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HALLGARTEN & COMPANY

Initiating Coverage

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Maudore Minerals (TSXV: MAO)
Strategy: AVOID

Key Metrics		
Price (CAD)	$	0.10
12-Month Target Price (CAD)	$	0.03
Upside to Target		-70%
High-low (12 mth)		$0.07 - $0.84
Market Cap (CAD mn)	$	4.7
Shares Outstanding (millions)		47.24

	2013	2014e
Consensus EPS		n/a
Hallgarten EPS		n/a
Actual EPS	($0.73)	
P/E	n/a	n/a
Dividend	n/a	n/a
Yield	0.0%	0.0%

Maudore Minerals

A Litany of Misery

- + The recent debt financing with a NY distressed debt fund staves off the evil day for this company
- ✘ The ill-advised ouster of the long-established (and successful) management has turned into a nightmare for minority shareholders
- ✘ The stock price is down 97% since the new management were installed
- ✘ The former debt free company now staggers under a sizeable debt burden
- ✘ The operating assets acquired are massively loss-making
- ✘ Dilution has been prolific and the auguries point to it being more so in the future if there are problems in servicing the debt
- ✘ A failed rights issue cost the company over $600,000 for nothing raised
- ✘ Strangely the original property that gave the company its strong reputation and high valuation has been relegated to the backburner and massively written down

If it ain't broke…

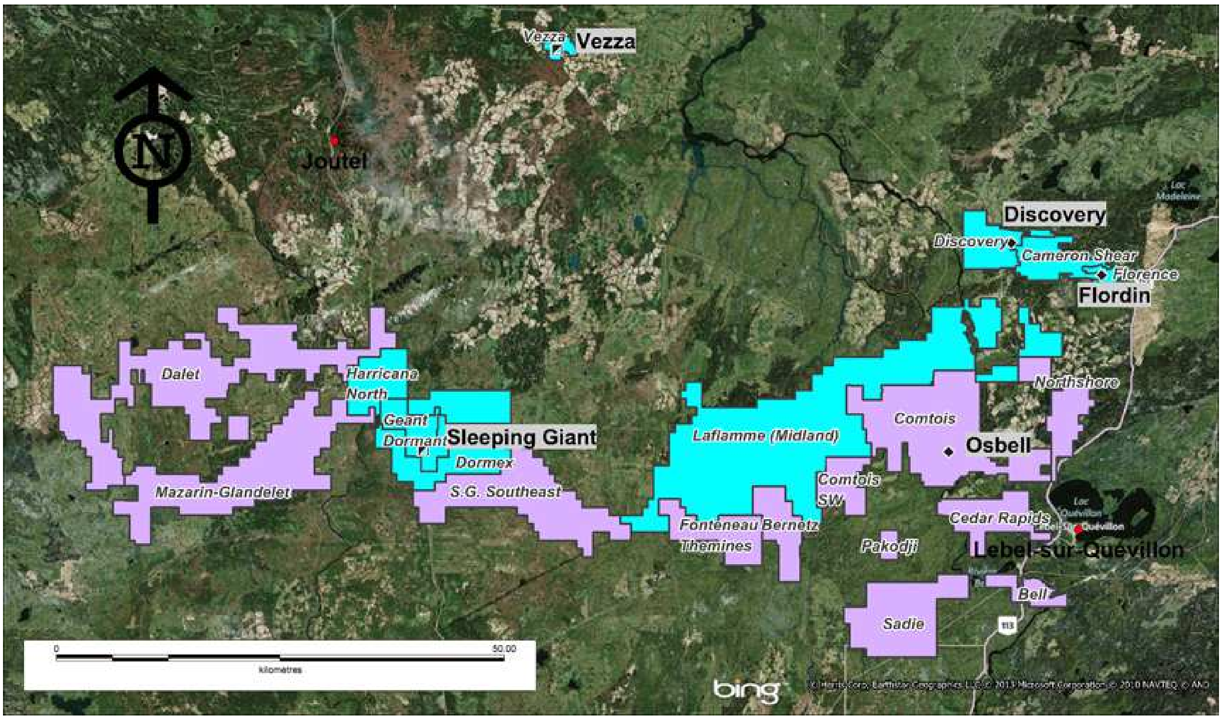
There is an old saying that "if it ain't broke, don't fix it". Unfortunately a group of activist shareholders, and investment bankers at a loose end, espied Maudore Minerals in 2011 and decided it would make a great Trojan Horse for their ambitions in the mining space. Ironically this was not because it was a basket case but rather because it was in the rudest of health, possessed a good project, had an excellent balance sheet and a mound of cash.

We had to chuckle when we went recently to Maudore's website and clicked on the Company History tab and found the message "Coming Soon".

Exploration Assets

Maudore, despite all its transformational traumas of the last 18 months, is still a Quebec junior gold company however its portfolio has blown out to more than 22 exploration projects, mostly located near the towns of Amos, Lebel-sur-Quévillon and Matagami in Quebec. The company's projects span some 120 kilometers, east-west of the under-explored Northern Volcanic Zone of the Abitibi Greenstone Belt and cover a total area of 1,570 km^2.

According to the company five of these projects are at an advanced stage of exploration with reported current and/or historical resources. At the moment it is grappling with the challenges of moving into production its Sleeping Giant Mine rather than exploration. Its current internal logic is that the processing facility at Sleeping Giant is located within trucking distance of all its projects. While we are known as card-carrying fans of production over exploration, Maudore provides a frightening example of How Not To Do It.



The main exploration assets are the Osbell and Comtois properties. Other projects are the Hudson, Flordin and Discovery projects near Lebel-sur-Quévillon. In the company's opinion these projects have sufficient scale to justify the consideration of a new processing facility within the central area of the Abitibi Greenstone Belt.

