# METALORE RESOURCES LIMITED

# 2014 ANNUAL REPORT

## HIGHLIGHTS

- **Increased revenue** from natural gas sales 49% to $5.19 per MMBtu in 2014 versus $3.49 per MMBtu in 2013
- **Increased operating income** to $311,364 in 2014 versus an operating loss of $764,132 in 2013
- **Increased operating netbacks** to $2.51per MMBtu in 2014 versus $0.97 per MMBtu in 2013
- **Increased funds from operations** to $357,689 in 2014 versus $73,969 in 2013
- **Paid dividends** for the fourteenth consecutive year at a rate of $0.04 per share in 2014
- **Conducted geophysics and drilling** on the Company's 100%-owned Cedartree Lake mineral property

| **OPERATING RESULTS** | **Three Months Ended March 31** | | | **Year Ended March 31** | | |
|---|---|---|---|---|---|---|
| ($CDN/MMBtu) | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Natural gas sales** | **5.09** | 3.31 | 54 | **5.19** | 3.49 | 49 |
| **Royalties paid** | **(0.45)** | (0.41) | 9 | **(0.46)** | (0.34) | 36 |
| **Production expenses** | **(3.54)** | (3.43) | 3 | **(1.95)** | (1.95) | (0) |
| **Transmission tariffs** | **(0.24)** | (0.24) | 2 | **(0.27)** | (0.22) | 21 |
| **Operating netback** [(1)] | **0.85** | (0.77) | (211) | **2.51** | 0.97 | 159 |
| Depletion and depreciation | **(1.83)** | (1.88) | (3) | **(1.71)** | (1.65) | 3 |
| Impairment reversal (charge) | **7.30** | (8.24) | (189) | **1.92** | (2.31) | (183) |
| General and administrative expenses | **(0.91)** | (0.54) | 69 | **(1.01)** | (0.92) | 9 |
| Share based compensation | **-** | - | - | **(0.10)** | - | - |
| Accretion | **0.02** | (0.04) | (140) | **(0.02)** | (0.04) | (35) |
| Gain on disposal of marketable securities | **1.83** | 0.66 | 177 | **0.55** | 1.12 | (51) |
| Investment income | **0.22** | 0.13 | 68 | **0.34** | 0.33 | 3 |
| Royalty income | **0.02** | 0.01 | 39 | **0.01** | 0.01 | 71 |
| Deferred income tax (expense) recovery | **(4.03)** | 3.32 | (221) | **(1.19)** | 0.85 | (241) |
| **Net income (loss)** | **3.47** | (7.35) | (147) | **1.30** | (1.65) | (179) |
| **Daily production (MMBtu/d)** | **566.0** | 603.7 | (6) | **2,150.2** | 2,153.3 | (0) |

(1) Operating netback does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-GAAP Measures section in the MD&A for more details.

## CORPORATE INFORMATION

### OFFICERS AND DIRECTORS

**George W. Chilian, BA**
President, CEO and Managing Director
Vittoria, Ontario

**John A. Ryan, CGA**
Director and CFO
Simcoe, Ontario

**Timothy J. Cronkwright, BA**
Director
Simcoe, Ontario

**Bruce A. Davis, MA**
Director
Grand Rapids, Minnesota

**Michael A. Dehn, MSc**
Director
Oakville, Ontario

**J. David Malouf**
Director
Longlac, Ontario

**John C. McVicar, BA**
Director and Chairman
Brantford, Ontario

### ANNUAL GENERAL MEETING
Saturday, September 20, 2014, 11:30 AM
Best Western Little River Inn (Skylight Room)
Simcoe, Ontario

### SHARE LISTING AND SYMBOL
Toronto Stock Exchange (TSX) – "MET"
United States, Over the Counter – "MTLRF"

### SHARE PRICE RANGE
Fiscal 2014, High - $3.84
Fiscal 2014, Low - $2.33

For further information, please visit our website at **www.metaloreresources.com** or contact:

**Metalore Resources Limited**
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Fax: (519) 428-2466
E-mail: info@metaloreresources.com

### KEY PERSONNEL

**Jonathan Chilian, BSc**
Production Manager and Hydrocarbon Geologist

**Carl Chilian, BA**
Assistant Production Manager

### BANK
Royal Bank of Canada
55 Norfolk Street South
Simcoe, Ontario  N3Y 2W1

### ACCOUNTANT
Bryson Chartered Accountant Professional Corporation
717 Norfolk Street North
Simcoe, Ontario  N3Y 3R3

### AUDITOR
NPT LLP
633 Colborne Street
London, Ontario   N6B 2V3

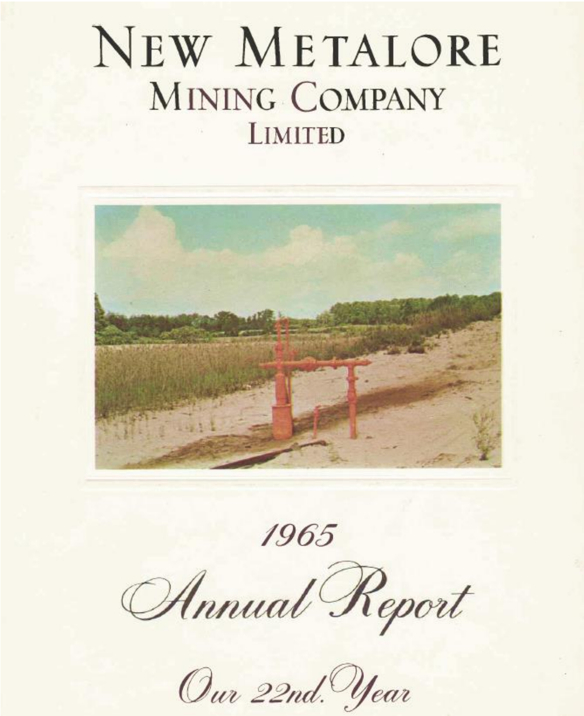
### REGISTRAR AND TRANSFER AGENT
Computershare Trust
8th Floor – 100 University Avenue
Toronto, Ontario  M5J 2Y1

## PRESIDENT'S LETTER TO THE SHAREHOLDERS

### A SPECIAL ANNIVERSARY

During the month of June, 1964, precisely **fifty** years ago, Metalore completed drilling its first Natural Gas well in Charlotteville Township, Southwestern Ontario. The well came in naturally with a rather "meager" open flow of only 5,000 cubic feet per day but Ontario had never been recognized for its gas and oil production.

