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Inlet Resources Ltd. (INL-V)

HRA initiated coverage in SD #544 @ \$0.13

Inlet Resources (soon to be renamed) is the product of a merger between Inlet Resources and Citation Resources. The merger brings together a strong financing team and a company in need of money with a large lightly explored project in one of the hottest exploration destinations in the current market. I looked at Citation a year ago and, while its project was early stage, it looked very promotable given the location in the heart of the Guerrero gold belt. For whatever reason CIT couldn't complete the funding to move the project forward. That issue was solved when Citation merged with Inlet Resources, a company with a strong management team with good financing capabilities. Inlet has a much tighter share structure, \$1.5 million on hand and agreed to raise another \$1.5 as part of the merger. That is more than enough to carry out the recommended maiden drill program at the flagship Biricu project in Guerrero State Mexico.

Inlet is a drill speculation at this stage. The recognition of a trend of intrusives similar to those that acted as heat engines for gold/copper mineralized systems on nearby properties as well as skarn, marble and hornfels alteration indicate a good hunting ground. That said, these are blind targets so this is not a low risk enterprise. What attracts me is nearby deposits of significant size found in similar lithology under similar conditions. Success stories in the trend add speculative appeal and work programs by neighbors Minarum and Osisko (especially the later) should increase the visibility of the Biricu project. Inlet has drill permits in hand and access agreements from most Ejidos signed. The fact that Inlet has increased this size of its merger concurrent placement twice (and word on the street is its still oversubscribed) tells me there is speculative appetite here. A promotional push in advance of drilling should be able to re-price the stock and 7000+ metres of drilling means plenty of news. There is good potential here to trade down your costs as drilling begins and the market strengthens later in Q3.

Accumulate in the current range in advance of the maiden Biricu drill program and increased promotional efforts by new management.

OVERVIEW

My initial interest in Inlet was really an interest in its flagship project which was then controlled by Citation Resources. I was looking at early stage projects in the Guerrero gold trend and noticed Biricu. It's a fairly

large and strategically located project. At the time I couldn't (and still can't) understand why Citation was unable to raise money for it.

Whatever the reason, Citation never got cashed up so I put the idea aside until the merger with Inlet was an-

nounced. Inlet was effectively a shell controlled by a management group with past successes in the resource sector and good fund raising ability. That is quite important. Biricu protects targets that are largely blind so you want to go big or go home with the first phase or

two of drilling. Funding ability is a necessity.

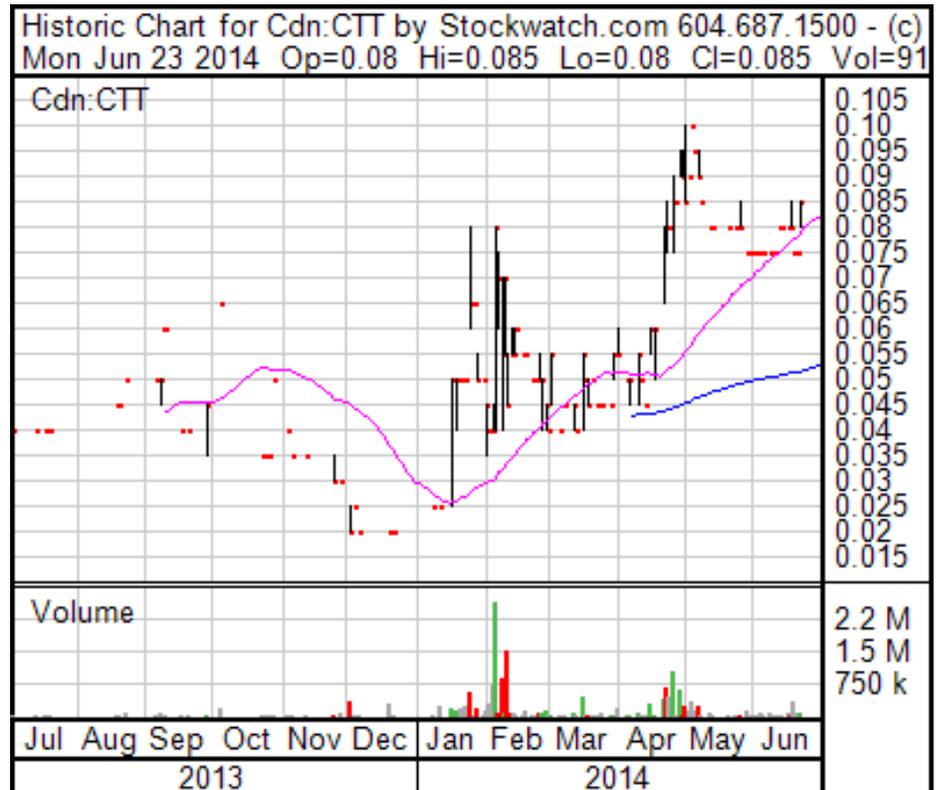
With the merger and financing completed INL will be able to fund the initial 7500 metre program with plenty to spare. I expect the drill start to come in August. Drill results should arrive through what should be a good fall market. As importantly, I expect Inlet management will put significant effort into marketing the company and it's a very salable story. There is potential for good gains on that basis alone given the attraction of Guerrero for resource traders.

