

## General Metals Corporation (GNMT)

**Rating:**  
**Price Target:**  
Date:  
Analyst:

**Speculative Buy**  
**\$0.075**  
November 13, 2013  
Vitalie Eremia, CFA

Share Statistics	
Symbol (OTC BB)	GNMT
Last Trade (11/13/13)	\$0.008
Low/High 52 weeks	\$0.008 - \$0.03
Average Volume (50-day)	128,403
Market Capitalization	\$2.83m
Shares Outstanding	353,313,328

*Source: BigCharts.com, SEC filings*

### Analyst summary

This is an update report on General Metals Corporation (GNMT), a junior mining company focusing on exploration, development and mining of gold and silver in Nevada.

The main development of the past few months was GNMT's proposal to transfer its sole project – the Independence Project – to Open Gold Corp. (OPG) in exchange for 64% of OPG's stock, under a condition that OPG would secure funding to advance the project. The deal was cancelled on October 21 by OPG, citing "current market conditions".

Currently the primary focus of the company is advancing the preliminary economic assessment and obtaining financing to develop the project further.

Updated relative valuation suggests that General Metals should be valued at \$0.0750 per share. It is worth noting that since our previous valuation gold prices have come down by about 10%, which has negatively affected multiples.

### Recent Developments

#### The OPG Deal

The main development of 2013 was the planned transaction with Open Gold Corp. (TSX-V:OPG). This transaction envisaged exchanging the Independence Project for 64% of OPG's stock with a condition that OPG would raise \$2.35 million (gross) beforehand to advance \$2 million towards developing the project. OPG's stock was to be distributed to GNMT's shareholders on a pro-rata basis.

Earlier this year OPG announced that a \$2.5 million private placement had been arranged, but eventually it called the deal off due to "current market conditions".

### **Reverse Stock Split Proposed**

GNMT is proposing to effect an up to 20:1 reverse split of the company's stock, which will be subject to shareholder vote at the upcoming special shareholder meeting to be held on October 21, 2013.

Management explains the need for the stock split by the requirements of some potential investors that stock price be above certain threshold, saying that "an investment bank in Canada was requiring a 25 to 1 reverse split as part of a proposed financing and sponsorship to get GNMT listed on a Canadian exchange." In addition, the number of shares is approaching the 500 million authorized limit and a reverse split would effectively allow more funds to be raised without hitting this limit.

### **New Core Assay Analysis Initiated**

In August 2013, GNMT initiated a new round of analytical work on drill core samples from the Independence Project. The analysis is to be performed on about 80 samples representing 300 feet of drill cores from three zones. This analysis should allow the company to better understand its resource and could even "have a material effect on the tonnage and grade of the Independence resource", according to Jeffrey A. Rassuchine, GNMT's Senior Consulting Geologist, who will supervise the work at American Assay Laboratories in Sparks, Nevada. Positive conclusions from this work will likely upgrade the value of the Independent Project.

### **Potential for Improved Silver Recovery**

In September 2013, GNMT announced that it may have identified a way to improve silver recovery from the Independence Project ore by 19%, using a new reagent mix, compared to the standard method. Although this is only preliminary metallurgical work and a larger sample needs to be processed for definitive results, it is still good news as recovery is an important factor when it comes to maximizing the amount of metal extracted from ore.

### **Preliminary Economic Assessment**

No Preliminary Economic Assessment (PEA) has been published to date, but GNMT reports that management has "reviewed a draft Preliminary Economic Assessment [...] which evaluates the current economic parameters of the property within a plus or minus 50% variability determining additional data needed to be acquired before the PEA could be properly completed". It is not clear whether the new assay analysis work described above aims to fill in the gaps for the PEA, but we should expect that the results of such analysis would be reflected in it.

### **Departure of Director**

On October 1, P.K. "Rana" Medhi resigned as director of the company.

## **Plan of Operations**

In its FY13 annual report (for the year ended April 30, 2013, released on August 13), GNMT revealed the plan of operations for the Independence Project for FY14 and associated budget estimates.

GNMT reports that Dyer Engineering of Reno, Nevada continues the permitting process necessary to place the Independence Mine into commercial production, which can take between 8 and 16 months, subject to funding availability. The exact timeframe will also depend on whether an Environmental Assessment or an Environmental Impact Statement is required.

The Hill Zone is to be mined first, with additional drilling planned to further delineate the resource.

