

# CAESARS REPORT



MINING AND COMMODITY RESEARCH

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## Metanor Resources

The moment of the truth



# Metanor Resources Inc.



<b>Price</b>	<b>C\$ 0.050</b>
<b>Ticker</b>	TSX-V: <b>MTO</b> OTC: <b>MEAOF</b> FRA: <b>M3R</b>
<b>O/S</b>	356M
<b>MarketCap</b>	C\$ 17.8M
<b>Average Volume</b>	1.21M
<b>Commodity</b>	Gold
<b>Countries Active</b>	Canada
<b>Working Capital</b>	<b>C\$ 1M</b>
<b>52 week high</b>	C\$ 0.145
<b>52 week low</b>	C\$ 0.035

[www.metanor.ca](http://www.metanor.ca)



## Introduction

**Metanor Resources (MTO.V)** has had a good run of late, overcoming a tough start to the year. News flow from the company included conclusions to operational issues, restructured debt, working capital that has returned to positive territory, and some truly noteworthy exploration drilling results; plenty of reasons to take another close look at Metanor Resources, a boutique gold miner operating the high-grade Bachelor Lake mine and mill in Quebec, Canada.

At a share price of just a hand full of cents the market capitalization computes to only C\$18M which belies the fact that the company is producing gold profitably even in the current difficult market environment. The Bachelor Lake underground mine is a high-grade asset producing at an annualised run-rate of about 50,000 ounces at all-in sustaining costs stabilising at approximately \$1,000/oz. The known proven and probable mineral reserves stand at just over 200,000 ounces at an average grade of 7.4 g/t, in addition to a similar amount in measured and indicated resources.







## About the Bachelor Lake Mine

Metanor Resources rebuilt the Bachelor Lake mine and commenced commercial production in November 2013. At the time financing was aided by a streaming agreement with **Sandstorm Gold (SSL.TO, SAND)**, in addition to a \$10M convertible debenture. The mine enjoys the benefits of excellent infrastructure in one of the best mining jurisdictions in the world. The Bachelor Lake mine is located only 4 km from a paved highway and a two hours' drive from the famous mining camp of Val d'Or. Grid

power is available, as is qualified labour thanks to a long tradition of mining in this region which hosts some of the most prominent gold mines in Canada.

The mill associated with the Bachelor lake mine is operating at a capacity of 800 tpd when processing Bachelor Lake ore and more for softer mill feed, with metallurgical recoveries of 97%. This mill is in fact a strategic asset considering a multitude of small gold deposits within close proximity for which toll-milling deals could be struck in due time. Alternatively, some of these deposits could presumably

be acquired at opportunistic conditions in the current market, a move Metanor Resources must be contemplating in order to add to the various exploration properties already controlled in the area by the company.

## Mines always encounter some issues

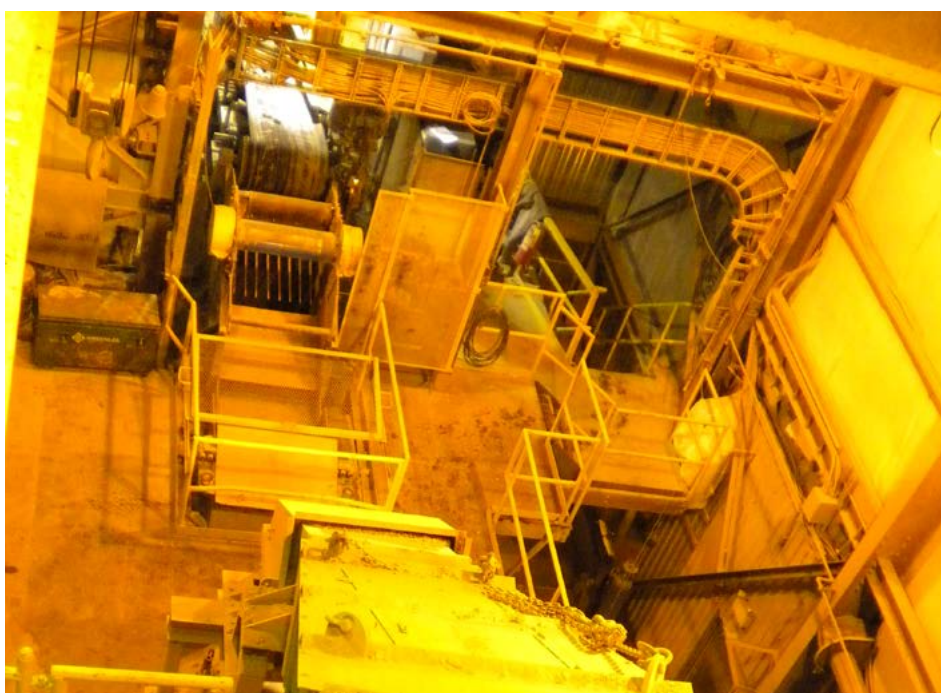
Early in the year operations hit a snag when ore was sourced too close to some historical workings. The associated issues lingered for a couple of months and contributed to the drop of the share price at that time,