CORPORATE SUMMARY

Both companies that now comprise Inlet Resources were largely inactive until recently; Citation due to lack of funding and Inlet by choice. Note that the chart on this page is for Citation as it's the stock with trading volume. When HRA initiated coverage in April in SD #544 CTT was trading at a large discount to INL based on the merger ratio (and was actually trading) so that was the stock recommended.

Citation was a former tech deal that switched to resources in 2010 and optioned a 100% interest in the Biricu project in 2011.

While its former tech deal didn't work out it did leave the company cashed up. Those funds were expended



through 2012 and 2013 completing the initial work programs at Biricu. By late 2013 CTT was faced with raising funds for a major drill program in an unforgiving market. Management worked through the process

of getting access approvals and drill permitting, receiving a permit from SEMARNAT in April.

Inlet also came out of past activities with a cash balance. INL has been largely inactive for several years as management looked for a new opportunity. When the merger was announced in April INL had cash on hand of just over \$1.5 million.

In April, the two companies agreed to merge. CTT shareholders will receive one INL share for each two CTT shares tendered. Both companies held meetings on June 30th where the merger resolution was passed.

I expect the company to trade as a merged entity starting about July 8th. There will be a name change

Briefing Book (amounts in \$CAD)

Inlet Resources Ltd.

Listed: TSXV: INL

Share Issue: * 52 MM; 69 MM F.D.
Share Float: 45 MM

Working Capital: \$3.5 MM;*
\$7.8 MM F.D.

52 Week High-Low: \$0.29-0.11
Recent Price: \$0.20
1 mo Av Daily Volume: 70,000 shs.

Phone #: 1-604-605-0777

E-mail: info@inlet-resources.com

Website: inlet-resources.com

* Assumes completion of merger and \$2.25 million financing.