But something new was in the wind. The hydrocarbon industry was on the leading edge of an exciting new phenomenon called "hydro-fracturing" to stimulate well production. We drilled five more nominal wells that year and Halliburton conducted "custom tailored", 10,000 gallon "fracks" on all six of them. The early results were gratifying but the best was yet to come.




We continued assembling a very large land position throughout most of the township. We attended a two week course of Fracturing, offered by Halliburton, in Duncan, Oklahoma and learned about "Rock Tectonics, Pressure Derivatives, Turbulent Flows and the attributes versus impediments of high and low viscosities".

Our large, virgin land position enabled us to place offset and step out wells far apart with an unprecedented 300+ acre spacing. And we had another strategic advantage with the availability of almost unlimited fresh water supplies from the many irrigation ponds located on the tobacco farms throughout our development area.

We doubled the frack water from the initial 10,000 gallons per well, to 20,000, then 40,000, and so on to a standard 160,000 and completed and tied-in seven wells per year for the next seven years running. We pumped 193,000 gallons at 35 gallons per minute with 2,500 brake horsepower and that record stands today as the largest frack ever completed (by anyone) in Ontario. After producing a billion cubic feet in 40 years, that well is still a reliable producer.

Who said, "You can't make Silk Purses out of sow's ears"? Metalore has been doing that for half a century and we continue to reap the benefits from our big well fracks on wide spacings. For starters, our cash flow from gas production has financed all of our mining exploration campaigns since the 1960s. Some of these endeavours have met with moderate success in discovering and identifying bonafide (43-101) gold resources at "Brookbank, Fox Ear, Cherbourg, Irwin and Cedartree Lake". While these properties are not yet being mined, the exploration costs are deemed assets on our statement of financial position and also serve as timely write-offs against any income tax that would otherwise be payable on our gas production income.

Are you aware that Metalore has earned millions of dollars from our gas operations over the years but we have **never** had to pay income tax? You might consider that the tax money saved by exploration cost credits have enabled us to pay the dividends to shareholders. Wouldn't you prefer to keep on exploring and receive cash dividends rather than stop exploring and just pay taxes? (There is even a nominal tax credit on Metalore's dividends available to Canadian residents).

Metalore also continued to augment our gas operations annually by upgrading small sections of our pipelines and directly adding new field line customers to our gathering and transmission lines. We now provide economical, convenient, reliable energy security, warmth and winter comfort to over one hundred commercial (greenhouses and tobacco curing) and residential customers throughout our production area, as well as indirectly to thousands in the Spectra (Union Gas) distribution system, "For the Greater Good" as Andrew Carnegie believed. In any event, Metalore's first fifty years in natural gas have been most productive.

## AN EXCITING NEW ERA

Metalore is now on the threshold of an exciting New Era. We continue to maintain a large portfolio of leases with undrilled off-set, as well as exploratory well locations; however economics of shallow (Silurian), conventional development is not favourable at current gas prices. Conversely, the very high pressures of deeper formations (Ordovician and Cambrian) that underlies our present production could be a real bonanza economically.

We hold and maintain a network of over 100 miles of pipelines within the greater, central part of Charlotteville Township alone, which is some 16 miles by 10 miles wide. While our virgin pressures in the Silurian, at 1,200 feet deep, were just over 600 psi, the pressures at 3,000, or thereabouts, would be closer to 20,000 psi. One deep, high pressure gas well could have an epic impact on gas deliveries – as would an oil discovery, with crude now at $106 per barrel.

There has been very little deep exploration anywhere in Southwestern Ontario. By the time any potential at all was recognized in Ontario, light oil had been discovered in Alberta at Leduc/Woodbine – and all the hard, exploration money headed west. (Even Metalore participated with a small interest in the early development of the Provost Gas field in Alberta from 1956 – 1961).

One of the two most productive, deep oil fields and the largest, deep gas field in Ontario lies only thirty miles north of our Charlotteville operations. They are the Gobles Oil Field and the Innerkip Gas Field, which off-sets Gobles for twenty miles further on the same northwesterly trend. The other most prolific oil field is the Clearville, situated some miles west of us along the same north shore of Lake Erie. Both of the deep oil fields were developed and produced by Imperial Oil Limited. The following are clips of what J.A. "Jack" Pounder, Imperial Oil's Geologist stated in a 24 page paper[1] entitled "*Cambrian of Ontario*" in reference to these two fields:

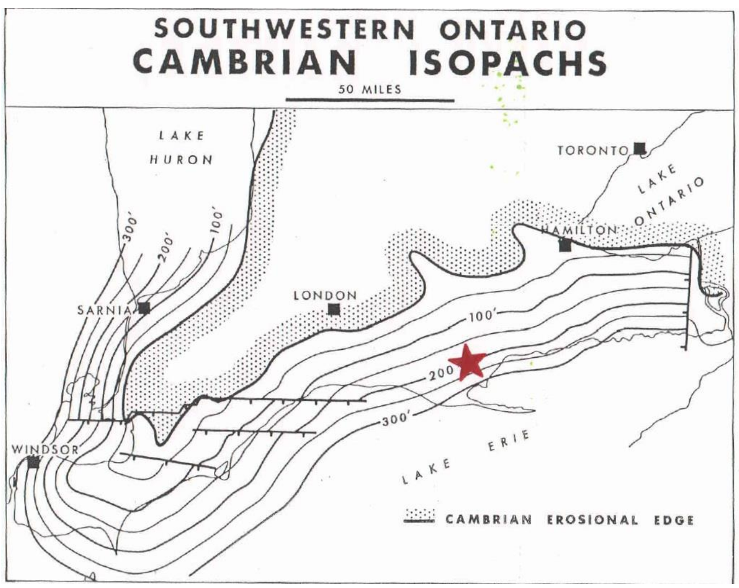



Figure 7

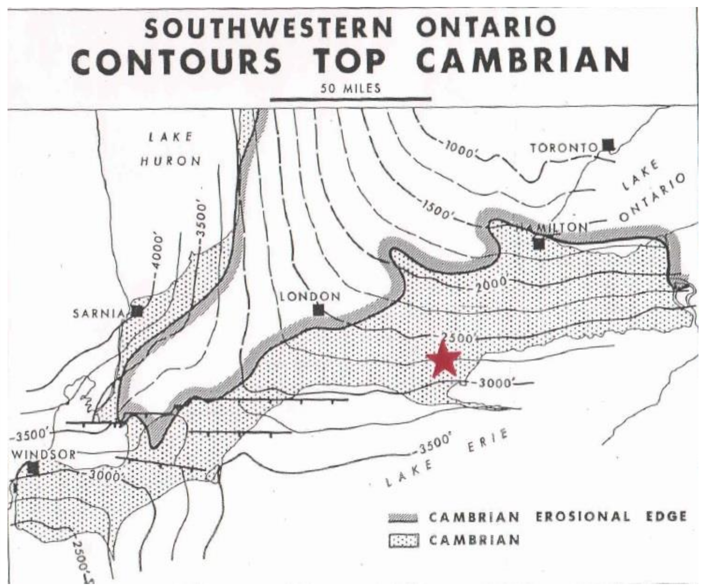



Figure 8

*"Figures #7 and #8 are respectively Cambrian Isopachs and Cambrian structure in the Southwestern Ontario area. It is felt that the more favourable Cambrian area lies between the north shore of Lake Erie and the Cambrian pinchout edge. The reason for this is the more favourable potential source for hydrocarbons in the Appalachian Basin is combined with the more favourable structural and stratigraphic trapping mechanisms in the shovel end of the Appalachian Basin. In fact, this portion of Ontario is positioned ideally with respect to the trapping of hydrocarbons."*

1 Presented to Third Annual Conference of the Ontario Petroleum Institute in 1964

★ Denotes the area of Metalore's historical gas production

CLEARVILLE POOL

CONTOURS TOP CAMBRIAN

1 MILE

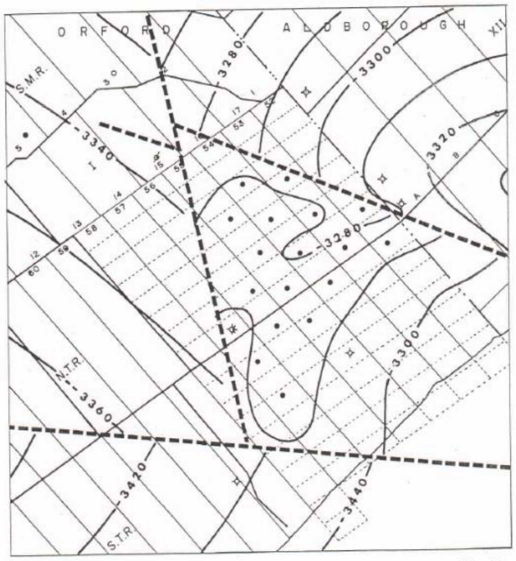



Fig. 10

GOBLES CAMBRIAN POOL

CAMBRIAN SS ISOPACH

1 MILE

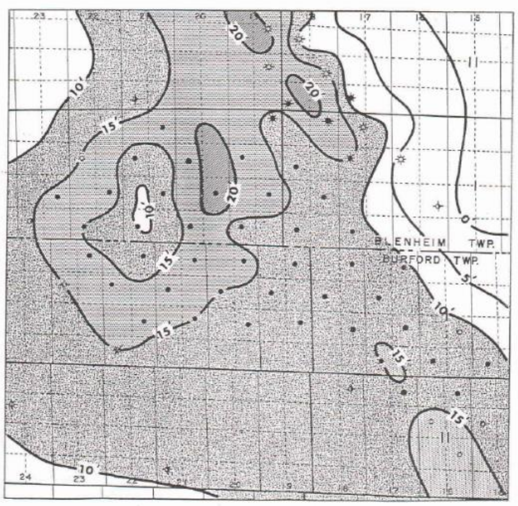



FIG. 11

*"Production is primarily from the Clearville sand with an average porosity of 14% and a bottom hold pressure of 1725 psi. To date 17 wells have been drilled on 50 acre spacing and three wells have been drilled on the down block to the west. Since Imperial Oil's first well, Imperial Orford 8-55 NTR, was completed in April of 1962, it has produced over 80,000 bbls while cumulative production in the field is 550,000 bbls."*

*"Production is from a Cambrian sand varying from 12' to 28' and the average porosity is approximately13%. The sand trends northwest-southeast. To date the main Gobles field has 40 oil wells and 10 gas wells drilled on 50 acre spacing. The average production in Gobles is 20 – 25 bbls/day."*

*"In summary, two fields have been discovered to date and both are in the stage of further development. Recent wells have indicated the presence of oil both at the pinchout edge and in downdip structural and stratigraphic traps. The density of drilling in the Appalachian Basin portion of Ontario is light and large areas are untested. The number of wells drilled has given us an understanding of the Cambrian deposition and erosional patterns. As further drilling continues the discovery of stratigraphic, fault and erosional traps will become easier. It is therefore reasonable to predict that a significant amount of oil will be discovered in the Cambrian in the near future."*

But with pipeline gas (TransCanada) readily available and Union Gas offering an etched in stone "City Gate" price of $0.30 per Mcf and the oil market at $5 a barrel (and all the money moving to myriads of exciting hydrocarbon plays out west), the opportunities in Ontario were ignored. Even Imperial farmed out or allowed their unexplored leases to expire – and vacated.