Once Upon a Time..

Maudore was focused on its 100%-held Osbell and Comtois gold projects in Quebec before the insurgents arrived on its doorstep.

The Osbell Gold Resource has been the main focus of Maudore's exploration efforts. Maudore filed a Mineral Resource Estimate update for this deposit in late October 2012. The Osbell update posited combined Open Pit and Underground potential resources of 8,463,800 tonnes at 2 g/t Au for 546,299 ounces gold in the Indicated category and 4,512,100 tonnes at 6.2 g/t Au for 902,436 ounces gold in the Inferred category.

The updated resource estimate added 543 diamond drill holes (144,502m) to the previous Mineral Resource Estimate from September 2010, which contained data from 459 diamond drill holes (144,943m). The cut-off date for the current Mineral Resource Estimate was August 13, 2012. It is clear that the property has been subject to massive work by the previous management, which undermines many of the aspersions of the dissidents.

Another 22 diamond drill holes for 7,737m were completed at Osbell since the cut-off date to the end of the fourth quarter (December 31, 2012) and are not included in the current Mineral Resource Estimate.

This drilling includes testing of the Mafic North Prospect, first identified at the top of drill holes targeting deeper portions of the Osbell Deposit. Mafic North is located about 80m north of the western part of the Osbell Whittle pit shell.

Late in 2012, a detailed ground magnetic survey was conducted to map out Mafic North and local structures at the buried deposit.

The Comtois NW Gold occurrence is located 12 kilometers north-west of the Osbell deposit. The area is covered by deep overburden and therefore geophysics and diamond drilling are the most effective ways to explore. Early work by Maudore included field surveys with a focus on airborne anomalies. It also conducted airborne geophysical surveys and ground IP surveys that mapped several chargeability anomalies, many of which have been drilled with some reporting gold intercepts.

Diamond drilling by Maudore in 2010 and 2011 intersected mineralized volcanic rocks with significant gold assays. A southern trend returned assays as high as 71.7 g/t gold over 1.2m, from 159.0m, included within 26.3 g/t gold over 3.3m from 157.9m. Wide intersections of anomalous gold of 0.8 g/t gold over 40.8m from 37.2m were also obtained from the southern trend. The northern trend returned significant gold assays with 7.2 g/t gold over 0.7m from 199.8m. Wide gold-bearing intervals such as 0.8 g/t gold over 11.0m from 191.0m were also present in the northern trend.

Late in 2012, Maudore conducted detailed ground magnetic surveys to help interpret geology at Comtois NW.

Infrastructure in the area is excellent: a highway; accessibility to North America’s lowest cost power; plenty of nearby water and a mining-oriented local workforce. Quebec is consistently ranked among the best locations worldwide for mineral exploration. Maudore also owns a large land area west of Comtois with volcanogenic massive sulphide (VMS) potential. VMS gold deposits are more common in Quebec than anywhere else in the world.

What happened…

If ever there was a case of finance in haste and repent at leisure it was this. Maudore had a sound policy of keeping its treasury well-padded for a rainy day. In line with that policy it undertook financings, which can have the detrimental effect of allowing interlopers the chance to build up substantial holdings that otherwise would take them a long time to accumulate in the market and while building the stake such adventurers would face the danger of pumping the share price. In December 2011 Maudore announced the closing of a non-brokered private placement financing with gross proceeds of $13.5mn by issuing 1,607,143 units at a price of $8.40.

Intriguingly the unit price represented a premium of 65% over MAO’s closing price on December 20, 2011. Due to strong demand, the closing exceeded both the originally announced financing ($6 million) along with the overallotment option (another $6 million), which had been announced at the beginning of December. Either the premium represented a ringing endorsement of the then management or this was a case of investors with ulterior motives paying up to get a toehold. History tells us what then happened.

The Raiders

To call the rebel group “dissidents” makes them sound like they had a difference on policy when in fact they had (seemingly contentedly) signed on to the Maudore registry via a financing, and subsequent to that nothing had occurred in Maudore’s management style or strategy that might have justified going from “happy-camper” investors to what was in effect, a raid.

The ostensible face of the disgruntled group was Seager Rex Harbour, a South African/Australian, based in Monaco, who controlled all three pillars of the challenging group: Rex Harbour Associates, the Harbour Foundation and City Securities. We have briefly met him in the past. Besides Maudore his activism has been noted at Mintails and at Barkerville Gold in recent times.

Rex Harbour & Associates is registered in Monaco. The Harbour Foundation is a charitable foundation registered in the UK whose board, at the time of the challenge, consisted solely of Harbour family members including Daniel Harbour (the son of Rex Harbour who is now a member of Maudore's board). City Securities Ltd., registered in the Marshall Islands, was also wholly owned and controlled by Rex Harbour and family members.

The proposed nominees of the dissidents were Kevin Tomlinson, Howard Carr, Garry Clark, George Fowlie, Daniel Harbour, Keith Harris, and Kevin Kivi.

Mintails

In the way of background we might mention that Mr. Harbour had previously led a dissident proxy solicitation for an EGM in respect of Mintails Ltd., an ASX-listed reprocessor of tailings in the South African goldfields. Prior to this attempt to oust a majority of Mintails’ board, he had launched a full-fledged takeover in March 2011 of Mintails at 8 cts per share that was later increased to 15 cts per share. This resulted in the bidder accumulating nearly 40% of Mintails’ shares before the bid expiry date passed. The company launched a rights issue and a holder of a convertible note signaled their intention to convert. This displeased the dissidents and the matter went to the Australian government’s Takeover Panel which declined to conduct proceedings on the bidder’s application. Despite the takeover bid having failed to glean a majority of the shares on issue accepting the offer, the holding of such a large voting block ensured that the bidder’s team was elected to the board, essentially taking control of their company. The stock currently trades at 5 cts and as far as we can establish the number of shares is now 80% higher than it was at the time of the change of control, largely due to a rights issuance in late 2013.

