



Initiating Coverage

Metanor Resources

(MTO-TSXV)

Metanor is successfully ramping up gold production from its high-grade mine and mill in Québec. Production in the latest quarter supports management's projection of 50,000 ounces this year. Gold production is expected to increase next year to the 80,000 to 90,000 ounce level as the operating team continues to expand the operation.

The ultimate potential from the Bachelor Lake mine is much larger, as the company continues to explore that deposit, located in a highly prolific gold producing region. Bachelor Lake is situated between the mining centers of Val d'Or and Chibougamau, in the heart of the prolific Abitibi Greenstone Belt.

The management team, with a wealth of gold mining experience, bought the past producing mine and mill with the intent of bringing it back to production. After several years of efforts, they are now producing gold and are on-track to produce a lot more. The management team is heavily operations oriented:

- Ghislain Morin, CEO, brings 40 years of experience in planning, construction and management of mining projects.
- Serge Roy, Executive Chairman, has a construction background and worked with a firm of mining consultants and geological engineers.
- Pascal Hamelin, VP operations, is a mining engineer with over 20 years of experience in mine management and evaluations.
- Andre Tremblay, VP exploration, has 30 years of exploration experience, mostly in Quebec.
- Ron Perry, VP and treasurer, rounds out the team with 30 years of accounting, finance and business experience.

The Bachelor Lake project was explored in the 1970s and produced gold from 1982 to 1989. Several companies explored the project over the next 15 years. In 2004, Metanor acquired the project and began the long process of exploring and then re-developing the mine and refurbishing the mill.

Metanor holds a 100% interest in the project, subject only to a streaming arrangement with Sandstorm Gold. That company provided \$20 million of capital in 2011 in return for the right to purchase 20% of the gold production at \$500 per ounce.

The Metanor management team was attracted to the project because it had a mill in place, substantial underground development and a great deal of exploration potential. A review of the earlier exploration results and additional drilling from surface provided confirmation of the exploration potential. They then dewatered the mine and fully overhauled and re-fitted the mine and related equipment. They then deepened the shaft to open up two new levels.

As the mine development proceeded, Metanor refurbished and expanded the mill, bringing the capacity to as much as 1,200 tonnes per day. They also constructed a power line to tie into the provincial power grid, a very significant development as electric power in Québec is among the lowest priced in the world. In total, Metanor invested nearly \$100 million in the Bachelor Lake project over the past decade to outline a gold resource and bring the deposit into production. By starting with a past producer, they achieved production for about half of what it would have cost to develop a comparable operation from the beginning.

A resource estimate updated in 2011 outlined a measured and indicated resource of 210,000 ounces (841,000 tonnes at 7.8 grams per tonne) plus an inferred 89,000 ounces (426,000 tonnes at 6.5 g/t).

Some very substantial drill results since those calculations were made demonstrate the potential to greatly expand the resource. Several target areas near the present resource are being evaluated by the drilling program now underway. Recently reported drill results include a zone of 9.5 meters grading 13.4 g/t. That result came from a western extension of the Main zone in an area referred to as the Hewfran sector. Four other holes in that sector also encountered mineable widths of economic grades.

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The focus of mining now is on the Main zone (which was previously mined) and the sub-parallel B-vein. Development of those two veins is proceeding off levels 12, 13 and 14, near the bottom of the shaft. Recent drilling suggests that the B-vein may extend to surface, thereby offering further exploration potential in the upper portion of the mine. Several other veins have been encountered by the underground development and by drilling, and those veins are also being evaluated.

Beyond the clear potential to identify further gold ounces laterally from the existing workings, there is also a great deal of potential at depth. The present resource estimate reflects the current shaft depth of 725 meters and the deposit is wide open to depth. Other similar deposits in the Abitibi have been mined to depths of 2000 meters or more.

Based on the resource already outlined and the exploration targets which have so far been identified, it is reasonable to anticipate at least a 10 year remaining mine life, with potential to continue to further extend the life of the mine, even with the higher projected throughput rate.