And then, a little serendipity appears. During the many years of drilling our own gas wells we observed and positively located a subsurface, prominent, northwest fault structure that transverses at least five miles of our producing acreage in Charlotteville. The Cambrian strata completely underlies our land at about 3,000 to 3,200 feet vertical, on a gentle, downdip slope from the pinchout edge that is associated with Gobles.

Metalore's New Era has gas at $5 per Mcf and oil above $100 per bbl. We own 100% working interest in a large, secure "freehold" land package in a high potential, deep hydrocarbon environment and we have the cutting edge technology at our fingertips. The opportunity to explore and develop these deep resources is ours right now – and we hereby accept the challenge.

On behalf of the Board,

George W. Chilian
President & Chief Executive Officer
June 30, 2014

## OBJECTIVES *GOING FORWARD*

### 2014

**PRIORITY**
Re-engage engineer and contract for Seismic Land Survey;

Second
Nurture the gas business (i.e., Field Line Customers & Sales and construct minor sections of pipelines;

Subordinate
Check area of May 2014 soil sample kick with casual prospecting at Beardmore.

### 2015

**PRIORITY**
Obtain supplementary, non-equity financing if and when necessary and commence the deep hydrocarbon drilling. (Note: We have $500,000 Line of Credit with Royal Bank at Prime plus 0.5% if necessary);

Subordinate
Possible minor work at Beardmore.

### 2016

**PRIORITY**
Continuation of deep hydro-carbon drilling;

Second
Complete more extensive drilling at Cedartree on both gold and base metal areas.

# MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

June 30, 2014

The MD&A should be read in conjunction with the audited financial statements and related notes for the years ended March 31, 2014 and March 31, 2013 that were approved for issue by the Board of Directors on June 30, 2014. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian currency.

## DESCRIPTION OF BUSINESS

Metalore Resources Limited ("Metalore" or the "Company") is a junior resource company, actively engaged in the acquisition, development, exploration, and production of natural gas reserves in Southwestern Ontario and in the exploration and evaluation of gold and other mineral properties in Northwestern Ontario. The Company trades on the Toronto Stock Exchange under the symbol "MET".

## 2014 HIGHLIGHTS

- **Increased revenue** from natural gas sales 49% to $5.19 per MMBtu in 2014 versus $3.49 per MMBtu in 2013
- **Increased operating income** to $313,368 in 2014 versus an operating loss of $758,496 in 2013
- **Increased operating netbacks** to $2.51per MMBtu in 2014 versus $0.97 per MMBtu in 2013
- **Increased funds from operations** to $357,689 in 2014 versus $73,969 in 2013
- **Paid dividends** for the fourteenth consecutive year at a rate of $0.04 per share in 2014
- **Conducted geophysics and drilling** on the Company's 100%-owned Cedartree Lake mineral property

## CURRENT DEVELOPMENTS

### Natural gas

Our financial statements for the 2014 fiscal year demonstrate the partial recovery of the very depressed Natural Gas market during the preceding two years. Further exploration and development of our gas operations will be expedited during the current 2015 fiscal period, as outlined in the June 30, 2014 President's Letter to Shareholders.

### Mining exploration

The Company completed its first nominal drill program on the new Sunfish Lake grid in a remote part of the Cedartree Lake property in March 2013. One hole surprisingly encountered a 17 metre intersection of sub-economic grade copper and zinc mineralization. We followed up with two more holes on either side of the Discovery in March 2014, utilizing winter access for drill pad set-ups. All of the holes encountered significant widths of fragmental tuffs with various intervals of sub-economic grade copper and zinc with minor credits up to 4 grams of silver and 0.08 grams of gold. Further, more extensive drilling is warranted for both the base metal occurrence and the (43-101) gold resource that we previously established at Cedartree Lake. However, we have a very comfortable inventory of assessment work credits to retain the claims for the foreseeable future and our 2014 priority will be to press forward with our natural gas operations.

## FREQUENTLY RECURRING TERMS

The Company uses the following frequently recurring industry term in the MD&A: "MMBtu" refers to one million British Thermal Units.

## NON-GAAP MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A contains the terms "funds from operations", "funds from operations per share", "working capital", and "operating netback" which do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance.

Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments. Funds from operations is a non-GAAP measure and has been defined by the Company as net income (loss) plus non-cash items (depletion and depreciation, asset impairments, share based compensation, non-cash finance expenses, realized gains and losses on the disposal of assets, and deferred income taxes) and excludes the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of earnings per share. Funds from operations is reconciled from cash flow from operating activities under the heading “Funds from Operations”.

Management uses working capital as a measure to assess the Company’s financial position. Working capital is calculated as current assets less current liabilities.

Management considers operating netback an important measure as it demonstrates its profitability relative to current commodity prices. Operating netback, which is calculated as average unit sales price less royalties paid, production expenses, and transportation expenses, represents the cash margin for every MMBtu of natural gas sold. Operating netback per MMBtu is reconciled to net income (loss) per MMBtu under the heading “Operating Netback”.