Maudore Wades In

The Maudore management’s first response was to offer board representation to the raiders conceding that some of the proposed slate could join the Maudore board. This offer was apparently spurned.

Maudore management’s contention was that trading personal holdings alongside those of a public charitable foundation raised serious conflict-of-interest and ethical questions. Moreover, the fact that the Harbour interests provided a substantial amount of Maudore's previous financing might have seemed to display their faith in the then management.

Maudore in its response to the raid contended that:

- Maudore's newest directors were well chosen and well respected. George Pirie being the CEO of San Gold, a successful Manitoba gold mining company. Raynald Vezina had overseen the pre-production phase of numerous base metal and gold companies. Dale Wallster (who we have met) had, among other accomplishments, been instrumental in one of the largest uranium discoveries (Hathor) in Canada in the last thirty years.
- The management slate also included Scott Jobin-Bevans, an eminent geologist who had served as president of the Prospectors and Developers Association of Canada.
- Maudore management had high-quality technical expertise, its chief operating officer Kevin Weston having a strong technical background. The purpose of the newly-appointed technical committee being to augment these professionals, not to fill a void.
- As the Institutional Shareholder Services (ISS), the independent proxy advisory firm reported, management's slate has more years of technical experience than the Harbour group's nominees.

On this latter point, we should report that on the 9th of July 2012, the advisor, ISS, recommended that shareholders vote in favour of the management slate of board nominees. ISS noted that "the dissidents have not made a compelling case that a change to the board is necessary at this time".

The ISS report endorsed the stewardship provided by the existing board and management, pointing out that Maudore's enterprise value had grown significantly over the preceding eight years under the tenure of the then chief executive, Ronald Shorr. They noted: "Given the premise that the company's outstanding shares will not be subject to significant dilution and the company also has a favourable cash position and prudent leverage structure… it would be in shareholders' best interest to experience fast-growing enterprise value as it creates more value return for shareholders on a per share basis."

ISS rejected the dissident group's demand to replace the entire board when it owned only 18.4% of the equity: "Given that the company's performance is generally healthy over the longer term, it does not appear to be legitimate to remove the whole board….". ISS concluded that "as a TSX Venture issuer, the company has an adequate governance structure, and there is no significant noted problematic governance practice. As such, vote FOR management nominees (is) warranted".

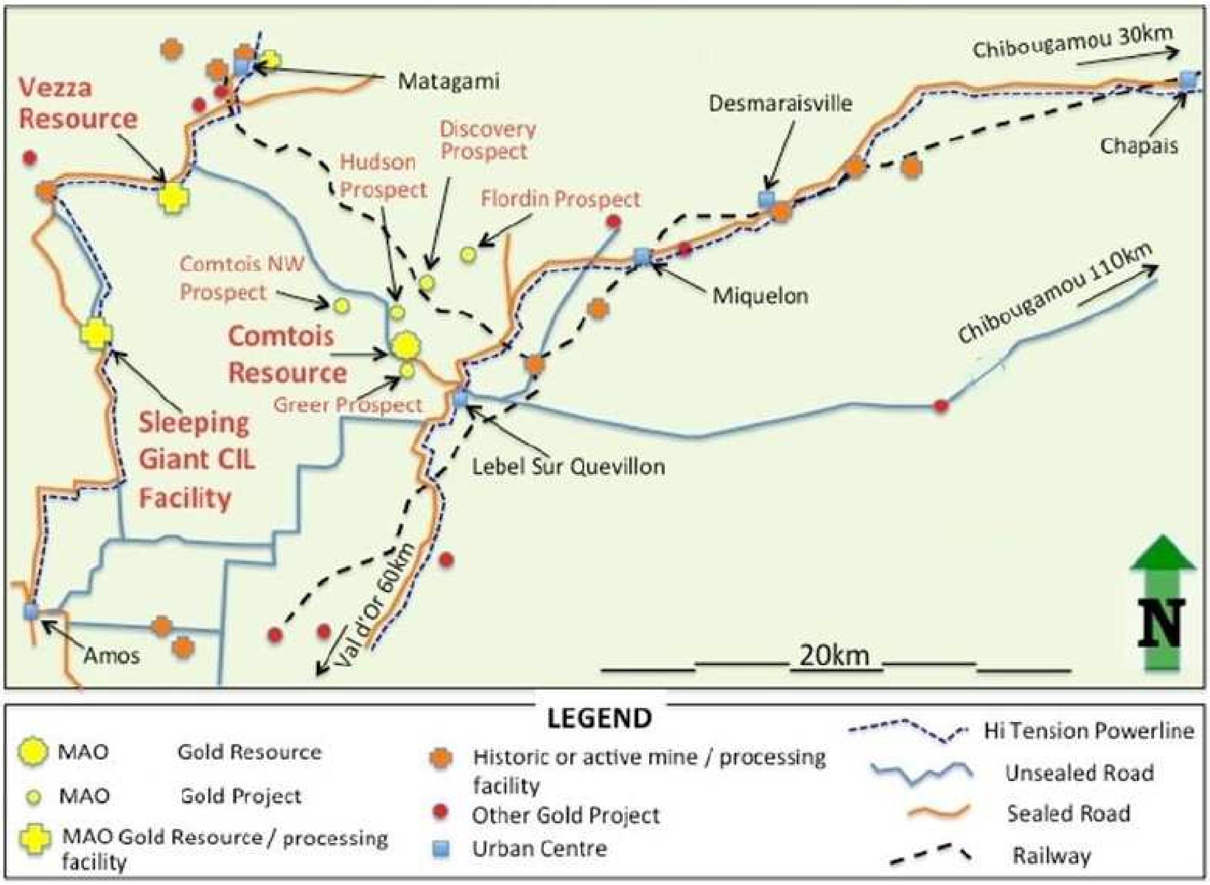
The parties launched legal actions which ended up in the Superior Court of Ontario with a decision being passed on the 18th of July. On the 19th of July, an Annual and Special Meeting of the shareholders was held and the slate of the dissidents was elected.

