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Strategic Resources Inc. (TSXV:SR)

Saguenay Pellet Production Plan Demonstrates Robust Economics

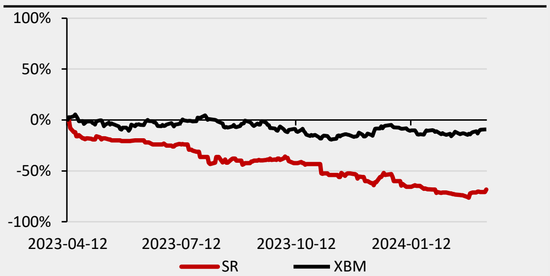
Development Update
March 13, 2024

(Currency is CAD$ unless noted otherwise)

Closing Price		$0.79
Rating		NA
Target ($/sh)		NA
Return to Target		NA
52 Week Low / High	$0.59 /	$3.00
CAPITALIZATION	**Basic**	**Diluted**
Shares Outstanding (M)	59.0	63.4
Market Capitalization ($MM)		$46.6
Enterprise Value ($MM)		$46.4
Cash and Equivalents ($MM)		$0.3
Total Debt ($MM)		$0.0

STOCK CHART

RELATIVE PERFORMANCE



MAJOR SHAREHOLDERS

Orion Resource Partners (40.7%), Investissement Québec (40.7%), Ross Beaty and Lumina Group (4.2%), Cree (Indigenous Group) (2.6%), Aurion Resources (2.3%), Management and Board (1.1%)

DISCLOSURE CODE:

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

Company Description

Strategic Resources is developing a vertically integrated metals and materials manufacturing business, primarily in Quebec. The 100%-owned BlackRock deposit near Chibougamau in Quebec hosts 429Mt in M&I+I resources containing 1.9Mt V2O5, 167.7Mt Fe2O3 and 32.5Mt TiO2. A metallurgical facility is proposed to be located ~380km to the south in Port Saguenay, a Federal deep-sea port and industrial park with access to the St. Lawrence Seaway and connected by existing railway. A PEA for the Mustavaara vanadium and titanium bearing magnetite project in Finland outlined a 20 year mining operation with a €190M after-tax NPV8%.

Impact: Positive

Strategic Resources reported results of its PFS Class 5-level study of the production of Direct Reduced (DR) -grade iron ore pellets, initially using third-party iron ore concentrate feed, at its proposed plant at the Port of Saguenay, Quebec (Figure 1). The study estimated a US$957M post-tax $NPV_{8\%}$, 25% post-tax IRR and US$173M run-rate annual EBITDA assuming US$470M initial capex, 25-month construction period following a Final Investment Decision (FID) and a 50-year operation (Tables 1, 2 and 3). **In our opinion, this is a positive study for Strategic Resources, as it demonstrates robust economics for a manageable first-phase project. Based on the company's current long-term plans, a second stage would continue upstream, with value-add iron production, with the final third phase consisting of construction of a mine near Chibougamau to provide feed to the plants (Figure 2).**

- **Study covers first of the three-stage business plan.** A Nov/22 FS had investigated an integrated mine-pellet-pig iron production project. The current plan is to split this into three phases, beginning with the phase one pellet production using third-party feed. Phase two would involve building a direct reduction unit to convert pellets into metallic iron, either as Direct Reduced Iron or Hot Briquetted Iron. The final stage would involve the development of the BlackRock mine, near Chibougamau, which hosts 168Mt of Fe_2O_3 in M&I+I resources (Table 4) and addition of high-purity pig iron and Ti and V slag as products.
- **~US$16/t pellet conversion cost.** The estimated average total cash cost, including cost of buying iron concentrates, is US$156/t. Capex would include US$294M for installation of a 4 Mtpa pellet plant and US$119M for feed and final product storage, construction and installation.
- **Sensitive to assumed pellet premium.** The study assumes a base-case premium of US$70/t for DR-grade pellets, driven by demand for higher-purity iron ore products for use in electric arc furnaces, which have lower greenhouse gas emissions than conventional blast furnaces. Economics are sensitive to this premium, but even with a 30% lower premium (US$49/t) the project would have a positive post-tax IRR of 14%.
- **Project to enjoy gov't support.** The provincial and federal governments are currently building a C$111M multi-use conveyor system at the Port of Saguenay, which the project would utilize. Significantly, Investissement Québec is also a 41% SR shareholder. Strategic already has a long-term lease at the Port. The existing environmental authorization within the permit for the metallurgical facility will require amendment and is expected to take six months. As well, SR has an Impact Benefit Agreement with the Cree First Nation, which is also an SR shareholder.
- **Next steps being considered,** including process testwork, engineering development, site geotechnical and environmental work, details on contract strategy, work on project financing and securing feed, finalizing pelletizer plant contract and agreements on services with port and utility authorities, and leasing additional storage land.