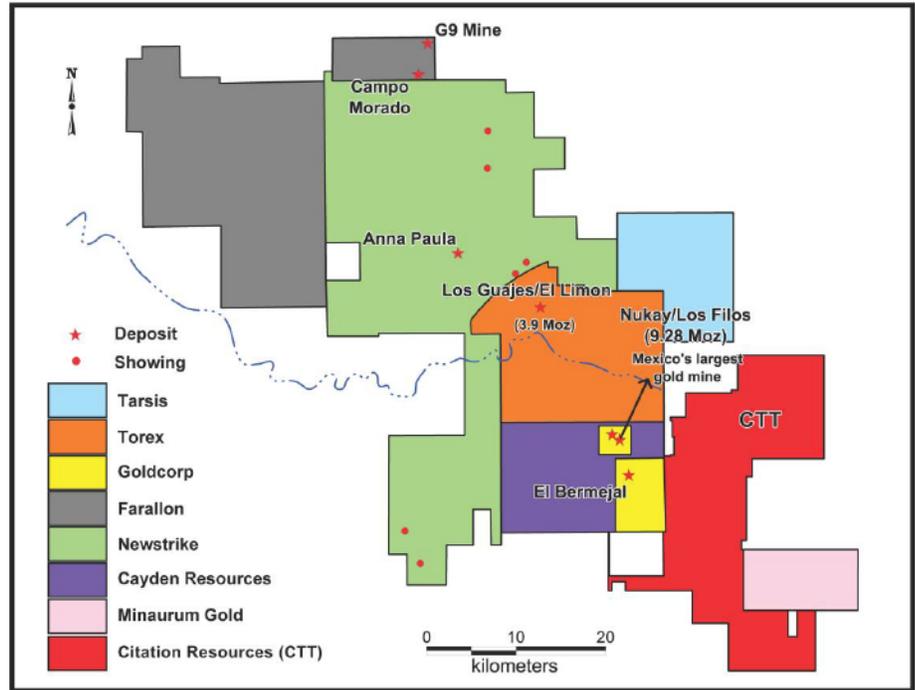
as well to something with “Guerrero” in it but this has not been finalized. Inlet agreed to complete a concurrent financing of \$1.5 million of 15 cent units (1 share + 1 25 cent warrant) as part of the merger agreement.

Since the merger announcement the financing size has been increased twice and is now set at \$2.25 million. Even with the 50% increase I’m told the issue is over-subscribed. Combined with cash on hand for both companies Inlet will have close to \$4 million to work with post-merger. This should be more than enough to cover the drill program and other costs into 2015.

MANAGEMENT

The board of directors of the merged company will include three Inlet representatives and two former Citation directors.

David Baker, Director and CEO, has held those positions with Inlet for 10 years. Baker is an entrepreneur and financier who has several successful deals to his credit, the most relevant being Goldbrook Ventures. Goldbrook was a base metal explorer focused on the Raglan camp that was bought out by its Chinese JV partner in 2012 in a \$100 million all cash offer. He is also CEO of Source Resources which is exploring another skarn camp in Mexico.



J. Earl Terris, Director, is a retired marketing executive. He’s been involved in several public companies at the board level, including Source and Goldbrook. **Don Dybyk**, Director, is the third Inlet nominee. He’s a retired educator that has been involved in several resource deals at a board level over the years including Holmer Gold Mines and Masuparia Gold.

Matthew Watson, director, was the CEO of Citation before the merger. He is a lawyer by training who has been CEO of several public and private companies including other resource issuers.

Robert McMorran, the second Citation nominee is a financial professional who provides financial and administrative consulting to a number of public companies through his firm. He has

held directorships in a number of public companies in the resource and non-resource sectors.

While not a director or officer, the contributions of **J. David Jones** as a technical consultant are important to the development of the deal. Jones was Chief Geologist at Teck’s Nukay project in the mid-1990s and is credited with the discovery of the Los Filos deposit currently being mined by Goldcorp.

Regional models developed by Jones have been instrumental in the discovery of several other gold skarn deposited through the Guerrero district. Jones has overseen and directed the exploration efforts at Biricu and is responsible for development of the drill targets that appear in the next section of this report.