Oops it is broke..

The company started its long descent into chaos after the arrival of the new management. The raiders had used as their basic argument that the most advanced exploration property needed to be moved to production, but in fact they went off in pursuit of production elsewhere with the result that the property with the most prospective resource is arguably, now, farther from production than ever (that is if it isn't sold in a creditor's auction to someone who can develop it).

On December 18, 2012, Maudore closed a term loan agreement for $3.25 million with City Securities and Monemvasia PTY Ltd (a corporation associated with Kevin Tomlinson). The term loans carried an interest rate of 12% per annum (effective rate of 16.45% per annum) and were intended to be outstanding during an interim period until a debt facility is completed. The term loans were to mature on March 31, 2014, unless repaid or redeemed earlier in accordance with the terms and conditions of the term loans. The term loans were guaranteed by hypothecs on the Comtois claims. Maudore agreed to pay the lenders structuring fees equal to 5% of the term loans (in effect $162,500).

Then Maudore acquired, in March 2013, NAP Quebec Mines a subsidiary of North American Palladium. The assets consisted of the suspended Sleeping Giant mine and mill, the Vezza project, as well as a portfolio of exploration properties. Maudore paid CAD$18mn in cash and 1.5 million common shares for the deal.



The cash component of the deal was fully funded by a senior-secured credit facility in the amount of $22mn provided by FBC Holdings, an arm's-length party. This facility carried an interest rate of 15% per annum, payable quarterly in arrears, with a maturity date of March 22, 2016. FBC was granted a first-ranking charge over all of Maudore's and its subsidiaries' present and future personal property and material real property, including specified mining rights.

In consideration of the commitment made by FBC under the Credit Facility and in lieu of further structuring fees, Maudore issued to FBC 1,760,000 common shares and 880,000 common share purchase warrants. Each warrant entitles FBC to subscribe for one common share during a period of two years following the date of its issuance, at a price equal to $1.08. At least those warrants aren't likely to ever be exercised!

In maybe a rush of blood to the head, Maudore described this deal as being "strategy of becoming dominant consolidator". That hubris alone was enough to tempt the gods.

The NAP Assets

The pre-history of these assets was that in May 2009, North American Platinum (NAP.to) acquired the Sleeping Giant gold mine through the acquisition of Cadiscor Resources. Later, in May 2010, the company acquired the Vezza gold project, in the Abitibi region, from Agnico-Eagle Mines.

Maudore renamed NAP Gold as Aurbec Mines Inc./Mines Aurbec Inc. The surprising thing is that despite the attacks on the geological capabilities of the old Maudore management the new management had purchased the NAP assets which only had a NI 43-101 compliant resource on the Vezza deposit while those on the Discovery and Sleeping Giant were merely non-compliant historical resources. The Sleeping Giant (dating from 2008) historical resource was a rather meagre M&I resource of 153,000 ounces Au.

The Sleeping Giant Complex

The Sleeping Giant facility is 60 km west of Maudore's Osbell Deposit and 150 km north of Val-d'Or, a route which continues north to Matagami. It consists of a mine and a mill. The mine has scarcely been prolific in recent years with throughput of only:

- 2010: 17,695 oz of gold from 93,296 tonnes processed at an average head grade of 5.90 g per tonne, with a gold recovery of 95.5%.
- 2011: 14,623 oz of gold from 73,701 tonnes processed at an average head grade of 6.36 g per tonne, with a gold recovery of 96.4%.
- 2012: 1,199 oz of gold from 6,369 tonnes processed at an average head grade of 6.14 g per tonne, with a gold recovery of 95.4%.

The processing facility is designed to operate at a rate of 900 tpd, and had been processing between 400-600 tpd with +/- 92% gold recovery, five days per week.

The process is that ore is fed through a grizzly into a crushing plant with a primary jaw crusher and two cone crushers with screening, then to a rod mill and two ball mills to produce a pulp that undergoes conventional leaching followed by a CIP (carbon in pulp) circuit, stripping facilities, electrowinning and an induction furnace to produce gold dore.

In 2010, NAP determined that the Processing Facility could be upgraded in two phases from 900 to 1,250 tpd, and then from 1,250 to 1,750 tpd. NAP initiated the upgrade and later put the expansion on hold in order to focus on their palladium assets. It is expected that the adjacent Tailings Facility could last approximately 10 years at this higher throughput rate with additional expansion work within the facility and the underground operations, as indicated in a NAP Quebec internal report completed in 2012 by AMEC Amériques Ltée.

The Vezza Mine

This "asset" Is a producing gold mine picked up in the same deal as the Sleeping Giant asset. Under NAP (and Agnico Eagle) management over $43mn had been spent on development of the asset. Underground test mining started April 2012 and the mine now consists of a hoist, 3-compartment shaft and four underground levels, completed down to 741 m depth. The goal of NAP (as stated in July 2012) had been to get the mine up to 40,000 ozs per annum of Au, scarcely significant. The mining rate after Maudore took over was initially 350 tpd with the ore being processed at the Sleeping Giant facility.

