Metanor Resources
A Québec Gold Producer
Introduction

Metanor Resources is one of the very few juniors in Québec which are producing at an acceptable cash cost resulting in a positive operating cash flow. Based on the production results in Q1, Metanor Resources is currently producing at an annualized rate of approximately 50,000 ounces per year at a cash cost of $766/oz (based on the December cash cost numbers). We will provide some more insight in the company’s mining operations at Bachelor Lake and the advanced-stage Barry exploration project.

The Bachelor Lake mine

Bachelor Lake is located approximately 200 km northeast of Val D’Or in Québec, and has excellent access to infrastructure as not only are there paved roads right to the mine gate, the Bachelor Lake mill is also hooked up to the power grid, which allows Metanor Resources to keep its power costs down.
The company was able to re-start processing the Bachelor Lake ore after it deepened the shaft in 2012 to access two new levels which are currently being mined. The expected mine life was approximately 3 years based on the amount of ounces in the measured and indicated categories at Bachelor lake (ex-Hewfran), but if the inferred resource category would be added, as well as the Hewfran resources, the total NI43-101 compliant resource estimate increases to approximately 310,000 ounces of gold at an average grade of in excess of 7g/t. This grade is quite high and underpins the economics of the project, considering the recovery rate at the Bachelor Lake mill is consistently higher than 95%.

**The History of the Bachelor Lake Mine**

Before Metanor acquired the Bachelor Lake project, there was some historical production where approximately 130,000 ounces of gold were produced between 1982 and 1989 by Sturgeon River Mines at an average grade of 4.66g/t before the mine shut down in 1989. Subsequently, the project went through quite a few hands before Metanor acquired Bachelor lake and consolidated the ownership of the mine. It now owns 100% of Bachelor Lake.

Back in 2011, a pre-feasibility study was completed outlining very exciting economics of the project, as even at the current gold price of $1300/oz, the Bachelor Lake project would be extremely viable, thanks to the existing infrastructure at the mine site. Metanor didn’t waste any time and sold a gold stream of 20% to **Sandstorm Gold (SSL.TO, NYSE:SAND)** to raise the cash to go into commercial production. Commercial production was declared in Q4 2013 and we
are looking forward to see the financial results of Q1 2014 which will be the first full quarter of commercial production. This will allow Metanor to book the gold sales as actual revenue instead of offsetting it against development costs. We expect more people will add Metanor to their radar screen once the first quarterly report will have been published.

The Mine Life

The only hiccup is very likely the mine life. The pre-feasibility study in 2011 showed a mine life of 3.5 years, and it’s needless to say Metanor has recently stepped up its underground exploration efforts at Bachelor Lake to increase the resources in order to extend the mine life. The most recent drill results such as of 10 meter at 9.5 g/t and 4.6 meters of in excess of half an ounce per tonne of gold have been nothing short of impressive, and we don’t expect Metanor to have any problem to extend the mine life. Additionally, the mine shaft has now reached a depth of almost 750 meters, and the mineralization remains open at depth which bodes well for a future resource expansion. Also keep in mind the average mines in the Abitibi Greenstone Belt have encountered gold mineralization at a depth of 2,000 meter and lower, so Bachelor Lake could potentially have a lot more ounces than the amount the next resource estimate will show.

The Production

Looking at the results of Q4 2013, Bachelor Lake could very well be a mine with a very low cash cost and Nolan Watson, the CEO of Sandstorm Gold which owns a gold stream on the project, expects the all-in sustaining cash cost at Bachelor Lake to be less than $1000/oz. So even at the current gold price of $1300/oz the project should generate a steady operating cash flow.
Barry

Metanor Resources has another iron in the fire with the Barry exploration project. Barry is a past-producing open pit mine located approximately 120 kilometers from the Bachelor Lake mill. As it’s an open-pit project, the average grade is obviously lower but the most recent NI43-101 compliant resource update containing almost 800,000 ounces at an average grade of 1.5g/t gold (which is very decent for an open pit mine). This was more than a fourfold increase compared to the previous resource estimate of 180,000 ounces of gold (which was based on a cutoff grade of 2g/t and makes a comparison quite difficult).

Originally, Metanor decided to truck the Barry ore to its Bachelor Lake mill, but due to the grade being relatively low to the trucking distance, this wasn’t very viable. The company discussed and studied the option to build a concentrator on the Barry mine site to increase the average grade before trucking it to the Bachelor Lake mill, but as Metanor is now drilling at Barry using several drill rigs, we have got the impression Metanor would like to increase the Barry resources fast and consider the project as a stand-alone project and potentially the second mine in its development pipeline.

The exploration program at Barry is quite straightforward. As it’s an open pit mine with a resource estimate already outlined, Metanor will very likely mainly focus on both infill drilling and expansion drilling along the strike length (which is approximately 13 kilometers) of the mineralization. As such, we consider the exploration program to be relatively low-risk as the probability of success is quite high.
What will happen this year?

The first thing we’re looking forward to is the Q1 financial report which will be the first time Metanor will be allowed to record its revenues as sales instead of offsetting it against development expenses. Additionally, we will also get a good impression about the cash cost of the Bachelor Lake mine to build a NPV-model on. This also means that Metanor will very likely be free cash flow positive (excluding the exploration expenses at Barry), so the company can start building its cash pile to repay the $10M in convertible debt which is due in August of next year and to increase its working capital, which was negative as of at the end of 2013.

Metanor is definitely aware of the working capital issue, as the company has just raised C$4.3M (after commissions) in a flow-through and hard-dollar financing. Additionally, we are expecting a resource update at Bachelor Lake later this year which could very well confirm a remaining mine life of five years, taking the depletion of the past eighteen months into consideration. This could be a huge catalyst for the share price as we have got the impression the relatively short mine life at Bachelor Lake is what’s holding the share price back.
Conclusion

It took a while and Metanor has experienced all possible setbacks, but looking at the production curve of the past few quarters, the company has been doing a great job in gradually increasing the production numbers and is now producing gold at an annualized rate of 50,000 ounces per year at a very competitive cash cost compared to its main competitors.

This year will be filled with catalysts such as exploration updates, resource updates and financial reports, and it shouldn’t surprise anyone if Metanor Resources would be trading much higher by the end of this year, as the current valuation of C$46M is almost ridiculous. The company is profitable and will prove so, and investors have all the upside potential from the exploration programs at both the Bachelor Lake mine and the Barry project.
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