PROJECT SUMMARY

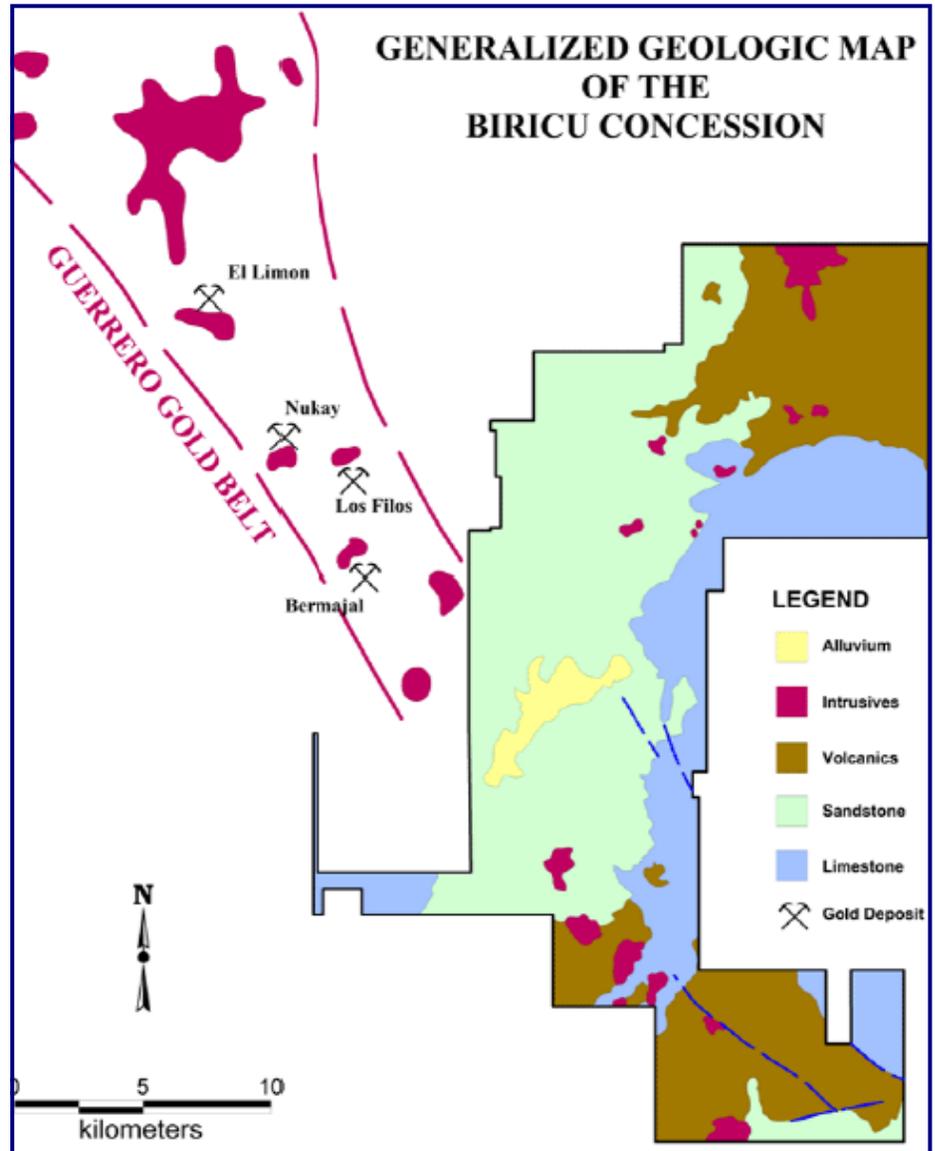
GUERRERO GOLD BELT:

The Guerrero Gold Belt (GGB) is an 80 km NW trending belt of intrusive centres. Those intrusives have been the heat engines for several important mineral systems that formed in surrounding reactive rocks. The belt is located in Guerrero State in SW Mexico, roughly 80 km NE of the port/resort city of Acapulco. Infrastructure is good through the region.

In some ways, the map above tells you everything you need to know about why HRA initiated coverage on INL. The claim map shows the major holders covering the Guerrero Gold Belt, with one important exception noted below. If you follow gold explorers you'll see several names you recognize. That isn't surprising as this belt has been the locale for several major discoveries in the past two decades.

Past production was focused on narrow high grade veins. That changed in the 1990s when the Mexican government auctioned a previous mineral reserve that covered much of the core of the belt and several majors including Teck, Penoles and Grupo Mexico began active exploration.