We would note that NAP in a statement in July 2012 had already signaled the problems (and disappointment with Vezza citing "although the grades encountered have been as expected, dilution has been higher than anticipated, and the daily mining rate is ramping up more slowly primarily due to longer stope preparation time". As to why Maudore's new management acquired it with such obvious red flags flying is unclear.

However in July 2013, Maudore announced that it planned to finish mining and processing of developed mineralized material at Vezza over the following months whilst deploying a small workforce at Sleeping Giant to prepare the underground workings for exploration and remnant mining. By curtailing all development at the Vezza mine, Maudore expected to process the mineralized material developed thus far for much lower costs.

When it was briefly producing for Maudore the head grade stood at 3.5 g/t - 4.5 g/t and the company had a stated goal of boosting this to a head grade to 4.5 g/t - 5.5 g/t. Instead it shut it down..

The 2010 measured and indicated resource at Vezza was 1,510,000 tonnes grading 5.9 g/t Au for

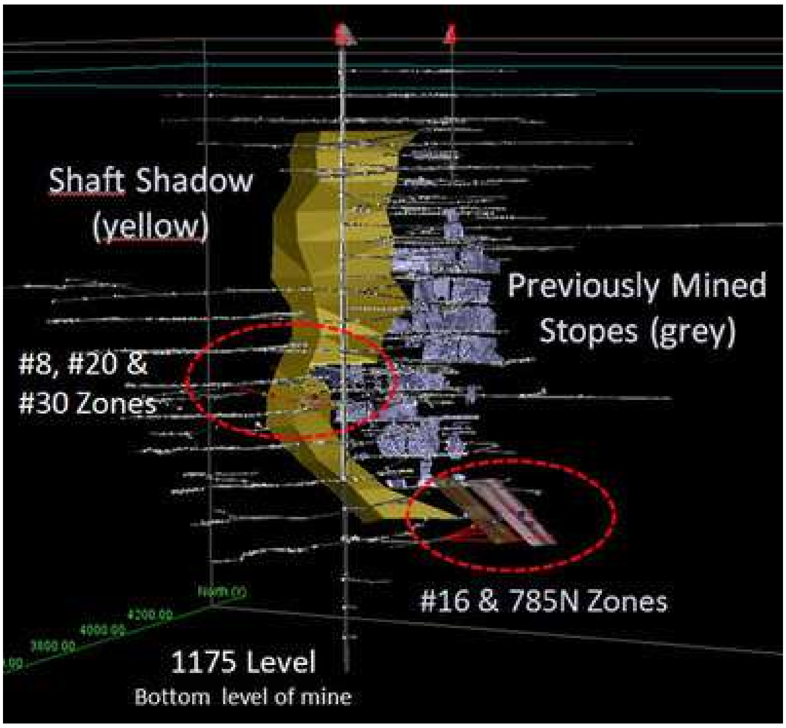
287,500 ounces and an inferred resource of 754,000 tonnes grading 5.0 g/t Au for 121,500 ounces Au.

The problem here seems to be the $1,400 per oz operating cost which the company claimed to be optimizing in mid-2013. As a result the company called a temporary stop to all long term development.

The “Remnant” Mine at Sleeping Giant

This mine has a long history having been owned in just the last decade by Cambior, then IAMgold, then Cadiscor then NAP and now Maudore. It’s like a game of “pass the parcel”.

The management claimed that the “new” Maudore acquired the Sleeping Giant mine “after diligent review of plans and sections led to the conclusion that many gold bearing structures remained unexploited”. After the acquisition the company began entering the data into a 3D format. This further confirmed their view that there were “many” structures to exploit. In particular, these included extensions of the gold-bearing quartz veins from the richest part of the historic mine into the "Shaft Shadow", a large wedge-shaped section of untested rock, northwest of the mine shaft, that extends over a kilometre in height and several hundred metres in width. This “exceptional” exploration target stands alongside and between previous workings in the mine.



It contends that this area was underexplored during earlier operations because previous mining focused vertically, not horizontally into the Shaft Shadow. Placing the historic drill data into the company’s new 3D model “made this potential very clear”.

In July 2013, the company issued a release which said that, at Sleeping Giant, it expected “mining of select high-grade remnant stopes to commence in late Q3 after the start of an underground drill program to target previously untested extensions of the high grade 20 and 30 zones and to test other high potential veins in specific parts of the mine. The mining of remnant stopes at Sleeping Giant will optimize infrastructure and personnel during this underground drilling program. Mining of these remnants could be phased out over the next 12 months, pending development of sufficient new resources to allow for full scale operations".

The company admitted in a Form F-7 filing with the SEC that "The improvement of the Corporation's financial position is contingent upon its ability to transition to full scale mining at the levels historically achieved between 1993 and 2008 at the Sleeping Giant property. During that period of time, the Corporation processed 3,127,031 tonnes at an average reserve grade of 10.5 grams per tonne to produce 1,058,924 ounces of gold". We are not exactly sure of the pertinence of this as the company's repeated use of the word "remnant" when referring to Sleeping Giant's mining potential and the historic resource being so diminutive does not signal that Sleeping Giant's underground operations is any more than an effort at trying to squeeze the last juice out of a lemon.

And Yet More Financing

At the time of the NAP Gold acquisition Maudore also announced that it was undertaking a private placement for gross proceeds of up to $25 million, at a price per unit to be determined in the context of the market. Each unit shall be comprised of one common share of Maudore and one-half of a common share purchase warrant. Each whole warrant shall entitle its holder to subscribe for one common share during a period of two years following the date of its issuance, at a price to be determined in the context of the market, subject to TSXV requirements.