but have since been overcome as evidenced by the company's return to the long-term 50,000 ounce run rate, and the return to sustainable costs. Around the same time Metanor Resources successfully restructured its debt, extending the maturity date to August 2017, and reducing the principal by C\$1M.

This debt reduction was accomplished from the proceeds of a C\$3M capital raise which also assisted in bolstering the company's working capital. It is encouraging to see that shares are still trading at the level of this capital raise, despite a severe drop in the gold price since then.

Also of note to investors in this context were comments made by the CEO of Sandstorm Gold, Mr Nolan Watson, during the streaming company's Q1 earnings call, indicating ongoing discussions to modify the Bachelor Lake streaming agreement. In exchange for providing Metanor Resources with up-front capital to bring the Bachelor Lake mine back into production Sandstorm Gold has earned the right to purchase 20% of the life-of-mine gold production at a discounted price of \$500/oz.

The Bachelor Lake stream is the largest individual cash flow contributor for Sandstorm Gold, providing 17.5% of projected cash flows in 2015. Sandstorm Gold has run into difficulties with



other junior mining partners (for instance **Colossus Minerals** and **Luna Gold**), and Metanor Resources might well stand to benefit from these experiences. A re-structure of the stream as indicated by Mr Watson could potentially increase margins for Metanor Resources at the

currently low gold price, and further de-risk operations at Bachelor Lake. The option of toll processing ore from deposits not covered by the streaming agreement provides additional leverage for Metanor Resources in these negotiations.



## Expanding the Bachelor Lake resources through an extensive drill program

As mentioned in the introduction some truly noteworthy exploration results have been reported by Metanor Resources this year, a news flow that included 10.8m at a grade of 12.8 g/t outside the known resource just recently along with numerous other hits displaying significant thickness at grades in excess of 10 g/t. These exploration results underpin the company's assumption of a mine life well in excess of the currently known reserve and also nurture projections of a future mill expansion (although we'd only be in favour of a mill expansion in case an updated resource estimate indicates a mine life of at least 10 more years). In the latest presentation Metanor Resources indicates potential to double the current resource in an area where it plans to drill 65,000 meters, and it also points to numerous known veins and near mine exploration targets, so we are really eager to see how much ounces were added to the currently known resources.



## What about Barry?

Metanor Resources has formulated the long-term goal of bringing a second asset into production and it might already have the project to do just that.

The Barry project currently hosts resources comprised of 309,500 indicated ounces and 471,950 inferred ounces. At 1.4 g/t the grade is very respectable for an open pit bulk mining scenario and

given the 13 km strike length of this project it might well grow into yet another significant low grade bulk tonnage deposit similar to the Malartic and Detour mines not too far away.

An ongoing 15,000 m drill program is targeting several anomalies that should lead to some interesting news releases before the end of the year. The Barry project is still fully permitted as a result of historic mining taking place in this location, and it also has substantial infrastructure in place. Metanor has previously mined and processed the Barry ore at the Bachelor Lake mill but due to the relatively low grade and distance to the mill this definitely won't be profitable at the current gold price.

