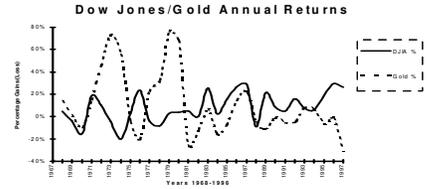




Gold



Energy & Tech Stocks

Weekly Hotline Message

(Now in our 35th Year)

February 5, 2016

Speculative Buy

Metanor Resources Inc.

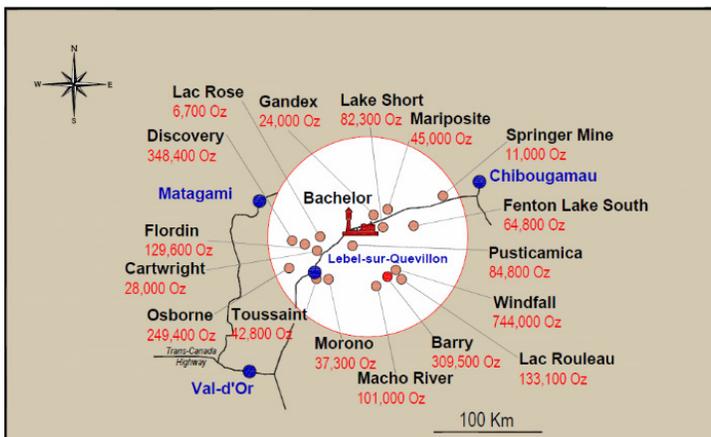


Business: Exploration and production of gold from the Abitibi Greenstone Belt in Quebec

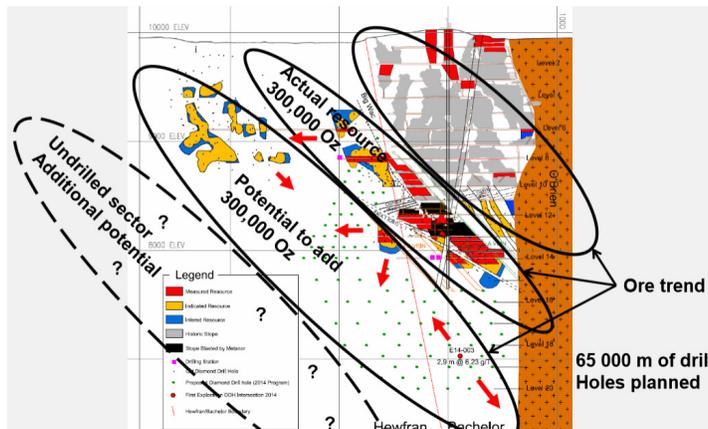
Traded Toronto:	MTO
USOTC:	MEAOF
Shares Outstanding:	421,189,849
Price 2/5/16:	US\$0.03
Market Cap:	US\$13 million
Institutional Ownership:	50%
Annual Gold Production:	40,000 oz.
Bachelor Mine Reserves (gold oz.):	200,177
Global Resource (gold/oz.) ⁽¹⁾	1,540,818
Progress Rating:	A1
Phone:	819 825 8678
Web Site:	www.metanor.ca

⁽¹⁾ Comprises the following: At Bachelor Mine: 210,857 M+I grading 7.70 g/t and 89,366 inferred grading 6.52 g/t. At Barry, 309,500 oz. M+I grading 1.25 g/t and 471,950 oz. inferred grading 1.41 g/t. At Dubuisson, 26,150 oz. M+I grading 4.82 g/t and 432,995 oz. inferred grading 4.15 g/t.

I placed this company on my watch list and published a report in my June 19, 2015, weekly letter when it was trading at slightly over US\$0.03, a price level where it remains still now. I am actually adding this to my “buy” list now, despite its large number of outstanding shares and despite a less-than-stellar history in owning this stock. To top it off, the company has increased its shares outstanding by more than 18% since then. However, I believe the chances of doubling or tripling the value of your investment if you can pick these shares up in the US\$0.03 to \$0.04 range are very good, given the following factors:



- **Assets are undervalued.** At its current price, not only does the company’s book value far exceed its market cap, but even its value in a “fire sale” would, in my view, be equal to or beyond the current market cap of the company. That’s because, it’s fair to say, its value even in a fire sale is more or less the current market cap of the company. Its Bachelor Lake efficiently operating 800-ton-per-day mill, which is situated in the middle of Quebec’s greenstone belt gold mining country where numerous known small gold deposits exist, which in addition to production of its own, can provide toll milling services.



- Cash flows should turn more positive this year.** The company produced 8,060 ounces of gold for the quarter ending 9/30/15. The company showed a loss of C\$2 million, but on an EBITDA basis, it generated a positive cash flow of C\$1.3 million despite a lower grade and the continued sale of 20% of production to Sandstorm at US\$500/oz. The company's operating performance should improve beyond the current quarter as it starts gradually to mine higher-grade material from the Hewfran sector of the Bachelor Mine, which is the area to the west of the light brown angled line shown in the illustration above.

- The new Moroy Discovery** located one kilometer from the Bachelor Mine and Mill looks like it could add a significant high-grade resource to the company in the not-too-distant future. Hidden under approximately 10 meters of overburden, significant intersections like 3.3 meters grading 9.8 g/t, 6.6 meters grading 15.3 g/t, 0.6 meter grading 11.5 g/t, and 7.4 meters scoring 4.5 g/t give reason for optimism. Structural analysis as well as down hole IP readings suggest at least several hundred thousand higher-grade ounces may be hosted in this deposit, though that can only be determined by more extensive drilling. Unfortunately, any gold production that would come from this deposit is subject to the Sandstorm agreement. But the proximity of what looks to be a higher-grade deposit extending to surface and located within a kilometer of the Bachelor Mill may provide additional mill feed that could enhance the economics of Metanor's operation.
- Planned production from the Barry Deposit** should enhance the company's economics of production despite the cost of hauling the company's ore some 116 kilometers to the Bachelor Mill, for at least two reasons. First, any gold production from the Barry open-pit mine is not subject to the Sandstorm agreement, which would subject Metanor to selling 20% of its production for US\$500. Secondly, the addition of this lower-grade feed to the higher-grade Bachelor/Hewfran ore would help lower unit costs overall. Previously, when Metanor produced some gold from the Barry Deposit, there was no higher-grade mill feed from Barry over which costs could be shared with feed from the Barry Deposit. Now, with higher-grade production (5 g/t to 6 g/t) from Bachelor/Hewfran, and with production from Barry not subject to the Sandstorm agreement, overall economics should improve.

The Bottom Line

Given this company's current assets, it's difficult for me to see much if any downside risk from the company's current share price of US\$0.03. On the other hand, given the positives noted above, combined with a gold price that may indeed be ready to resume its secular bull market that was interrupted in 2011, I think it is highly likely we will see at least a double from the current price and a distinct possibility of a rise upward to and beyond US\$0.10, which would provide more than a triple for those who buy these shares now. Longer term, if management can start to grow this company with internally generated cash funds and increase production from Barry, an upside considerably beyond US\$0.10 is possible. However, given the company's current assets, plus all it has going for it in terms of its exploration potential and the potential to combine its assets more efficiently under a well capitalized company, my view is that Metanor will become a takeover candidate by Osisko Gold Royalties or another major operating in Canada, and a sweetener for a suitor would be a tax loss of \$15 million. If I'm right and gold is now starting out its next leg up in this secular bull market, a move upward into the US\$0.06 to US\$0.15 range could come sooner rather than later.

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