A total of $13 million was committed to the private placement by:

- FBC for the amount of $5 million
- Approximately $4 million by City Securities Limited (a Harbour family entity)
- Approximately $1 million by Kevin Tomlinson, the Chairman and then CEO of Maudore

The company also signaled that it might proceed as well with the issuance of up to $2mn in aggregate principal amount of convertible secured notes by way of a private placement, the terms of which would be determined in the context of the market, subject to TSXV requirements. If such were to occur, FBC has committed to subscribe for the entire amount of the placement.

The Legal Shemozzle

In August 2013 a major setback occurred when during the previously announced mine down process of the Vezza project, the company's primary mining contractor, Promec, pulled their crews from the project earlier than planned. This was in response to a dispute over efforts to renegotiate contractual payment terms as their work draws to a close.

Prior to the planned Vezza mine down, work was slightly ahead of schedule, but was then delayed until replacement workers could be selected. This transition mining plan included the migration from contract miners at Vezza over to in-house mining crews to re-open the Sleeping Giant mine. The company had already commenced an internal hiring process for underground miners to be the core crews for the Sleeping Giant reopening.

Promec then moved for the bankruptcy of the Aurbec subsidiary. In late November 2013 the Quebec Superior Court dismissed the bankruptcy petition and discharged the hypothec previously registered in favour of Promec against Aurbec's Vezza and Sleeping Giant properties. Pursuant to an agreement that was reached for the consensual restructuring of Aurbec's trade payables, an arrangement was made that is acceptable to FBC (the senior secured lender) to grant a first ranking security to Promec and to one other creditor over the Vezza property only in order to secure the repayment of all indebtedness owing to them should Aurbec fail to deliver on the current plan to see all creditors repaid in full.

The "Rescuers"

FBC Holdings S.A.R.L. is a Luxemburg-based entity that is linked to Cyrus Capital Partners (of 399 Park Avenue, NY) which is described in a 12 April 2013 news release of Maudore as controlling FBC Holdings. Cyrus Capital Partners is a distressed debt fund manager that actively invests across the capital structures of highly leveraged and financially distressed companies in North America and Europe. It is run by its founder, Stephen Friedheim. Cyrus Capital has offices in New York and London, and currently has a team of 33 people. As of March 2014 assets under management were approximately $3.9 billion. A good proportion of the Cyrus team emanated from Och-Ziff Friedheim Capital.

Restructuring

It was most unfortunate that Maudore used the word "consensual" in its press release announcing progress in its negotiations on its debt. It is not a word used often and in our experience it usually in used in another context (leaving that to the investors' imagination). Anyway in late January 2014, Maudore claimed it was making "progress towards reaching a revised consensual restructuring of debts owed to FBC Holdings S.A.R.L.".

The company had launched a rights issue (one for one at 10 cts) in early December that had then flopped ignominiously, which resulted in its cash position being strained, to put it politely. FBC agreed to provide bridge financing in the amount of $722,000 by allowing Maudore to access funds that were previously deposited in an interest escrow account established in favor of FBC. These funds, together with Maudore's existing funds, were expected to enable Maudore to fund its operations during the negotiation of the revised restructuring of its debts owed to FBC and its other major creditors. This was essentially the wolf keeping the other wolves from the door!

On March 14th Maudore announced that, upon the execution of definitive documentation by the parties, FBC would immediately advance to Aurbec the sum of $4 million in the form of a senior secured loan until such time that a meeting (to be held on May 22nd) of the (non-FBC) shareholders of Maudore gives their approval of terms of the FBC Agreement. The Senior Secured Loan will bear interest at the rate of 15% per annum and is secured by a first charge on all assets of Aurbec (subject to the prior charge on the Vezza property in favour of Entrepreneur Minier Promec Inc. and Gestion Abitibi Inc.) as well as a secured guarantee provided by Maudore. Aurbec will pay a fee of 5% on any undrawn amounts.

FBC will also continue to allow Maudore to draw on the balance remaining of the original amount of approximately $3.3 million held in the interest escrow account established pursuant to the existing $22 million secured credit facility granted to Maudore by FBC. The lender has been allowing Maudore to access these funds for working capital purposes since Maudore discontinued its rights offering.

Upon the approval of the minority shareholders, the additional elements of the FBC Agreement will be implemented:

- FBC will pay to Aurbec the sum of $4 million, which sum will be applied by Aurbec to the repayment of the then outstanding balance of the Senior Secured Loan described above, with the remaining balance available to be used for general corporate purposes. In exchange for this $4 million payment, (i) Aurbec will issue to FBC such number of common shares in its share capital as will result in FBC holding a 49.9% equity interest in Aurbec (with Maudore retaining a 50.1% equity interest) and (ii) Aurbec will grant to FBC a royalty claim. Under the terms of the Royalty Claim, Aurbec will be required to pay to FBC, within one year, the sum of $4 million plus interest at the rate of 15% per annum. Repayment of the Royalty Claim will be made by Aurbec through a combination of the following sources of cash: (A) 1% of any gold sales generated by Aurbec and (B) any cash balances in excess of $1 million (which excesses will be deposited into a blocked account in favour of FBC and be balanced on a bi-weekly basis). Moreover, in the event of a change of control of Maudore or Aurbec (other than in favour of FBC), the Royalty Claim will become immediately repayable at the option of FBC for an amount equal to 101% of the amount otherwise payable thereunder at such time. The obligations of Aurbec under the Royalty Claim will be guaranteed by Maudore and secured against the assets of Maudore and Aurbec.