We do not rate this stock. Continued advancement of the Saguenay pellet plant should drive the price. **Upcoming catalysts**: 1) Environmental authorization amendment (H2/24), and 2) Pellet plant FID and construction.

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Table 1: Study Assumptions

Key Assumption Summary	Units	
Average annual production	Million dmt	4
Market Assumptions		
Iron Ore CFR China 62%	US$/dmt	$100
DR Grade Premium (65%-62%)	US$/dmt	$35
1% Fe Differential	US$/dmt	$2
Direct Reduction Pellet Premium	US$/dmt	$70
Freight Canada – Europe	US$/dmt	$24
Freight Canada Port to Port of Saguenay	US$/dmt	$8
USD:CAD Exchange Rate	Ratio	1.36
Capital Cost		
Construction Period	Months	25
CAPEX	US$M	$470
Operating Cost Per Tonne Sold		
Total Pellet Conversion Cost	US$/dmt	$16
Total Cash Cost (includes iron concentrate purchase)	US$/dmt	$156

Source: Company Reports

Table 2: Study Economic Results

	-30%	-15%	Base	15%	30%
Assumed DR Pellet Premium (US$/t)	49	59.5	70	80.5	91
Annual Run Rate EBITDA Per Year (US$M)	93	133	173	212	252
After-tax Net Present Value (8%) (US$M)	331	645	957	1,269	1,580
After-tax IRR (%)	14%	20%	25%	29%	34%

Source: Company Reports

Table 3: Economic Analysis Sensitivity to Operating and Capital Costs

	-30%	-15%	Base	15%	30%
Capital Cost Sensitivity					
After-tax NPV (8%)	1,072	1,014	957	899	842
IRR (%)	33%	28%	25%	22%	20%
Operating Cost Sensitivity					
Annual Run Rate EBITDA (US$M)	193	183	173	163	153
After-tax NPV (8%)	1,116	1,036	957	877	798
IRR (%)	27%	26%	25%	23%	22%

Source: Company Reports

Table 4: BlackRock project MRE

		In Situ Grade (%)			In Situ Contained (Mt)		
Category	Tonnes (Mt)	V_2O_5	Fe_2O_3	TiO_2	V_2O_5	Fe_2O_3	TiO_2
Measured	287.2	0.45	39	7.5	1.3	112.0	21.5
Indicated	68.3	0.44	39	7.6	0.3	26.6	5.2
Total M&I	355.5	0.44	39	7.5	1.6	138.6	26.7
Inferred	73.3	0.44	39.7	7.9	0.3	29.1	5.8
Total	428.8	0.44	39.1	7.6	1.9	167.7	32.5