## SUMMARY OF FINANCIAL RESULTS

| | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| ($CDN) | **2014** | 2013 | 2012 | **2014** | 2013 | 2012 |
| **Natural gas sales** | **259,266** | 179,626 | 177,984 | **1,004,856** | 675,548 | 879,864 |
| **Funds from operations** | **9,170** | (63,332) | (91,733) | **357,689** | 73,969 | 146,061 |
| Per share - basic and diluted | **0.01** | (0.04) | (0.05) | **0.20** | 0.04 | 0.08 |
| **Net income (loss)** | **176,895** | (399,092) | (110,129) | **251,852** | (319,190) | 83,021 |
| Per share - basic and diluted | **0.10** | (0.22) | (0.06) | **0.14** | (0.18) | 0.05 |
| **Total assets** | | | | **16,275,219** | 15,835,524 | 16,418,202 |
| **Total liabilities** | | | | **2,736,196** | 2,474,096 | 2,632,378 |
| **Working capital** | | | | **1,292,291** | 1,415,725 | 1,548,935 |

The Company has experienced significant growth in natural gas sales and funds from operations in 2014 compared to 2013 and 2012. This growth is attributed mainly to the increase in natural gas commodity prices and increased efficiency from field operations over the past two years. A reduction of natural gas production costs in 2014 also resulted in increased funds from operations compared to 2013 and 2012. The Company had a net loss in 2013 mainly due to asset impairments recorded on its natural gas properties due to declines in commodity prices and limited capital activity in these areas to maintain reserves. Management and the Board of Directors have determined the drilling and development of natural gas properties to be uneconomical in current market conditions. However, the Company recorded a reversal of previous impairment losses of $371,784 mainly as a result of improved forecasted natural gas prices and revisions in the assumptions used in the impairment test based on a decrease in the Company’s cost of capital compared to 2013. Working capital decreased in 2014 due mainly to $416,299 of capital expenditures for geophysics and drilling costs incurred on the Company’s 100%-owned Cedartree Lake mineral property.

## PRODUCTION

| | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Annual production (MMBtu) | **(26,751)** | 39,712 | (167) | **(243,995)** | 20,241 | (1,305) |
| Average daily production (MMBtu/d) | **366,888.0** | 393,639.0 | (7) | **230,146.0** | 474,141.0 | (51) |

Daily production volumes in 2014 were consistent with those of 2013. The Company monitors current and forecasted natural gas commodity prices and manages production volumes accordingly.

## REVENUE

| | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Natural gas sales ($CDN) | **259,266** | 179,626 | 44 | **1,004,856** | 675,548 | 49 |
| Average sales price ($CDN/MMBtu) | **5.09** | 3.31 | 54 | **5.19** | 3.49 | 49 |

Revenue totaled $259,266 for the fourth quarter of 2014, up 44% from $179,626 in the comparative period. For the year, revenue increased 49% to $1,004,856 in 2014 from $675,548 in 2013. The increase in revenue was mainly due to increases in natural gas commodity prices and increased efficiency from field operations.

The following table outlines the Company's realized wellhead prices and industry benchmarks:

| COMMODITY PRICING | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Natural gas** | | | | | | |
| Corporate price ($CDN/MMBtu) | **5.09** | 3.31 | 54 | **5.19** | 3.49 | 49 |
| NYMEX Henry Hub Spot Rate | **5.72** | 3.52 | 62 | **4.37** | 3.01 | 45 |
| **Exchange rate** | | | | | | |
| CDN/US dollar average exchange rate | **0.9060** | 0.9918 | (9) | **0.9496** | 0.9988 | (5) |

Differences between corporate and benchmark prices can be the result of quality differences (higher or lower heat content natural gas) included in reporting, geographic location and various other factors. The Company's differences are mainly due to of geographical location "basis points" which result in prices higher than NYMEX Henry Hub reference prices. The Company's corporate average natural gas price was 118.7% of NYMEX Henry Hub price for the fiscal year ended March 31, 2014, respectively, up from 115.7% for the year ended March 31, 2013.

Future prices received from the sale of the products may fluctuate as a result of market factors. In addition, the Company may enter into commodity price contracts to manage future cash flows.

At March 31, 2014, the Company had the following commodity price contracts outstanding:

| Period | Purchaser | Daily Volume | Contract Price |
|---|---|---|---|
| April 1, 2014 through October 31, 2014 | Energy Source | 100 MMBtu | $5.20 CDN/MMBtu |

| ROYALTIES | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Royalties paid ($CDN) | **22,853** | 22,316 | 2 | **89,953** | 66,186 | 36 |
| Average royalty rate (% of sales) | **8.8%** | 12.4% | (29) | **9.0%** | 9.8% | (9) |

The Company pays royalties to land owners, which may be individuals or companies that own surface or mineral rights. Royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis. For the year ended March 31, 2014 the overall effective royalty rate 9.0% compared to 9.8% in 2013.

| PRODUCTION EXPENSES | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Production expenses ($CDN) | **180,492** | 186,182 | (3) | **377,540** | 378,287 | (0) |
| Production expenses ($CDN/MMBtu) | **3.54** | 3.43 | 3 | **1.95** | 1.95 | (0) |

Per unit production expenses for the year ended March 31, 2014 were $1.95/MMBtu, consistent from with 2013. The Company continues to focus on opportunities to maintain operational efficiencies to enhance operating netbacks.

| TRANSMISSION TARIFFS | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Transmission tariffs ($CDN) | **12,377** | 12,973 | (5) | **52,525** | 43,315 | 21 |
| Transmission tariffs ($CDN/MMBtu) | **0.24** | 0.24 | 2 | **0.27** | 0.22 | 21 |

Transmission tariffs are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. For the year ended March 31, 2014 transmission expenses increased 21% to $0.27/MMBtu from $0.22/MMBtu in 2013. The increase is as a result of additional delivery tariffs levied by Spectra Energy (Union Gas) during the year.

| OPERATING NETBACK | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Natural gas ($CDN/MMBtu)** | | | | | | |
| Natural gas sales | **5.09** | 3.31 | 54 | **5.19** | 3.49 | 49 |
| Royalties paid | **(0.45)** | (0.41) | 9 | **(0.46)** | (0.34) | 36 |
| Production expenses | **(3.54)** | (3.43) | 3 | **(1.95)** | (1.95) | (0) |
| Transmission tariffs | **(0.24)** | (0.24) | 2 | **(0.27)** | (0.22) | 21 |
| Operating netback | **0.85** | (0.77) | (211) | **2.51** | 0.97 | 159 |

For the year ended March 31, 2014, Metalore generated an operating netback of $2.51/MMBtu compared to $0.97/MMBtu in 2013. The increase is due to higher natural gas commodity prices and a reduction in production expenses.