- FBC will make available to Aurbec the sum of $2 million in the form of a senior secured loan, with the funds to be used by Aurbec for general corporate purposes, subject to the prior approval of FBC. This senior secured loan will bear interest at the rate of 15% per annum and will be secured by the Senior Security. Aurbec will pay a fee of 5% on any undrawn amounts.

- FBC will provide funding sufficient to satisfy Aurbec's new environmental bonding requirements in 2014 of approximately $0.9 million.

- The approximately $2.2 million in interest currently outstanding under the Credit Facility will be converted into principal under the Credit Facility.

- Maudore will be permitted to satisfy the ongoing interest owing on the Credit Facility for 2014 either by making cash payments or by converting such interest into principal under the Credit Facility.

- FBC will convert a minimum of $2 million and a maximum of $4 million (the exact amount to be determined by FBC at its option) of outstanding principal owing under the Credit Facility, or of other debt owing to it, into common shares of Maudore at a conversion price of $0.09 per Common Share, representing a minimum of 22,222,222 and a maximum of 44,444,444 Common Shares.

- Maudore will undertake not to issue any additional Common Shares without the approval of FBC prior to the implementation of the Consensual Restructuring.

- In consideration of this restructuring, Maudore will issue to FBC an aggregate of 15.35 million Common Shares.

All this sounds like a particularly bad modern-dress version of the Merchant of Venice.

Operating Results

These pretty much speak for themselves… Ugh!

Maudore Mining						
CAD mns (FY ending Dec)						
	FY12	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**FY13**
Revenue				0.296	1.27	1.57
Cost of Mining		0.068	0.176	0.445	3.50	4.19
Gross Profit	0.00	-0.07	-0.18	-0.15	-2.23	-2.62
Selling/General/Admin. Expenses,	2.84	1.06	0.708	0.693	0.46	2.92
Professional/contractual	0.94				0.00	
Right Offering expenses					0.68	0.68
Impairment of property			9.83	-0.225	1.42	11.03
Professional fees on proxy	1.69					
Debt restructuring expenses						0.65
Acquisition expenses						2.19
Exploration Expenses	15.64	0.069			0.63	0.70
Other Operating Expenses			0.123	0.0328	-0.18	-0.02
Total Operating Expense	20.16	1.19	1.01	1.17	4.41	22.34
Operating Income	-20.16	-1.19	-10.84	-0.584	-3.14	-20.86
Financing costs	0.02	-2.601	-1.185	-1.111	3.28	-1.62
Fair value on credit facility					-7.72	-7.72
Acquisition expenses		-2.139			-0.06	-2.19
Income Before Tax	-20.13	-3.80	-12.02	-1.70	-6.36	-30.20
Tax (Credit)	-5.44	-1.046	-1.062	-0.143	2.34	0.09
Income After Tax	-14.70	-2.75	-10.96	-1.55	-15.03	-30.29
Diluted Weighted Average Shares	26.825	27.267	33.759	47.241	47.24	41.756
Diluted EPS	-0.548	-0.101	-0.325	-0.033	-0.318	-0.725

The Board and Management

The thing that strikes us most is the element of City of London old boy's club with a preponderance of people from Stifel Nicolaus' London office in the mix. One would have thought bankers would have known better. But maybe it's a bit like the old admonition of "Physician, heal thyself". The piling on of debt is exactly what any banker worth his salt would have cautioned against for a company like Maudore. We might also note that only four of the six names on the dissident slate remain on the board at this time.

The Chairman is Kevin Tomlinson, a structural geologist and former investment banker at Williams de Broe, Thomas Weisel and Stifel Nicolaus. He was Chairman of Medusa Mining, a narrow-vein gold producer, from 2005 to 2010. He is currently non-executive director of Besra Gold, Centamin Plc and Samco Gold and provides exploration, mining and financial advice to mining companies internationally. He was initially the CEO of Maudore after the raider's victory.

The Deputy Chairman and Non-Executive Director is George Fowlie. He has forty years' experience in corporate finance with extensive expertise in commercial banking, merchant banking, investment banking, private equity and mezzanine debt funds. He held management positions with Westwind Partners (now Stifel Nicolaus) and helped it become an international resource securities broker firm.

Greg Struble, President and Chief Executive Officer, is a mining engineer with more than 30 years' experience in underground metal and non-metal mining in the US, Canada and Chile. He brings considerable experience in engineering, supervision, and management, predominantly in the gold sector. Prior to being appointed CEO at Maudore, he was the COO at North American Palladium and was responsible of the Aurbec operations. His bio states that he also has expertise in managing joint ventures and custom milling refractory gold ores.

A non-Executive Director is Dr. Daniel Harbour, an associate professor at Queen Mary University of London, UK. He is also a director and trustee of The Harbour Foundation, a charitable foundation based in London. He obtained his PhD in linguistics at MIT in the US and has almost 15 years' experience with First Nations on cultural and language preservation projects. He also acts as Chairman of Maudore's Governance Committee.

Another non-Executive Director is Keith Harris, an accountant and investment banker, that specializes in financial advisory services to corporate clients and serves as director of a number of small public companies. He is the former President of Stifel Nicolaus Canada, an international brokerage and investment banking firm, and was CFO of its predecessor firms Thomas Weisel Partners and Westwind Partners. He is the Chairman of Maudore's Audit Committee.

Robert Pevenstein, a non-Executive Director, has extensive governance and board experience, including the chairman's role across diverse industries, including mining. He started his career at Price Waterhouse, after which he was a CFO for 20 years, concluding with UNC (formerly United Nuclear Corporation). During his career he led over 30 M&A transactions. Previously, he was Chairman of Copper Mesa Mining Company (TSX.V) and QuadraMed (NASDAQ), and was Vice Chairman of the Board of Regents of the University System of Maryland. He was an appointee under the previous management.

