Carlisle Goldfields – Snackfood for a new Alpha Predator

In the absence of anything exciting in the gold price arena (and the absence of any prospect thereof) the chief impetus for movement is takeover or merger rumours and so far this year that has been quite a bit of movement to stir the pulse of stocks that otherwise are merely waiting out the extended drought in mine financing. Carlisle Goldfields (TSX:CGJ | OTCQX:CGJCF) has received a kicker in recent weeks with the announcement of the merger of its largest shareholder, AuRico, with Alamos Gold. In the wake of meeting with the management in London last week, I shall look here at some of the ramifications.

The Gold Elephants' Mating Dance

Back in the middle of the month it was revealed that Alamos Gold (TSX:AGI | NYSE:AGI) had agreed a merger with AuRico Gold (TSX:AUQ | NYSE:AUQ) to turn two smaller mid-tier companies into a large mid-tier gold producer. The main assets are two long mine-life, cash flow-generating gold mines: AuRico's Young-Davidson mine in Ontario, Canada, and Alamos' Mulatos mine in Sonora, Mexico. The transaction was styled as a merger of equals with a transaction equity value of approximately US$1.5 billion. There is also going to be a SpinCo with various leftover pieces embedded in it. Interestingly the partners viewed the pre-existing AuRico stake in Carlisle as NOT one of the odd-and-sods and decided it would be kept as the potential pipeline for the main company.

Former Alamos and AuRico shareholders will each own approximately 50% of MergeCo (named Alamos Gold Inc.) and the shares of the SpinCo will be doled out pro-rata to existing shareholders of both companies. The deal is expected to close in June of this year.

The new entity will be no slouch in the gold producing rankings as it is expected to produce 375-425,000 oz of gold in 2015 in Mexico and Canada with the potential to grow organically to over 700,000 oz of gold annually. The development portfolio is anchored by quality, low-cost projects in Turkey as well as three projects in North America (Esperanza, Lynn Lake and Quartz Mountain). The company will also be cashed to the gills, as well as having cashflow, with a pro-forma cash position of US$427 million and net cash of US$94 million.

Of little relevance to Carlisle is the SpinCo, which will walk away with the Kemess project, a 1.5% NSR on the Young-Davidson mine, a 2% NSR on the Fosterville mine, a 1% NSR on the Stawell mine and US$20 million in cash.

From the Carlisle standpoint the most important thing (after not being chucked in the SpinCo hopper) is that the current representative of AuRico on the Carlisle board, Peter MacPhail (currently COO of AuRico) is going to segue over into the same role of COO at the merged group.

Why Carlisle Makes the Cut

To refresh the memory, Carlisle Goldfields is focused on development of its Lynn Lake Gold Camp in Lynn Lake, Manitoba. The company has NI 43-101 compliant mineral resource estimates on five deposits within its Lynn Lake Gold Camp, four of which form the basis for the December, 2013 PEA (Farley Lake, MacLellan, Burnt Timber, and Linkwood).

The main focus is the past-producing Maclellan Mine which has road access, power line, a head-frame, hoist house and shaft to 448 metres (with five levels), ramp access from surface to 420 metres below, maintenance building, core shack, vent raise, mine water settling ponds, and other mine infrastructure. The Maclellan Mine started production in July 1986 and closed in October 1989. Reported production amounted to 969,680 tonnes grading 5.36 g/t Au. Production was derived from four main zones. During mining, the deposit was accessible from surface by the central shaft and a ramp that passes through the Nisku Zone on the east side of the property. The shaft was used primarily for the hoisting of ore and limited movement of personnel. The ramp system was used for moving personnel, equipment, and supplies throughout the mine. Initially mining was by cut-and-fill methods. Difficulty in attaining production targets led to a change to long-hole mining but the increased production and lower mining costs were offset by lower mill-heads due to increased dilution. All of this has to be taken in the context that the gold price back then was a mere fraction of its current levels.