Concessions and companies changed hands several times over the next ten years as new skarn-hosted discover-



ies at Los Filos, El Limon, Bermajal and Nukay were announced and grown. In the past 20 years the discovered resources in the GGB have reached over 30 million ounces and the boundaries of the belt have expanded several times. New discoveries continue to be made and expanded. The GGB is truly one of the major success stories of this gold cycle.

The map on the previous page shows the large Biricu concession in red. It is on

trend to the SE from Los Filos and Bermajal discoveries. It contains the same lithology including a number of intrusive centres. It's one of the few concession holdings of size in the belt that has yet to be drilled. Virtually all other projects of similar scale in the belt have produced discoveries when sufficient exploration funds were applied.

One project that does not appear on the map will be important to the promotional story of the belt. Osisko

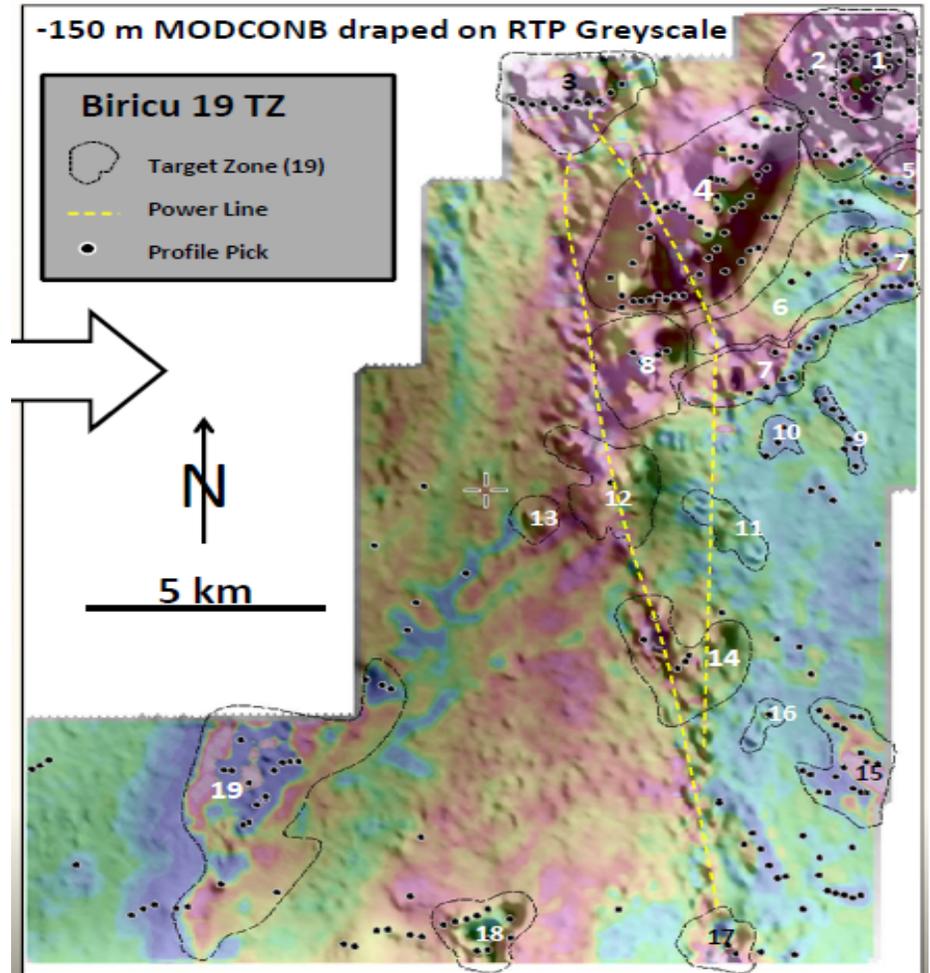
Royalties, the spin off company after Osisko's takeover earlier this year, owns a truly massive concession holding of close to one million hectares that stretches to the SE of the Biricu area.