Source: Company Reports

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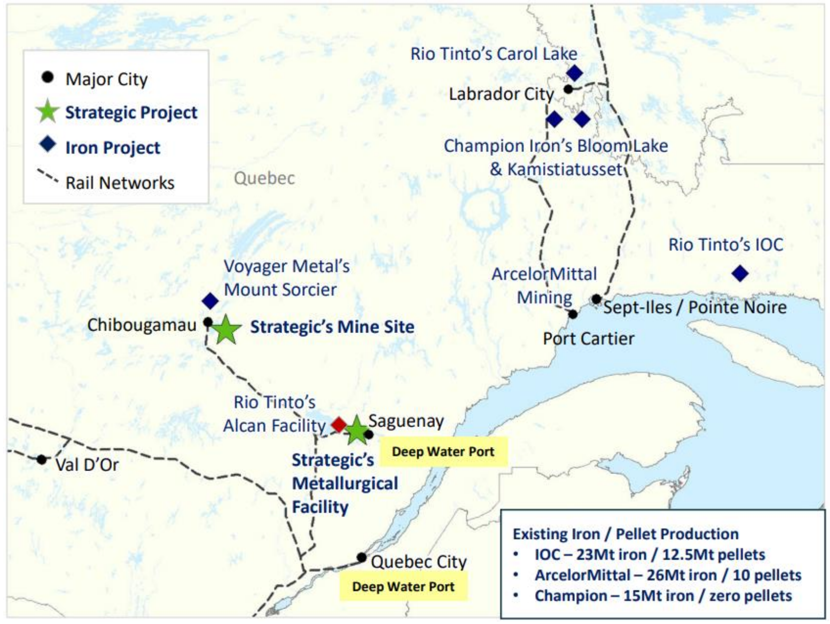
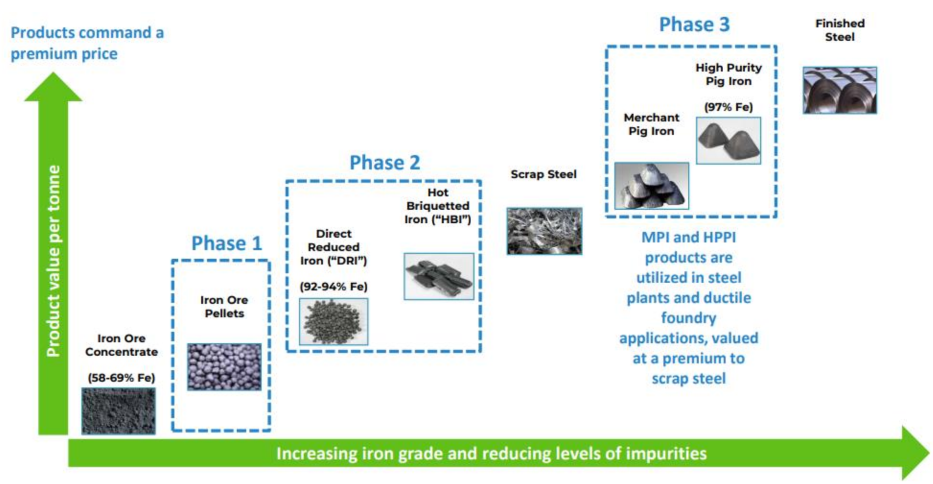
Figure 1: Map showing Strategic's project locations



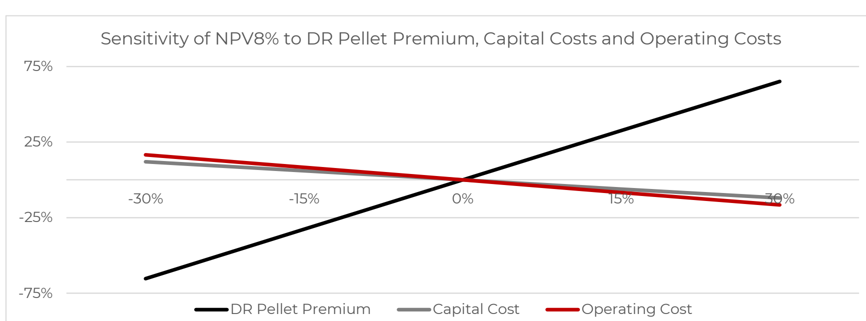
Source: Company Reports

Figure 2: Three-phase business plan to advance to premium products



Source: Company Reports

Figure 3: Sensitivity of $NPV_{8\%}$ to various factors, demonstrating leverage to DR pellet premium



Source: Company Reports, RCSI

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Disclosure Statement
Updated March 12, 2024

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			HOLD	0%
			TENDER	0%
			NA	4%
			UNDER REVIEW	0%

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Company Name	Ticker Symbol	Disclosures
Strategic Resources Inc.	TSXV:SR	

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