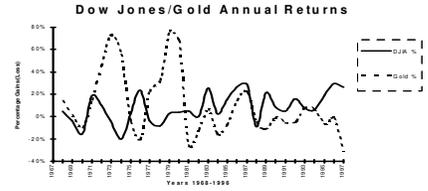




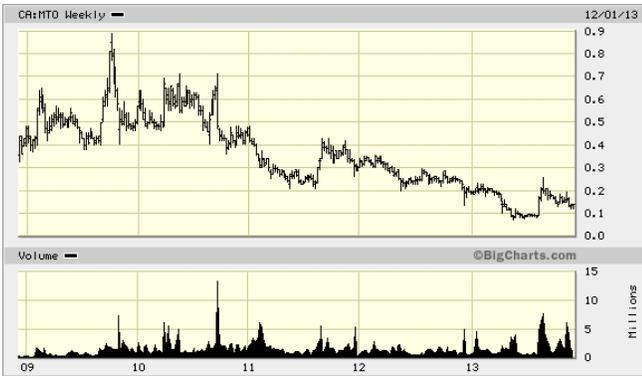
# Gold

## Energy & Tech Stocks



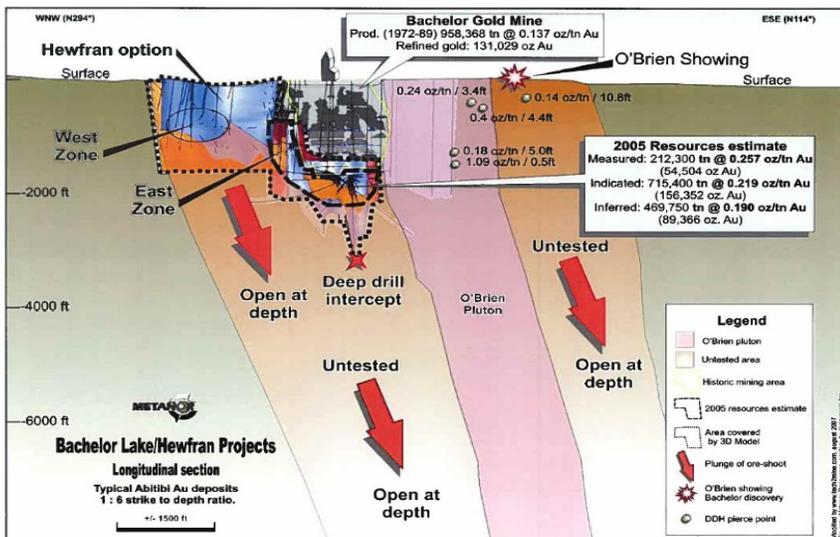
Weekly Hotline Message (Now in our 32<sup>nd</sup> Year) December 6, 2013

### Metanor Resources, Inc.



**Metanor Resources - BUY** – Having now achieved a sufficient number of underground mining faces, the company is producing slightly over 4,000 ounces of gold per month with average daily mill feed at around 600 tonnes. Cash costs are around \$800 per ounce and all-in costs are estimated to be around \$1,000 per ounce. Those costs numbers could improve with increased production, which is what the company is aiming for. Management believes it can increase its mill capacity to 1,200 tonnes per day with capital expenditures of as little as \$4 million. And with a considerable amount of

potential to expand the Bachelor Lake Mine to depth, along with the O'Brien and Hewfran targets next to Bachelor Lake, there is every reason to believe management's view of a 1,200 mill capacity at Bachelor Lake makes sense. An expansion of production should allow unit production costs to decline as well, especially given the fact that the company's low-cost hydroelectric power source is relatively stable.



Overall, a resource of 1.5 million ounces grading an average of 5.3 grams/tonne is a reasonable expectation for Bachelor Lake. We should note that of that total, 60,566 ounces at Hewfran are historical ounces and as such not yet 43-101 compliant. Not a serious issue as far as I'm concerned, since it's a minor amount of the total ounces and because a compliant resource can no doubt be outlined with a few drill holes.

Perhaps the most exciting longer-term upside for the company could come from the Barry Lake Target, where

309,500 indicated ounces grading 1.25 gpt and 471,950 inferred ounces grading 1.41 gpt have been outlined. The target here is very large and at least one geologist I have talked to thinks it has the potential to host a major multimillion-ounce resource. Thus far, only a minor portion of the 13-kilometer-long anomaly has been drilled

to date. The company is currently carrying out a 15,000-meter drill program, with the goal of expanding surface mineralization by drilling into some 153 new induced polarization anomalies.

Property	Resource Category	Tonnes	Grade (g/t)	Contained Gold (oz)
Bachelor Lake 43-101	Measured & Indicated	841,591	7.79	210,857
	Inferred	426,148	6.52	89,366
Hewfran	Indicated	110,100	6.47	22,900
	Inferred	206,900	5.66	37,656
Barry 43-101	Indicated	7,701,000	1.25	309,500
	Inferred	10,411,000	1.41	471,950
Dubuisson 43-101	Indicated	166,076	4.82	26,150
	Inferred	3,245,222	4.15	432,995
		<b>Total Measured &amp; Indicated</b>		<b>569,407</b>
		<b>Total Inferred</b>		<b>1,031,967</b>
<b>Total Targeted Area Surrounding Bachelor Lake Mine</b>		<b>8,900,000</b>	<b>5.3</b>	<b>1,500,000</b>

Actually, production took place briefly from this open-pit deposit with rock being hauled some 117 kilometers from the Barry Deposit to the Bachelor Lake Mine. But with the average grade in the 2- to 3-gpt range, it was at best a break-even operation after factoring in the transportation costs. One idea that management has expressed in the past is

that a concentration plant might be constructed at the Barry Lake Mine so that if the ore could be concentrated between 10:1 and 20:1, it may then be economical to haul the material to Bachelor Lake for processing. Of course, if the mine turns out to be large and robust enough on its own, optimum economics may dictate building a milling facility at Barry Lake.

All of that is speculation for now. The good news is that the company now seems to be making progress toward profitable production from which it can hopefully grow organically after a very rough start since I first talked about this stock in this letter. Some very bad luck for this company, most notable of which was the tragic accidental death of some miners on the project, set management back. That resulted in a dive in the price of Metanor's shares, which in turn made it much more difficult to finance expansion and a larger share dilution than I would have liked.

With a low share price making equity financing difficult, another favorite of mine, Sandstorm Gold, came to the rescue by providing \$20 million of capital, which helped Metanor to finally get Bachelor Lake into commercial production. In exchange for that capital, Metanor is required to sell 20% of its production from Bachelor Lake, as well as the O'Brien and Hewfran deposits to Sandstorm, at \$500 per ounce for as long as production is forthcoming from those deposits. However, the Barry Deposit, which I think has the really big upside potential is not part of the Sandstorm/Metanor deal.

Considerable equity dilution doesn't make me happy. The company has 267 million shares outstanding and giving up 20% of production at \$500/oz is not what I had envisioned when I first recommended this stock. But keep in mind those fundamentals are factored into the current price of the stock. A market cap will prove to have been a bargain if this company is able to perform according to plan. That's why I believe the upside for this stock is very substantial, especially as we emerge from the cyclical bear market back into the secular bull.

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