OSK has been fairly quiet about its work here but did announce several discovery holes (2-3 grams over 50+ metres) last year. Osisko made a point of retaining its Guerrero project in the spin out company. Word is that Osisko is carrying out a very large drill program this year. The considerable promotional talents of Osisko's management could be a boon to other explorers in the belt.

THE BIRICU PROJECT:

Citation optioned a 100% interest in the 41,000 hectare Biricu project from Esperanza Resources in December 2011. To earn 100% CTT had to issue 1.05 million shares and complete \$4 million in exploration over four years and grant Esperanza a 2% NSR and \$10/ounce bonus on any gold resource discovered and included in a Bankable Feasibility Study. Completion of the option will require the issuance of 137,500 INL shares in December 2014 and 2015, \$1 million in exploration spending this year and \$2.25 million next year.

The small map on this page shows the generalized geology of the Biricu concessions. The important takeaways from this simplified map is the string of intrusive



centres on the project on trend with some of the major deposits in the belt and another set at the north end of the concession.

These Tertiary aged granodiorites intrude older limestones and reactive sandstones. While there is mineralization within the intrusives in some deposits most of the gold discovered in the GGB is located in the older reactive rocks in both prograde (proximal) and retrograde (distal) skarn. In some areas the gold is associated with ferrous skarn and the associated intrusive will contain enough magnetic minerals to generate mag highs in surveys.

In other deposit areas the zones are more closely associated with distal retrograde skarn style mineralization. The lower temperature clay and hornfels (in the sandstones) alteration has been successfully picked up in some areas with VTEM geophysical surveys.

You'll note there are a lot of qualifiers in the descriptions. While GGB is clearly a single "camp" there are subtle differences in the mineralization from place to place that demand different exploration techniques. Not all intrusives or skarn areas are magnetic and in many areas the mineralization is very

subtle or worse yet, blind.

In his descriptions of the exploration process in the GGB David Jones has stressed the importance of "mapping, mapping and more mapping".

If you're right on top of a deposit you may get a strong gold signature in rock and/or soil samples but even there the anomalies can be low level and subtle. Mapping intrusive contacts (where visible) and mapping and classifying alteration types to vector in on areas with the best chance to host mineralization is key. Obviously, having geochemical and/or geophysical anomalies associated with alteration increases the value of the target.

Over the past 30 months Citation completed an number of phases of targeting work at Biricu. This work included silt surveys to narrow down areas of interest, a 1400km airborne Magnetometer and VTEM survey, project wide mapping on highlighted areas with a focus on recognition of intrusive bodies and surface alteration and rock and soil geochemical surveys in selected areas.

The map above shows the results of the mag and VTEM survey. The magenta is high magnetic response and blue is low and the 19 targets generated by the VTEM are draped over it. Note that this survey excludes the NE and southernmost areas

of the concession group.

In general, there was more work done in the south and central portions of the concessions. There is targeting to do especially in the north-eastern part of the project but four main areas have been highlighted for the upcoming drill program.

The map on the next page shows the main target areas and the recommended drilling to test each of them. Jones feels the Biricu area is probably relatively high in the regional mineralized system. That helps explain the lack of outcropping mineralization and the average recommended hole length which is 500 metres. As noted before the targets should mainly be considered "blind". That obviously increases our risk but several of the recent discoveries in the region have little or no surface expression. A brief description of the target areas follows.

Punto Rojo:

Punto Rojo is located in the north central portion of the project and has excellent access as it straddles the main regional highway.

The target area is a 1km diameter porphyry diorite stock that is completely surrounded by Mezcala Fm sandstones and siltstones.

Large blocks of marbleized and skarned limestone as well as smaller blocks within the intrusion appear to have

originated at depth and been carried to surface by during explosive emplacement of the intrusive. The limestone appears to be Morelos Fm which lies below the Mezcala.