GNMT estimates that the Independence Project can be brought “to the brink of production” within 12 months, if the following budget is executed:

<b>Direct exploration and development costs</b>	<b>\$</b>
Geotechnical Core Assays	48,000
Deep Core Re-log, Sample and Assay	273,000
Preliminary Pit Infill Drilling Program	425,000
Sunshine Drill Program	1,052,000
BLM Plan of Operations Review and Permitting	100,000
Mining, Metallurgical and Process Engineering and Design	150,000
State and County Permits	45,000
Water Well	35,000
Update Independent Technical Report	100,000
Land Payments	192,000
Complete check assays of the 2009-2010 Drill Program	10,000
Contingency	70,000
<b>Total direct exploration and development costs</b>	<b>2,500,000</b>
<b>Indirect costs</b>	
Office rent and other operating expenses	20,000
Wages and salaries and payroll related expenses	140,000
Insurance expenses	40,000
Investor Awareness Consultants	100,000
Other general and administrative expenses	150,000
Legal expenses	50,000
<b>Total indirect costs</b>	<b>500,000</b>
<b>Total budget for the next twelve months</b>	<b>3,000,000</b>

Source: SEC filings.

As can be seen, the exploration budget totals \$2.5 million, and the OPG deal is supposed to cover \$2 million of this amount. The rest is likely to be covered by additional dilution. Without the OPG deal, GNMT will have to issue stock of its own to raise funds, as getting debt financing at this stage is unlikely.

## Valuation

We valued General Metals using a comparative valuation method based on a multiple representing peers' median market equity value per unit of resource they report for their projects. We selected seven junior mining companies that in our opinion are similar to General Metals in terms of project development stage and minerals explored (gold and silver). They also pursue projects exclusively in the U.S., like GNMT.

Since companies report various types of resources, reflecting different degrees of certainty of their existence, for part of our valuation, we adjusted the reported resources in such a way that an inferred resource is treated as worth 50% of indicated resource. We also converted silver resources into gold equivalent using a gold/silver price ratio of 59.5 (\$1313.30/oz gold to \$21.77/oz silver).

For Canadian-listed companies, we converted market cap and EV into US dollars at an exchange rate of \$0.9601 per CAD1.

Company	USD millions		Total resource*			Normalized resource*		
	Market cap	EV	Au eq, Koz	Mkt cap \$/oz	EV \$/oz	Au eq, Koz	Mkt cap \$/oz	EV \$/oz
Otis Gold Corp (OOO.V)	4.1	3.7	1,055	3.9	3.53	905	4.5	4.1
Atlanta Gold, Inc. (ATG.V)	7.3	10.2	1,006	7.3	10.15	861	8.5	11.9
Sutter Gold Mining Inc. (SGM.V)	15.7	44.1	682	23.0	64.71	453	34.6	97.5
Silverado Gold Mines Ltd. (SLGLF.OB)	2.9	4.2	356	8.2	11.77	243	12.0	17.3
Calico Resources Corp (CKB.V)	4.2	3.8	1,680	2.5	2.27	1,680	2.5	2.3
Nevada Sunrise Gold Corporation (TSXV: NEV.V)	2.3	2.0	434	5.3	4.73	398	5.8	5.1
Klondex Mines Ltd.	104.9	110.4	717	146.3	153.91	507	207.1	217.9
<b>Weighted average**</b>				<b>23.8</b>	<b>30.1</b>		<b>28.0</b>	<b>35.4</b>
GNMT price per share			<b>1,132</b>	<b>\$0.0764</b>	<b>\$0.0964</b>	<b>709</b>	<b>\$0.0562</b>	<b>\$0.0710</b>

\* Total resource sums all reported resource (Measured & Indicated + Inferred). Normalized resource takes 100% of Measured & Indicated resource and 50% of Inferred resource for both gold and silver.

\*\* Multiples were weighted by each company's respective resource.

The average of the two Normalized resource valuations (Market cap/oz and EV/oz) is \$0.0636 per share and the average of the two Total resource valuations is \$0.0864 per share. The average of all four values is \$0.075 per share.

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The following is from the Final Report of the SEC Advisory Committee on Smaller Public Companies, adopted February 21, 2006: [www.sec.gov/info/smallbus/acspc/acspc-finalreport.pdf](http://www.sec.gov/info/smallbus/acspc/acspc-finalreport.pdf) "In order to address the need for more independent research for smaller public companies, [the U.S. Securities and Exchange Advisory Committee on Smaller Public Companies recommends] that the Commission: "Maintain policies that allow company-sponsored research to occur with full disclosure by the research provider as to the nature of the relationship with the company being covered. "Entities providing such research should disclose and adhere to a set of ethical standards that ensure quality and transparency and minimize conflicts of interest."