

# QuickNote

**MERC INTERNATIONAL MINERALS****March 22, 2012****MRK-TSXV \$0.30****Rating: STRONG BUY****Target Price: \$1.80****Market Capitalization (Basic): \$26.2 million****METALS & MINING****Michael Starogiannis – Analyst**  
416.682.4222  
mstarogiannis@frasermackenzie.com**Neal Belovay – Associate Equity Analyst**  
416.682.4228  
nbelovay@frasermackenzie.com

## Drilling Commences – Looking to Expand Current Resource

### EVENT

- **The company announced this morning that it has commenced its 2012 drill program at its Colomac Gold property in the North West Territories. The company plans to drill 15,000 metres using two drills.**
- As of now both drills are operating from the ice on Baton Lake. The drills are currently testing mineralization to depth at the lake. One drill will test high grade gold shoots and conduct infill drilling and expanding the resource. The second drill will be testing high grade shoots discovered by Royal Oak Mines in 1997 at the Colomac Dyke South Zone. The company is currently constructing its exploration camp which it expects to be completed by early summer.

### DISCUSSION

- The company is off to a good start after completing a \$12.2 million equity private placement that will provide sufficient funding to complete its drill program. **The company's program has the clear intention to expand the current resource below the previously mined main pit and along strike. We look forward to results from the high grade shoots which are not included in the current resource and could also add a significant uptick to the current 1.4 million ounces of gold.**
- **The current resources are defined within five zones all of which remain open at depth and along strike and do NOT include known high grade shoots that occur within the mine trend.** We believe that just the Colomac claim group has the near term potential for a doubling of this current resource, to about 3 million potential ounces of gold, while the balance of the Indin Lake claim group has the potential to demonstrate 1.5 million ounces over the same time frame. **This translates to 4.5 million potential ounces demonstrable through the drill bit over the next 12 to 18 months.** We assign a 50% probability weighting to the 1.5 million additional potential ounces at Colomac.
- **We expect confirmatory drilling to increase the average grade at Colomac over time.** We are pleasantly surprised by the overall size of the current resource and believe this to easily be one of the most accretive transactions of the year thus far working out to a purchase price of approximately \$3.50 per ounce.
- Given the quality of the asset, its status as a former producer (having produced at steady state for 5 years at over 100,000 ounces per year and head grades of 1.6 g/tonne), we believe the financing risk for this asset to be relatively low and fully expect the company to engage in an aggressive drill program in the next 12 to 18 months.
- **We reiterate our Strong Buy and target price of \$1.80 per share which is based off of 3.7 million ounces attributed to the company.**

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