The following is a reconciliation of operating netback per MMBtu to net income (loss) per MMBtu for the periods noted:

| | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| ($CDN/MMBtu) | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Operating netback** | **0.85** | (0.77) | (211) | **2.51** | 0.97 | 159 |
| Depletion and depreciation | **(1.83)** | (1.88) | (3) | **(1.71)** | (1.65) | 3 |
| Impairment reversal (charge) | **7.30** | (8.24) | (189) | **1.92** | (2.31) | (183) |
| General and administrative expenses | **(0.91)** | (0.54) | 69 | **(1.01)** | (0.92) | 9 |
| Share based compensation | **-** | - | - | **(0.10)** | - | - |
| Accretion | **0.02** | (0.04) | (140) | **(0.02)** | (0.04) | (35) |
| Gain on disposal of marketable securities | **1.83** | 0.66 | 177 | **0.55** | 1.12 | (51) |
| Investment income | **0.22** | 0.13 | 68 | **0.34** | 0.33 | 3 |
| Royalty income | **0.02** | 0.01 | 39 | **0.01** | 0.01 | 71 |
| Deferred income tax (expense) recovery | **(4.03)** | 3.32 | (221) | **(1.19)** | 0.85 | (241) |
| **Net income (loss)** | **3.47** | (7.35) | (147) | **1.30** | (1.65) | (179) |

| DEPLETION AND DEPRECIATION | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Depletion and depreciation ($CDN) | **93,000** | 102,102 | (9) | **330,000** | 319,602 | 3 |
| Depletion and depreciation ($CDN/MMBtu) | **1.83** | 1.88 | (3) | **1.71** | 1.65 | 3 |

The Company calculates depletion on natural gas properties and equipment based on proved plus probable reserves. For the year, depletion and depreciation was $1.71/MMBtu in 2014, consistent with depletion and depreciation of $1.65/MMBtu in 2013.

| ASSET IMPAIRMENT (REVERSAL) | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Asset impairment (reversal) ($CDN) | **(371,784)** | 447,975 | (183) | **(371,784)** | 447,975 | (183) |
| Asset impairment (reversal) ($CDN/MMBtu) | **(7.30)** | 8.24 | (189) | **(1.92)** | 2.31 | (183) |

Exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGU") for purposes of impairment testing. Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For property and equipment, an impairment is recognized if the carrying value of a CGU exceeds the greater of its fair value less costs to sell or value in use.

There were no indicators of impairment of the Company's mineral property exploration and evaluation assets at March 31, 2014 or March 31, 2013.

Due to weakening forecasted natural gas prices and limited capital expenditures during 2013 to maintain reserve values for the Company's Southwestern Ontario natural gas properties, the Company recorded property and equipment impairments of $447,975 related to this CGU during the fourth quarter of the year ended March 31, 2013. However, the Company recorded a reversal of previous impairment losses of $371,784 mainly as a result of improved forecasted natural gas prices and revisions in the assumptions used in the impairment test based on a decrease in the Company's cost of capital compared to 2013.

| SHARE BASED COMPENSATION | Three Months Ended March 31 | | | Year Ended March 31 | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Share based compensation ($CDN) | **-** | - | - | **18,439** | - | - |
| Share based compensation ($CDN/MMBtu) | **-** | - | - | **0.10** | - | - |

For the year ended March 31, 2014 the Company granted a total of 33,000 stock options to directors of the Company under the terms of the Stock Option Plan, with each such option fully vesting three (3) months from the date of grant. The Company calculates the related share based compensation using the Black-Scholes option pricing model. The Company recognizes the expense over the individual vesting periods for the graded vesting awards and estimates a forfeiture rate at the date of grant and updates it throughout the vesting period.

### DEFERRED INCOME TAX EXPENSE

Deferred income tax expense on the income before taxes was $231,200 in 2014 (2013 – $164,200 recovery). This was larger than expected by applying the statutory tax rate to the loss before taxes due mainly to a change in the statutory income tax rate.

### FUNDS FROM OPERATIONS

Funds from operations for the year ended March 31, 2014 were $357,689 ($0.20 per share) compared to $73,969 ($0.04 per share) for the year ended March 31, 2013. The increase was mainly due to a significant increase in revenue in 2014 as a result of an increase in natural gas commodity prices and a reduction in production expenses.

The following is a reconciliation of cash flow from operating activities to funds from operations for the periods noted:

| | **Three Months Ended March 31** | | | **Year Ended March 31** | | |
|---|---|---|---|---|---|---|
| ($CDN) | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Cash flow from operating activities (GAAP) | **(26,751)** | 39,712 | (167) | **314,824** | 77,991 | 304 |
| Add back: | | | | | | |
| Decommissioning expenditures | **-** | - | - | **-** | - | - |
| Change in non-cash working capital | **35,921** | (103,044) | (135) | **42,865** | (4,022) | (1,166) |
| Funds from operations (non-GAAP) | **9,170** | (63,332) | (114) | **357,689** | 73,969 | 384 |

