience in mineral exploration. Since inception, the company’s focus has almost exclusively been on exploration assets in Quebec. Quebec has consistently ranked high as one of the best mining jurisdictions in the world. In 2018, the Fraser Institute ranked Quebec as the fourth best jurisdiction in the world (among 83 jurisdictions) for Investment Attractiveness. Quebec was ranked second best in Canada after Saskatchewan.

### 2018 Fraser Institute Survey of Mining Companies

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<tr>
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<tbody>
<tr>
<td>Alberta</td>
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<td>49/91</td>
<td>47/104</td>
<td>34/109</td>
<td>28/122</td>
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<td>British Columbia</td>
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<td>Manitoba</td>
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<td>18/91</td>
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<td>New Brunswick</td>
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<tr>
<td>Newfoundland and Labrador</td>
<td>11/83</td>
<td>11/91</td>
<td>16/104</td>
<td>25/109</td>
<td>8/122</td>
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<tr>
<td>Northwest Territories</td>
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<tr>
<td>Nunavut</td>
<td>15/83</td>
<td>26/91</td>
<td>31/104</td>
<td>23/109</td>
<td>34/122</td>
</tr>
<tr>
<td>Ontario</td>
<td>20/83</td>
<td>7/91</td>
<td>18/104</td>
<td>15/109</td>
<td>23/122</td>
</tr>
<tr>
<td>Quebec</td>
<td>4/83</td>
<td>6/91</td>
<td>6/104</td>
<td>8/109</td>
<td>10/122</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>3/83</td>
<td>2/91</td>
<td>1/104</td>
<td>2/109</td>
<td>2/122</td>
</tr>
<tr>
<td>Yukon</td>
<td>9/83</td>
<td>13/91</td>
<td>15/104</td>
<td>12/109</td>
<td>6/122</td>
</tr>
</tbody>
</table>

Sirios’ current portfolio includes six projects, totaling 341 sq. km, in the James Bay region, in Quebec. Project locations and brief summaries are presented below.

**Sirios’ Portfolio**

*Source: Company*
The projects are in various stages of development. None of them have NI 43-101 compliant resource estimates. The company has been aggressively exploring its flagship asset (Cheechoo), and intends to complete a maiden resource estimate in 2019. Sirios was awarded “Discovery of the Year” by the Quebec Mineral Exploration Association (AEMQ) for the Cheechoo gold project - which, we believe, is a strong testimonial for Cheechoo and Sirios’ exploration team.

Note that Sirios is not a typical prospect generator (“PG”). A PG’s business model is to acquire early stage projects, and advance those projects by partnering with other resource companies, while retaining a minority interest and/or royalties on the projects. Sirios explores the projects that it generates, and may farm out its non-core assets.

Ownership
Sirios acquired the Cheechoo property by staking in 2004. In 2005, Sirios optioned the property to Golden Valley Mines (TSXV: GZZ – a Quebec focused PG, with a current market capitalization of $48 million). After spending $4 million on exploration, GZZ acquired a 60% interest in the project by 2009. By 2016, Sirios re-acquired GZZ’s interest, and gained a 100% interest in the project by spending $5 million on exploration, and issuing 4.15 million shares to GZZ. GZZ retains a 2.5% to 4.0% NSR on gold production (depending on the price of gold), and a 4% NSR on other minerals.

Location
The project, covering 73 sq. km over two non-contiguous claim blocks 20 km apart, is located in the Eeyou Istchee James Bay region - a remote corner of Northern Quebec. It is located approximately 800 km north of Montreal, 350 km north of the mining town of Matagami, and more importantly, just 10 – 15 km from Goldcorp’s Éléonore gold mine.
The above map presents Sirios’ two main claim blocks. **Sirios’ exploration focus is on the larger block located towards east of the Éléonore gold mine.** The following images show its proximity to the Éléonore gold mine.