The limestone/marble blocks trapped in the intrusive show both pro and retro-grade alteration. The blocks and the surrounding intrusive contain anomalous gold values, up to 0.25 g/t in the blocks and 0.1 g/t in the intrusive. The persistence of gold values indicate good potential for higher grade within favorable rock units at depth that the blocks and fragments must have emanated from.

Geophysically, Punto Rojo lies at the SW end of a NNE linear trend of magnetic anomalies and there is a moderate EM target centered on the exposed porphyry. The NE extension of the trend will require more mapping to add target but Punto Rojo itself has six holes totaling 2500 metres recommended for Phase I.

Northern:

"Northern" is a shortened reference to the Punto Rojo Norte area, a five by two km NNE trend of jasperoid (high silica content rock formed by metamorphosis of limestone, often with high pyrite/hematite content) bodies roughly following the contact between Morelos limestones and Mezcala sandstones. The trend also contains a number of strong mag

anomalies which may reflect skarn deposits at depth. Surface alteration is similar to the Los Filos area and the target depth here is estimated at 100-400 metres. Phase I includes 2500 metres to test this area.

Milpillas:

Located near the eastern boundary in the center of the concessions, Milpillas consists

of several exposures of granodiorite porphyry with accompanying areas of skarn, hornfels, marble and iron oxide alteration. A number of rock samples here returned anomalous values up to 1.27 g/t gold. A small soil grid yielded a 400m² gold anomaly open in one direction. 1000 metres is planned for this area.

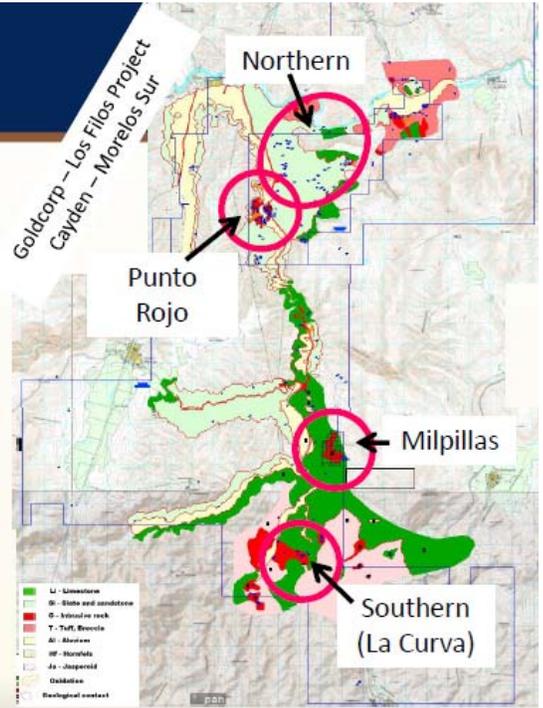
La Curva:

La Curva is located at the south end of the concessions and was not covered by the

2014 Drill Program
Prioritized Drill Target Areas

Proposed 7000m minimum first-round exploration drill program comprising:

1. Punto Rojo (TZ-8)
 - ◆ 6 drill holes ~2500m
2. Northern (TZ-4,6,7)
 - ◆ 5 drill holes ~2500m
3. Milpillas
 - ◆ 2 drill holes ~1000m
4. Southern (La Curva)
 - ◆ 2 drill holes ~1000m



airborne survey. The main target at Las Curva is a WNW-ESE trending contact between a granodiorite stock and Morelos carbonates. The area includes several exposures of magnetite-serpentine exoskarn and feruginous jasperoid. Rock sampling from this area returned up to 0.66 g/t gold. Jones notes that La Curva is considered a high priority target even without geophysics. The style and placement of the skarn/jasperoid alteration is appar-

ently virtually identical to the margin of the Los Filos deposit.

These are blind targets but highly regarded by the best known explorer in the region. In addition, there are large swaths of geology that still need to be worked up. I expect additional targets to be generated as these are drill tested, which gives the story some legs. Ω

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