Raynald Vézina, also a Non-Executive Director, has over 40 years' experience in the mining industry, and earned a degree in mining engineering at Laval University. He has worked in senior management positions at Cambior, Placer Dome and Falconbridge, and successfully managed the development of many new mines. He has worked as a mining engineering consultant since 2004. In addition to Maudore, he is also a director at Matamec Explorations, and is currently Chairman of MISA, a mining research center. He was an appointee under the previous management.

Risks

There is no problem at conjuring up risks for a Long holder in Maudore.

The prime risks we can envision at this stage are:

- Cashflow problems
- Ongoing stock price weakness
- Operating problems with the mine(s)
- Lack of product (even bought-in) to keep the mill operating at economic levels
- Write offs of the value of Vezza
- Dilution to vanishing point

The danger for Shorts is that the company performs a miracle and somehow escapes its fate. However, escaping its current financial woes would most likely be achieved only by a brutal financing. This outcome implies that the current stockholders are diluted to infinitesimal relevance. In such a situation, a Short would cover and ride off into the sunset.

Conclusion

On the 22nd of June 2012, we received a rather breathless email from a London stockbroker who was closely linked to the insurgent shareholders at Maudore. Appended to the rebels' press release were the following comments (his upper case, not ours):

"WAR HAS BEEN DECLARED!

I believe that Maudore will be a 10x from here.

Well worth taking two minutes to read the release.

Best Wishes
XXXXX"

Mere logic would have told one that a $3 stock was not going to go to $30 anyway in the middle of 2012. But the eventual reality of the 7 cent bottom is so far from the bullish projection that it does not just look poignant in retrospect, but extremely foolish. We have always eschewed talk of "ten-baggers" and prefer to leave it to Boca Raton boiler-rooms to engage in such hyperbole. However, that it was one of the most veteran stockbrokers at one of London's most storied mining brokers makes it all the more bizarre.

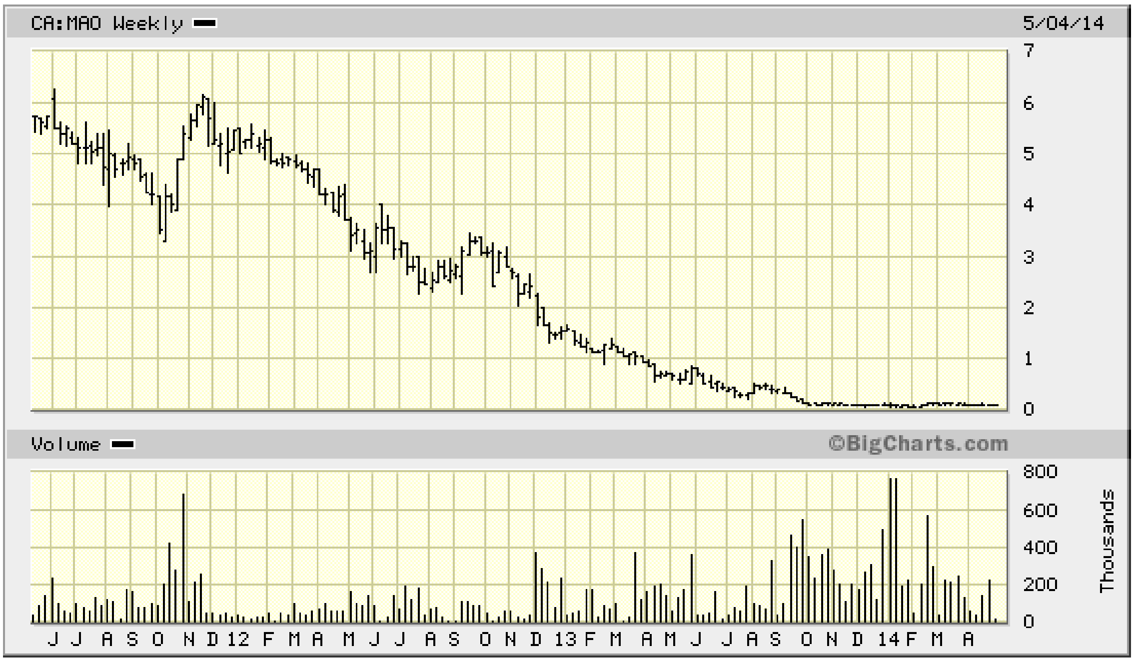
It is somewhat ironic that the dissidents belittled Maudore's management for not being weighted with geologists, but it was the previous management who did all the work to come up with the resource on the exploration properties. Instead it is the combination of "geological and financial expertise" calling the shots since the management change that has brought the company to its current parlous state.

Once again we see the validity of the saying “be careful what you wish for as you just might get it”.

The purchase of the assets from North American Platinum was truly feckless. There could not have been more red flags flying if it had been Red Square on May Day under the Soviets. NAP had signaled problems and disappointments, the recent production history was measly and the resources were nothing to write home about either. And yet Maudore’s management went where others feared to tread. The project had been tossed from one owner to another like the bomb with a sizzling fuse in an episode of the Three Stooges. Now it has come to rest in the lap of Maudore’s long-suffering shareholders. Boom!

As we noted, Maudore these days is like a particularly bad modern dress version of the Merchant of Venice and we wonder who is going to have to provide the pound of flesh to give the creditors to keep them from the door. If Sleeping Giant does not awaken from its slumbers then a “credit event” looks likely with a level of dilution that will require long-suffering shareholders to break out the magnifying glass to see the share price.

Oust in haste, repent at leisure…we consider Maudore is an **Avoid** with a 12-month target price of CAD$0.03.



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