**Sirios’s Focus Area**
Éléonore commenced commercial production in 2015, and is currently one of Quebec’s largest gold producers, having produced approximately 360 Koz in 2018. The project had 3.25 Moz (5.7 gpt) in reserves as of June 2018. Goldcorp estimated the all-in-sustaining cost (AISC) at US$900 per oz in 2018. Sources indicate that the project was advanced to production with a CAPEX of US$2 billion. Goldcorp’s website states that the project is located in an underexplored 150 sq km area with significant potential for satellite deposits. **We believe this is very encouraging for Sirios as Cheechoo could be a strong acquisition target if Sirios is able to delineate a 1+ Moz deposit.** Note that Goldcorp is also Sirios’ largest investor, and holds 17% of the total outstanding shares. Goldcorp also owns a 37% interest in a neighbouring property (actively being drilled), named the Éléonore South property, with the remaining interest held by juniors, Eastmain Resources (TSX: ER / market capitalization of $32 million), and Azimut Exploration (TSXV: AZM / market capitalization of $19 million). **Therefore, we suspect potential for M&A / consolidations in the region.**

The Cheechoo property is located within first nation lands (Wemindji community). The area is covered by the James Bay and Northern Québec Agreement, binding the Cree Nation, the Québec government and the federal government. The relevance of this is that there is no significant restriction to mineral exploration. Also, the Cree Mineral Exploration Board holds a minor equity position in Sirios – indicating their support.

Topography is relatively rugged with abundant lakes. The project has road access.

There is sufficient access to water. The project, if and when advanced to production, can be connected to the province’s hydro electric network for power. There is currently a power line serving the Éléonore mine, passing a few kilometres to the west of Cheechoo.

**Geology, Mineralization and Historic Work**
The property is considered to hold reduced intrusion-related gold systems; which are
basically arrays of sheeted auriferous quartz veins, that tend to be of low-grade / large-tonnage targets. **Cheechoo hosts a large low-grade envelope (between 0.3 g/t and 0.8 g/t), as well as a number of high gold areas within the large envelope (example - 867.1 g/t over 0.5 m).** Most of the gold occurs as free coarse grains allowing for strong recovery rates.

Sirios staked the main claims of the Cheechoo property in 2004, soon after Virginia Gold Mines’ discovery of the Éléonore gold project. Virginia was subsequently acquired by Goldcorp in 2005 for approximately US$420 million. No prior exploration work was conducted on Sirios’ land package prior to 2004.

In 2005, Sirios optioned the property to GZZ, who became the operator. From 2005 to 2011, GZZ conducted electromagnetic, aeromagnetic and ground magnetometric surveys, trenching, and channel sampling. GZZ also drilled 19 holes / 2,506 m in 2007 (outside of the current focus area). GZZ gained a 60% interest in the property by 2009.

**The first gold showings, on the current focus area, were discovered during a prospecting program in 2010.** Outcrop samples yielded values of up to 2.6 gpt gold.

In 2012, Sirios entered into an agreement with GZZ to re-acquire its full ownership in the project. The following table summarizes the drill programs conducted by Sirios since 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Holes</th>
<th>Meters</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8</td>
<td>938</td>
</tr>
<tr>
<td>2013</td>
<td>4</td>
<td>759</td>
</tr>
<tr>
<td>2014</td>
<td>7</td>
<td>1,558</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>1,962</td>
</tr>
<tr>
<td>2016</td>
<td>63</td>
<td>13,697</td>
</tr>
<tr>
<td>2017</td>
<td>47</td>
<td>10,628</td>
</tr>
<tr>
<td>2018</td>
<td>58</td>
<td>15,720</td>
</tr>
<tr>
<td>2019</td>
<td>47</td>
<td>11,322</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>245</strong></td>
<td><strong>56,675</strong></td>
</tr>
</tbody>
</table>

*Source: Company*

Key historical results are listed below. Note the presence of both low-grade and high-grade intercepts over long intervals:

- 0.8 g/t Au over 182.5 m
- 1.9 g/t Au over 83.2 m
- 12.8 g/t Au over 20.3 m
- 11.9 g/t Au over 13.5 m
- 41.0 g/t Au over 8 m
- 56.4 g/t Au over 8.2 m

In 2016 and 2017, Sirios also completed 2,000 m of channel sampling on the main stripped
area, which gave a weighted average grade of 0.4 g/t gold.

**Channel Sampling**

![Channel Sampling Image](image)

**Source:** Company

In total, the project has had 242 NQ diamond drill holes (60,000 m), three PQ diamond drill holes (450 m), and approximately 3,000 m of channel sampling. The following image shows all the drill holes. NQ holes are of smaller diameter relative to PQ holes.

**Past Drill Holes**

![Past Drill Holes Image](image)

**Source:** Company

The focus of Sirios’ 2018 drill program (58 holes / 15,720 m) was an area covering approximately 500 m by 500 m, with a drill spacing of 50 m.
Central Area – Primary Focus

The following table presents results of all of the intercepts over 30 m, and values of over 10 gpt, from the 2018 drill program.