### NET INCOME (LOSS)

The Company had net income of $251,852 for the year ended March 31, 2014 compared to a net loss of $319,190 for the year ended March 31, 2013. In addition to increased revenue from natural gas sales and a reduction in production expenses, the Company recorded a reversal of previous asset impairments on its natural gas properties of $371,784 mainly as a result of improved forecasted natural gas prices and revisions in the assumptions used in the impairment test based on a decrease in the Company's cost of capital compared to 2013. The 2013 impairments were due mainly to declines in commodity prices and limited capital activity in these areas to maintain reserves. The remaining accumulated impairment losses may be reversed in subsequent periods if there are changes in the estimates used to determine the recoverable amount of these assets. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

### DIVIDENDS

In the year 2000, Metalore commenced the payment of annual dividends to shareholders (subject to applicable law). Metalore paid its fourteenth consecutive annual dividend during the year ended March 31, 2014 on December 19, 2013 to all Shareholders of Record on November 26, 2013. Due to lower natural gas prices in 2012 and 2013, the dividend was reduced to $0.04 per share.

### CAPITAL EXPENDITURES

During the year ended March 31, 2014 the Company continued to evaluate its 100%-owned Cedartree Lake mineral property for occurrences of gold and other minerals. The Company incurred $357,637 of geophysics and drilling costs related to this property in 2014 compared to $95,448 in 2013. The Company incurred costs of $2,205 on its 21-26% owned Brookbank property in 2014 compared to $40,890 in 2013. The Company also incurred capital expenditures on its natural gas properties of $135,230 in 2014 compared to $183,030 in 2013. A large proportion of the expenditures for the year ended March 31, 2014 related to the expansion of the Company's pipelines and delivery systems associated with direct field line customers.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $1,292,291 at March 31, 2014 compared to working capital of $1,415,725 at March 31, 2013. The decrease of $123,434 was due to $495,073 used for capital expenditures described above and the payment of dividends of $71,065, offset by funds from operations of $357,689.

The ongoing global economic conditions have continued to impact the liquidity in financial and capital markets, restrict access to financing, and cause significant volatility in commodity prices. Despite the economic downturn and financial market volatility, Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow from operations. Metalore's capital program is flexible and can be adjusted as needed based upon the current economic environment. The Company will continue to monitor the economic environment and the possible impact on its business and strategy and will make adjustments as necessary.

## OUTSTANDING SHARE DATA

The Company is authorized to issue 4,000,000 common shares. The common shares of the Company trade on the TSX under the symbol "MET". The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

| | March 31, 2014 |
|---|---|
| Common shares | 1,775,035 |
| Stock options | 33,000 |
| Total | 1,808,035 |

## CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at March 31, 2014:

| ($CDN) | Total | Less than One Year | One to Three Years | After Three Years |
|---|---|---|---|---|
| Decommissioning obligations | 133,291 | - | - | 133,291 |
| Natural gas royalties | 320,000 | 80,000 | 240,000 | - |
| Natural gas leases | 40,000 | 10,000 | 30,000 | - |
| Total contractual obligations | 493,291 | 90,000 | 270,000 | 133,291 |

Natural gas royalties are based upon minimum estimated natural gas production. Natural gas leases are based upon estimated leases necessary to maintain core production areas. Estimates of these costs have not been made beyond four years.

## CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates, judgments, and assumptions in the application of IFRS that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended. Certain of these estimates may change from period to period resulting in a material impact on the Company's results from operations, financial position, and change in financial position. The following summarizes the Company's significant critical accounting estimates.

### Natural gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the amount of the Company's natural gas reserves at least annually. Reserves form the basis for the calculation of depletion and assessment of impairment of natural gas assets. Reserves are estimated using the definitions of reserves prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Proved plus probable reserves are defined as the estimated quantities of natural gas that geological and engineering data demonstrate a 50 percent probability of being recovered at the reported level. Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment, and are subject to change as additional information becomes available. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance, or changes in the Company's plans.

### Impairment testing

*Exploration and evaluation assets*
Exploration and evaluation assets are assessed for impairment (i) if sufficient data exists to determine technical feasibility and commercial viability, (ii) if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and (iii) upon transfer to property and equipment. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs. Impairment tests by their nature involve estimates and judgment, which for exploration and evaluation assets include estimates of proved and probable reserves found, the market value of undeveloped land, and future

development plans. Metalore allocated its exploration and evaluation assets to specific CGUs for the purpose of impairment testing.

*Property and equipment*
For the purpose of impairment testing, items of property and equipment, which includes natural gas development and production assets, are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The Company uses fair value less costs to sell for its impairment tests which is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. The significant estimates and judgments include proved plus probable reserves, the estimated value of those reserves, including future commodity prices, the discount rate used to present value the estimated future cash flows, and other assumptions that an independent market participant may take into account, including acquisition metrics of recent transactions for similar assets.

**Decommissioning obligations**

Decommissioning obligations are estimated based on existing laws, contracts, or other policies. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and changes in the risk-free rate. The increase in the provision due to the passage of time is recognized as accretion whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

**Share based compensation**

Measurement of compensation cost attributable to the Company's share based compensation plan is subject to the estimation of fair value using the Black-Scholes option pricing model. The valuation is based on significant assumptions including the estimated forfeiture rate, the expected volatility (based on the weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instrument (based on historical experience and general information), the expected dividends, and the risk free interest rate (based on government bonds).

**Deferred income taxes**

The determination of the Company's income taxes requires interpretation of complex laws and regulations. Tax interpretations, regulations, and legislation in the jurisdiction in which the Company operates are subject to change. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

**NEW ACCOUNTING STANDARDS AND FUTURE CHANGES IN ACCOUNTING POLICIES**

In May 2013, the IASB issued amendments to IAS 36, Impairment of Assets, which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on April 1, 2014 and the adoption will only impact disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

The IASB has undertaken a three-phase project to replace IAS 39, Financial Instruments: Recognition and Measurement, with IFRS 9, Financial Instruments. In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

## REGULATION COMPLIANCE

Metalore has complied with all filing requirements pursuant to National Instrument 51-101 (Standards for Disclosure for Oil and Gas Activities) by filing forms 51-101 F1, F2 and F3 with SEDAR.