However, this problem could easily be bypassed by constructing a concentrator at Barry and only then truck the higher grade ore

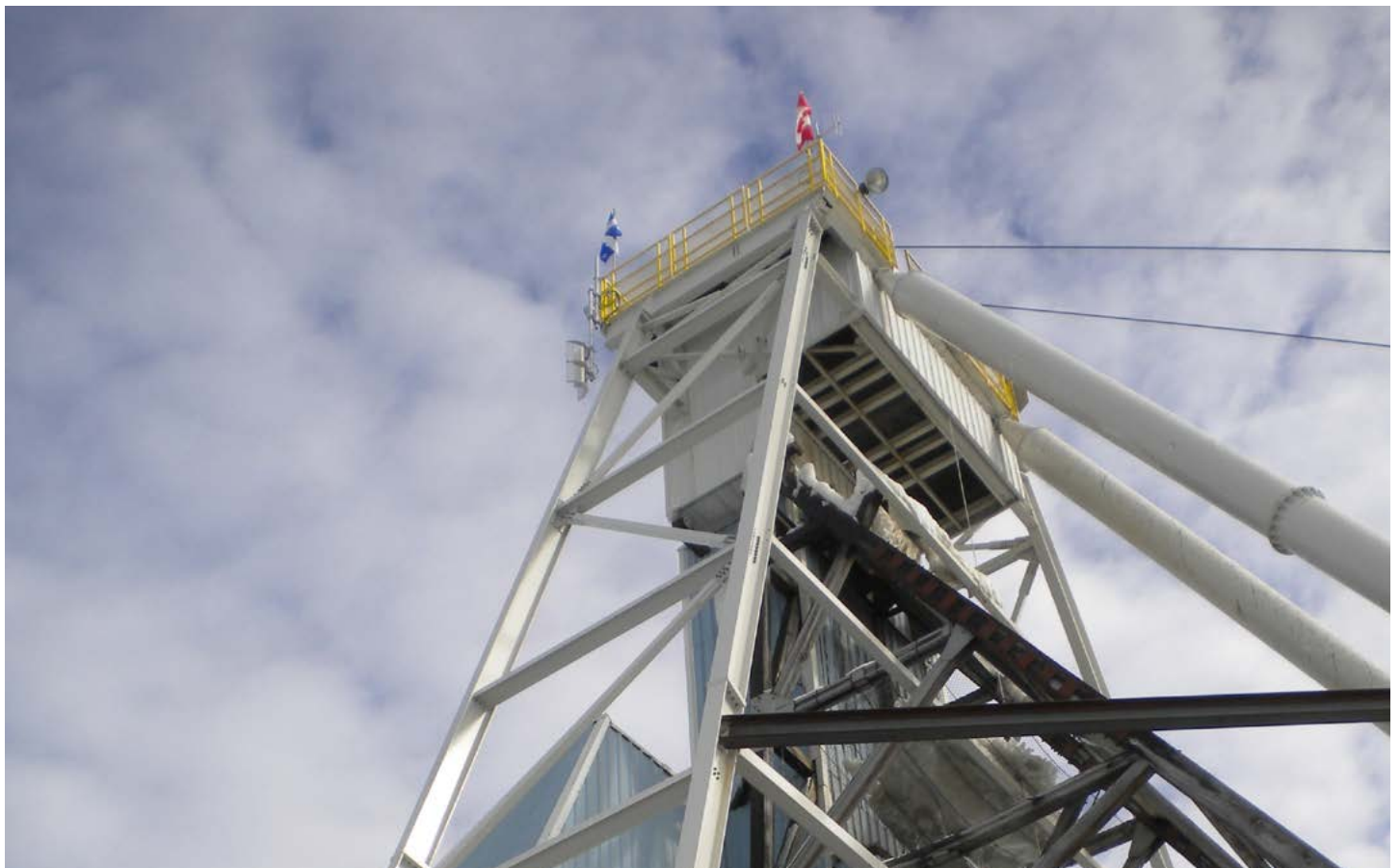
to the Bachelor Lake mill. If this would be a feasible scenario, then a throughput increase at the mill suddenly starts to make sense as the Bachelor Lake ore could then be blent with the Barry ore.

## **Conclusion**

Metanor Resources has certainly not enjoyed much love from the market in recent months. In the light of all the positive aspects and pending catalysts mentioned in the present report the share price might well have suffered too much (especially knowing the weaker Canadian Dollar has compensated a part of the drop in the gold price in US Dollar). At

the current share price Metanor Resources represents outstanding speculative value, even if gold price volatilities continue to weigh on the market in general.

Surely this fact has not gone without notice by other miners looking to add assets to their portfolio. At the current share price Metanor Resources represents an attractive takeover target for companies who think they can increase the operating and financial efficiency at the mine.



## Contact

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