### Intercepts over 30 m

<table>
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<tr>
<th>Source</th>
<th>Company / FRC</th>
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### Values over 10 gpt

<table>
<thead>
<tr>
<th>Source</th>
<th>Company / FRC</th>
</tr>
</thead>
</table>
As shown above, we estimate the weighted average of the lower grade / long intercepts was 0.86 gpt, and the weighted average of the high grade intercepts was 33.23 gpt. We believe the 2018 drill program clearly indicates the project’s potential (as mentioned earlier) to host a low-grade deposit, with pockets of high to very-high grade areas. **We estimate the global average of the project could be between 0.6-1.2 g/t.** This is in line with the grades of well known reduced intrusion related deposits, listed below:

- Victoria Gold’s (TSX: VIT) Eagle project in Yukon has reserves of 116 Mt at 0.66 gpt,
- Kinross’s (TSX: K) Fortknox mine in Alaska has reserves of 268 Mt at 0.4 gpt

We believe that a **key challenge of the Cheechoo deposit** will be to estimate the geological continuity of the high-grade intervals. A key high-grade target is the Jordi zone, which is currently estimated to be continuous for over 300 m along strike, 200 m downdip, with widths of 5 to 10 m. **We estimate these dimensions indicate a potential resource of 0.75 Mt. An average grade of 10 gpt, implies potential for 0.25 Moz just from this zone.**

**Sirios recently completed a 47 hole / 11,322 m drill program.** The program focused on five areas - Main (2 holes), North contact (10 holes), Mafic Dyke (5 holes), Echo (13 holes) and Eclipse (17 holes). Results are yet to be announced.

**Speculative Resource Estimate**
Based on a 500 m x 500 m area, and a conservative depth of 200 m (the company has drilled up to 300 m depth), we estimate a preliminary speculative resource of 66 Mt. **An average grade of 0.6 gpt, implies potential for 1.27 Moz of contained gold.**

**Metallurgical tests**
Previous tests have indicated potential for gravity recovery rates of 70% - 76% versus the
industry average of 30% - 40%. The high recovery rates are due to free coarse gold. In addition, cyanidation leaching on the gravity tailings showed potential recovery of 92%-93%, for a total expected recovery rate of over 90%. The company is currently conducting additional metallurgical testing (from 5.5 tons of drill core samples) – results are expected this quarter.

Management’s development plans are listed below, which we believe are realistic.

- Q2-2019 – Metallurgical test results and 10,000 m drill program
- **2019 – Maiden resource estimate**
- Q4-2019 – Definition drilling
- 2020 – PFS
- 2021 - FS

The following table summarizes Sirios’ other projects. The company’s main focus is now on Cheechoo. For Aquilon, the company recently completed compilation and integration of all data from previous years. Prospecting work is planned for Goldorak and Amikap in the future.

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Primary Target</th>
<th>Number of Claims</th>
<th>Area</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aquilon</td>
<td>100% Gold</td>
<td>104</td>
<td>52 km²</td>
<td>10 km south of the LA-1 hydrosol complex at James Bay. Best historic results include: 834.4 g/t Au over 1.71 metres, 116.48 g/t Au over 2.25 m, 435.33 g/t Ag over 0.60 m.</td>
</tr>
<tr>
<td>Pontax</td>
<td>100% Silver, Gold</td>
<td>70</td>
<td>35 km²</td>
<td>15 silver and gold potential drilling targets were delineated on the property. Channel sampling and drilling results include: 821 g/t Ag, 1.31 g/t Au over 4.4 m and 3.343 g/t Ag, 2.4 g/t Au, 2.3% Pb and 0.6% Zn over 1.04 m.</td>
</tr>
<tr>
<td>Goldorak*</td>
<td>100% Gold</td>
<td>124</td>
<td>60 km²</td>
<td>40 km south of Radisson.</td>
</tr>
<tr>
<td>Amikap*</td>
<td>100% Gold</td>
<td>169</td>
<td>87 km²</td>
<td>70 km north of the Cheechoo property. No historic exploration other than regional governmental mapping.</td>
</tr>
<tr>
<td>Keez*</td>
<td>100% Gold</td>
<td>66</td>
<td>34 km²</td>
<td>70 km north of the Cheechoo property. No historic exploration other than regional governmental mapping.</td>
</tr>
</tbody>
</table>

* Acquired in 2018

Source: Company / FRC

The Eeyou Istchee James Bay area is actively explored / developed by a number of companies. Key players include Osisko (TSX: OSK / market capitalization of $856 million), Midland Exploration (TSXV: MD / market capitalization of $83 million), Eastmain
Resources (market capitalization of $31 million) and Azimut Exploration (TSXV: AZM / market capitalization of $21 million). Eastmain and Azimut hold multiple projects in the area, including one that borders Cheechoo.