## RISK ASSESSMENT

The acquisition, exploration, and development natural gas and mineral properties involves many risks common to all participants in the natural gas and mining industries. Metalore's exploration and development activities are subject to various business risks such as unstable commodity prices, interest rate and foreign exchange fluctuations, the uncertainty of replacing production and reserves on an economic basis, government regulations, taxes, and safety and environmental concerns. While management realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

### Reserves and reserve replacement

The recovery and reserve estimates on Metalore's natural gas properties are estimates only and the actual reserves may be materially different from that estimated. The estimates of reserve values are based on a number of variables including price forecasts, projected production volumes and future production and capital costs. All of these factors may cause estimates to vary from actual results.

Metalore's future natural gas reserves, production, and funds from operations to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Metalore's reserves will depend on its abilities to acquire suitable prospects or properties and discover new reserves.

To mitigate this risk, Metalore has assembled a team of experienced technical professionals who have expertise operating and exploring in areas the Company has identified as being the most prospective for increasing reserves on an economic basis. To further mitigate reserve replacement risk, Metalore has targeted a majority of its prospects in areas which have multi-zone potential, year-round access, and lower drilling costs and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves. In particular, the Company has consistently drilled its new wells on ultra-wide spacing patterns to minimize the year-to-year decline and maximize longevity of production.

### Operational risks

Metalore's operations are subject to the risks normally incidental to the operation and development of natural gas properties and the drilling of natural gas wells. Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property.

### Financial instruments

The Company classified the fair value of its financial instruments at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

• Level 1 – observable inputs, such as quoted market prices in active markets
• Level 2 – inputs, other that the quoted market prices in active markets, which are observable, either directly or indirectly
• Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumption

The fair value of derivative contracts used for risk management as shown in the statement of financial position as at March 31, 2014 is measured using level 2. During the year ended March 31, 2014, there were no transfers between level 1, level 2, and level 3 classified assets and liabilities.

***Market risk***

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

*Foreign exchange risk*
The prices received by the Company for the production of natural gas are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company currently does not have any foreign exchange contracts in place.

*Interest rate risk*
The Company's exposure to interest rate risk is minimal as there are no outstanding loans or interest-bearing debts.

*Commodity price risk*
Natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's natural gas production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. In addition, the Company may enter into commodity price contracts to manage future cash flows.

***Credit risk***

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers in the natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. The Company does not typically obtain collateral from petroleum and natural gas marketers. However, receivables are typically collected within 30 days and historically, the Company has not experienced any collection issues with its petroleum and natural gas marketers. Consequently, the Company's exposure to credit risk is minimal.

The maximum exposure to credit risk is represented by the carrying amount of accounts receivable on the statement of financial position. At March 31, 2014, $150,046 or 100% of the Company's outstanding accounts receivable were current. During the year ended March 31, 2014, the Company did not deem any outstanding accounts receivable to be uncollectable.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company maintains the majority of its current assets in cash, cash equivalents, and highly liquid marketable securities.

**Safety and Environmental Risks**

The oil and natural gas industry is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with natural gas operations. Metalore is committed to meeting and exceeding its environmental and safety responsibilities. Metalore has implemented an environmental and safety policy that is designed, at a minimum, to comply with current governmental regulations set for the oil and natural gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Environmental and safety updates are presented and discussed at each Board of Directors meeting. Metalore maintains adequate insurance commensurate with industry standards to cover reasonable risks and potential liabilities associated with its activities as well as insurance coverage for officers and directors executing their corporate duties. To the knowledge of management, there are no legal proceedings to which Metalore is a party or of which any of its property is the subject matter, nor are any such proceedings known to Metalore to be contemplated.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators.

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company evaluated its disclosure controls and procedures for the year ended March 31, 2014. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal controls over financial reporting include those policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and disposition of the assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the annual financial statements or interim financial statements.

The Company evaluated the effectiveness of its internal controls over financial reporting as of March 31, 2014. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework issued in 1992. Based on their evaluation, the Company's CEO and CFO have identified weaknesses over segregation of duties. Specifically, due to the limited number of finance and accounting personnel at the Company, it is not feasible to achieve complete segregation of duties with regards to certain complex and non-routine accounting transactions that may arise. This weakness is considered to be a common deficiency for many smaller listed companies in Canada. Notwithstanding the weaknesses identified with regards to segregation of duties, the Company concluded that all other of its internal controls over financial reporting were effective as of March 31, 2014. No material changes in the Company's internal controls over financial reporting were identified during the most recent reporting period that have materially affected, or are likely to material affect, the Company's internal controls over financial reporting.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors, or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. As a result of the weaknesses identified in the Company's internal controls over financial reporting, there is a greater likelihood that a material misstatement would not be prevented or detected. To mitigate the risk of such material misstatement in financial reporting, the CEO and CFO oversee all material and complex transactions of the Company and the financial statements are reviewed and approved by the Board of Directors each quarter. In addition, the Company will seek the advice of external parties, such as the Company's external auditors, in regards to the appropriate accounting treatment for any complex and non-routine transactions that may arise.

## FORWARD-LOOKING INFORMATION

This document contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance" and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this MD&A contains forward looking statements and information relating to the Company's risk management program, natural gas production, capital programs and natural gas commodity prices. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities, and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs, and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty, and environmental legislation. The forward-looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

## ADDITIONAL INFORMATION

Additional information related to the Company, including the Company's Annual Information Form (AIF), may be found on the SEDAR website at www.sedar.com and at the Company's website located at www.metaloreresources.com.

METALORE RESOURCES LIMITED

*"Between Successes"*