Several other undeveloped gold deposits have been identified within 50 kilometers of Metanor's mill, providing further upside potential.

Metanor has several other gold projects in Québec. The highlight is the Barry project, located 65 kms southeast of Bachelor. Barry is potentially mineable as an open pit. Drilling to date has outlined 309,000 ounces of indicated resource (7.7 million tonnes at 1.25 g/t) and 472,000 ounces of inferred (10.4 million tonnes at 1.41 g/t). Between 2008 and 2010, more than 600,000 tonnes of material was mined from an open pit and transported to the Bachelor Lake mill. The average grade of that material was 2.2 g/t. That test-mining exercise confirmed the mining and processing characteristics. The company is now seeking to further extend the deposit and then evaluate the feasibility of constructing an on-site mill.

Two mines are presently operating in that region based on large, low grade open pits: Detour Gold's Detour mine and Osisko's Malartic mine both operate with grades slightly over 1.0 g/t. Goldcorp recently bid \$2.6 billion to acquire Osisko, whose major asset is the Malartic mine. While those two deposits are substantially larger than Barry, there is good potential to grow the Barry deposit, as it remains open in all directions.

Barry and the other Metanor exploration projects represent very enticing targets, but the focus in the near-term will be to continue to expand production from Bachelor Lake. The company plans a modest capital expenditure program in the mill intended to boost production by about 50%.

From an economic perspective, the project appears to be very attractive. Gold recoveries are good, around 95%, using a standard milling and cyanide recovery process.

The profitability of the project will depend on maintaining low mining costs. The fourth quarter of last year was the first quarter of commercial production. Costs from that quarter will not be representative of costs going forward, as they only achieved commercial production in November. The ore that was processed in the mill during that quarter was a combination of development ore and ore mined from stopes.

(Development involves excavating shafts and tunnels to provide access to the ore zones. The tunnels must have certain minimum dimensions and do not exactly follow the vein. Ore recovered from development work is expensive to mine and will typically be lower grade than ore recovered from stopes. Mining from stopes is far more efficient than development, as the vein material is extracted in volume. The stopes will more closely follow the vein, and thereby have higher grades than development ore. Mining from stopes is also much lower cost than development.)

Mine production is continuing to ramp up and there is a much higher proportion of ore coming from stopes, as the operation moves toward a steady state.

There is an element of risk involved in projecting mining costs early in an operation, as opposed to waiting until the company has published financial results from a couple of quarters of steady-state mining. The flipside is that there is a great deal more upside potential for investors who can accurately anticipate results. In this situation, it appears highly likely that the company will achieve favorable operating costs.

By bringing the mine into commercial production, the Metanor management team has substantially de-risked the project. The resulting increase in value is just beginning to show up in the share price, which is only a few pennies off its all-time low.

Confirmation that the mine can be operated profitably, as well as continued growth in production will add further value. At this stage, the project (and the company) are beginning to look attractive to other gold producers.



LAWRENCE ROULSTON'S
RESOURCE OPPORTUNITIES

There is a great deal of value added potential in consolidating a number of small gold mines into larger, multi-mine operating companies and many of the mid-sized producers are seeking projects with which to grow their businesses.

Time will tell if Metanor is to be taken over by another company, or if it will become the acquirer. Either way, there is big upside potential for shareholders.

Investors coming into this company now benefit from a decade of efforts from a highly experienced management team. The accomplishments of the last decade have not been reflected in the share price, as a result of the present state of the markets.

With the markets recovering, and producing companies getting the early investor attention, Metanor is well-positioned to deliver early gains for investors. The on-going ramp up in production will add further momentum, with the other projects providing a potential bonus for shareholders.

Share price February 3, 2014: C\$0.18

Shares Outstanding: 267 million

Shares Fully Diluted: 280 million

Market Cap: C\$48 million

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