**Eastmain Resources’ Portfolio**

![Eastmain Resources Portfolio Map](source_image)

Of particular interest is the Éléonore South property (147 sq km), which is held by Goldcorp (36.7%), Eastmain Resources (36.7%), and Azimut Exploration (26.6%). This property adjoins Sirios’ Cheechoo project, as shown below. **Cheechoo and Éléonore South are interpreted to share the same auriferous system.** Éléonore South does not have a resource estimate, but is being actively drilled.

**Cheechoo and Éléonore South**

![Cheechoo and Éléonore South Map](source_image)

**Eastmain’s flagship asset is the Eau Claire property**, located 40 km south of the Éléonore South. This property has a measured and indicated resource of 0.85 Moz at 6.2 gpt, and an inferred resource of 0.50 Moz at 6.5 gpt. A preliminary economic assessment (12 year open pit and underground mine life / 1,500 tpd at 86 Koz per year), completed in 2018, showed an
after-tax Net Present Value at 5% of $260 million, and an after-tax Internal Rate of Return of 27%, at a gold price of US$1,250 per oz. The initial CAPEX was estimated at $175 million, with an AISC of US$574/oz.

Eastmain’s third key asset is the Eastmain mine project, which has an indicated resource of 0.24 Moz at 8.2 gpt gold, and 0.14 Moz at 7.5 gpt gold.

We consider Eastmain’s active presence in the region as a plus for Sirios as an attractive initial resource at Cheechoo will open doors to a number of possible M&A opportunities.

Key Projects

Goldcorp is the company’s largest shareholder, and owns 17% of Sirios’ outstanding shares. Management and board members own a total of 2%. In total, management, board, and institutions own approximately 57% of the total outstanding shares – aligning their interest with investors.
Brief biographies of the management team and board members, as provided by the company, follow:

**Dominique Doucet, P. Eng. - President, Chief Executive Officer and Director**

Dominique Doucet has been active in the mineral exploration industry for close to 45 years. He holds a degree in geological engineering with a specialization in mineral exploration from the École Polytechnique de Montréal. He started as a consultant engineer. Then, he founded William Resources Inc., (MSE, 1990 – 1994) before creating Sirios in 1994. Also, he was a co-founder, Vice-President and Director of Dios Exploration Inc. from 2001 to 2011, in addition to the creation of Khalkos Exploration Inc. in 2011. Actively involved in the industry, Mr. Doucet is a member of the Ordre des Ingénieurs du Québec, Quebec Mineral Exploration Association, Prospector and Developers Association of Canada and Society of Economic Geologists. Mr. Doucet, and his team were awarded the Discovery of the Year Award in 2001 and 2016 by the Québec Mineral Exploration Association.

**Frédéric Sahyouni, B.Comm. – CFO**

Frédéric Sahyouni holds a Bachelor’s degree in Commerce from the John Molson School of Business of Concordia University in Montreal. He’s been an integral part of the Sirios team for over ten years, managing the company’s finances, investor communications and marketing. Mr. Sahyouni has been Chief Financial Officer of the company since 2011 and held the same position at Sirios’ gold-copper spin-off Khalkos Exploration Inc. for four years. He was a director of Sirios from 2011 to 2014. He has worked as a business consultant for different companies both in the mining and music industry.

**Gilles Dupuis - Chairman of the Board**

Gilles Dupuis worked as an investigator at the Illegal Practice Surveillance Service of the Ordre des Ingénieurs du Québec from 2001 to 2017. After completing his police technical
studies, he was employed, from 1968 to 2000, with the Montreal City Police Service, first as policeman and later as an investigator. In addition, he was a Director of Khalkos Exploration Inc. from 2011 to 2013. Mr. Dupuis has been an active private investor mainly in natural resources companies since 1999.

Luc Cloutier - Independent Director
Luc Cloutier holds an Accounting Diploma from the Timmins Business College. From 2001 to 2011, he was Chairman of Caisse Desjardins D’Amos, where he acted as director during the previous ten years. He was President & CEO of Trudel & Frères, a safety products and equipment distributor company. Since 1998, he has been President of his own private management company.

Guy Chevrette - Independent Director
Mr. Chevrette first worked as an unionist where he made his mark as a key member of the Cliche Commission in 1974. He became a member of the National Assembly of Quebec in 1976, a position which he held until 2002. During this period, he served as Minister of Natural Resources, Minister responsible for Aboriginal Affairs, Minister responsible for Regional Development, Minister of Transport and Minister responsible for Wildlife and Parks. In 2002, he was appointed Special Representative of the Prime Minister on the issue of the territorial agreement with the Innu of the North Shore. He then became the President of the Association des centres locaux de développement du Québec (ACLDQ) and CEO of the Québec Forest Industry Council.

Michel F. Bouchard - Independent Director
Mr. Bouchard has been involved in the mining industry for more than 30 years. He holds a Master degree in geology and a MBA, he has been a Director and a Senior Executive for several publicly traded companies in the mining sector. He has vast experience in financing, exploration, development and production. He was recently President and CEO of Clifton Star Resources Inc., which was acquired by First Mining Finance Corp., for which he is now a Director. He also occupied numerous senior executive positions in the past. Mr. Bouchard was responsible for the co-discovery of the Bouchard-Hébert mine, in northwest Quebec.

Our net rating on Sirios’s management team is 4.2 out of 5.0 (see below).
The company’s board has five members, of which, three are independent. The following table shows our analysis on the strength of Sirios’ board.

### Strength of Board

<table>
<thead>
<tr>
<th></th>
<th>Poor</th>
<th>Average</th>
<th>Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three out of five directors are independent</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directors’ Share Ownership</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>The Audit committee is composed of three board members, all are independent</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>The Compensation committee is composed of three board members, all are independent</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Source: FRC

At the end of Q2-2018 (ended December 31, 2018), the company had cash and working capital of $2.74 million and $3.24 million, respectively. We estimate the company had a burn rate (G&A) of $89k per month in the first six months of 2019 – which, we believe, is very reasonable. The following table summarizes the company’s liquidity position:
The company currently has 8.89 million options (weighted average exercise price of $0.30 per share) and 0.44 million warrants (weighted average exercise price of $0.38 per share) outstanding. At this time, none of the options or warrants are ‘in-the-money’.

The following table shows the Enterprise Value / Resource of gold-focused juniors. As shown, based on our preliminary estimate of 1.27 Moz of contained gold, we estimate that Sirios’ shares are trading at approximately $26 per oz versus the comparables average of $50 per oz.

<table>
<thead>
<tr>
<th>Company</th>
<th>EV / Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Osisko Mining</td>
<td>$196.68</td>
</tr>
<tr>
<td>2. Victoria Gold Corp.</td>
<td>$92.71</td>
</tr>
<tr>
<td>3. Pure Gold Mining Inc.</td>
<td>$74.99</td>
</tr>
<tr>
<td>4. Probe Metals Inc.</td>
<td>$72.88</td>
</tr>
<tr>
<td>5. Bonterra Resources</td>
<td>$57.60</td>
</tr>
<tr>
<td>6. Marathon Gold Corp.</td>
<td>$43.39</td>
</tr>
<tr>
<td>7. Nighthawk Gold Corp.</td>
<td>$40.77</td>
</tr>
<tr>
<td>8. Goldsworld Ltd.</td>
<td>$33.77</td>
</tr>
<tr>
<td>9. Getting Exploration</td>
<td>$30.18</td>
</tr>
<tr>
<td>10. Cartier Resources</td>
<td>$27.34</td>
</tr>
<tr>
<td>11. Sirios Resources</td>
<td>$25.83</td>
</tr>
<tr>
<td>12. Messageries Gold</td>
<td>$21.92</td>
</tr>
<tr>
<td>13. Eastmain Resources, Inc.</td>
<td>$19.57</td>
</tr>
<tr>
<td>14. Maple Gold Mines Ltd.</td>
<td>$9.70</td>
</tr>
<tr>
<td>15. Morentz Peruprise Miner Inc.</td>
<td>$9.65</td>
</tr>
<tr>
<td>Average (excl outliers)</td>
<td>$60.47</td>
</tr>
</tbody>
</table>

1. FRC internal resource estimates
2. Net Resource = 100% of Measured and Indicated + 50% of Inferred Resources

Source: FRC
Based on an average ratio of $50 per oz, we are assigning a fair value estimate of $0.44 per share on Sirios. We are initiating coverage with a BUY rating.

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is highly dependent on commodity prices (primarily gold).
- The company does not currently have any operating mines or properties with NI 43-101 compliant resources.
- The maiden resource estimate may be lower than our preliminary estimate.
- Exploration and development risks.
- Access to capital and share dilution.

As with most junior exploration / development companies, we rate Sirios’s 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.

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