The Original AuRico Deal

The symbiotic relationship with AuRico dates back to November of last year when Carlisle announced that AuRIco was subscribing for 70.6 million common shares of Carlisle at a price of CAD$0.08 per share, for total consideration of approximately CAD$5.6mn This represented approximately 19.9% of the issued and outstanding common shares of Carlisle on a non-diluted basis.

At the same time, AuRico entered into a joint venture agreement with respect to the Lynn Lake Gold Camp under which AuRico acquired a 25% interest for an initial cash contribution of CAD$5mn, with the option to earn up to an additional 35% interest by funding CAD$20mn on the Project over a three-year period and delivering a feasibility study within that time period.

The PEA – Opting for Open Pit

Despite Maclellan having the entire underground infrastructure, Carlisle is contemplating working this deposit as an open pit. With this as the strategy, the company announced in February of last year, its revised PEA, prepared by Tetratech, for Maclellan and the neighbouring Farley mine. The results included a pre-tax Net Present Value at a 5% discount rate of $411mn with a pre-tax Internal Rate of Return of 34%. Initial capital costs came in at $185mn (including $35mn in contingencies). This was based on a conservative US$1100 gold price revenue model. The PEA envisaged:

- LOM Au production of 1.74 million oz and 1.59 million oz of silver
- LOM average head grade of 2.2 g/t Au

There will be a central milling facility with an initial milling capacity of 3,750 tpd in years 1-4 and ramping to full capacity of 7,500 tpd in year 5 of a 12-year mine.

Fortunately the company took the message from the tough financing environment and rejigged the PEA so that it came in with an initial capital cost approximately $90mn lower than that of the original 10,000 tpd PEA. The next phase is the expensive one of undertaking the feasibility study but at least the burden of that falls upon AuRico (and now Alamos).

With the PEA at least the Lynn Lake project has been "right-sized" in an age of gargantuan gold mines that struggle for profitability. It will be interesting to see whether the new owners (if Alamos move to bring Carlisle into the fold) will persist with the idea that Maclellan be pursued as an open pit (with the commensurate heavy stripping ratio) when all the underground is still in place. The Young-Davidson mine after all is an underground mine. Reviving Maclellan becomes more plug and play if an underground option is chosen. The interesting question is then raised as to whether the partners might not decide to chance tack on mine design earlier rather than later rather than waste time and money on a FS for an open pit when ultimately another course might be preferred by the bigger partner.

Conclusion

Being signaled as the favoured project in the pipeline of a newly-minted miner of size is not a bad thing in this day and age. The stake that Alamos has in Carlisle positions them to move in for the kill when the various triggers have been tripped and frankly, even at a takeout price of $100mn or thereabouts, Carlisle is small change for the new Alamos.

The mine-life at Lynn Lake, even with the current resource, is long and with lots of extra territory to explore and expand operations. Carlisle, either standalone or subsumed in Alamos, could have a whole mining district under its aegis.

The prospect of being taken out also raises the question of whether Carlisle should start looking for a further project itself so it too can create a SpinCo in the event of its takeout by Alamos or in the event that Alamos just decides to acquire the property rather than the company. This would leave Carlisle mightily cashed up. Abraham Drost does not look like a man ready to hang up his saddle. A cashed up Carlisle might become something of a predator itself..

Ecclestone provides Double Talk on Deflation

I heard a boggling thesis this week that went like this: “deflation is upon us devaluing all the currencies and by default favoring the US dollar and subsequently gold and silver”. I had to do a double take as I thought that gold was the hedge against inflation. Now it seems to do double duty as a universal cure-all in both inflation and deflation. The relevance of this is that the deflation scenario seems to be the titanic economic struggle of our times… well of the first few months of 2015 in the absence of any other hobby-horse for pundits to ride.

Much of the deflation argument rests upon one commodity alone and that is oil. Never has a major trend argument been based on such a thin premise. Late last week the benchmark West Texas Intermediate price for March delivery advanced US$1.21 (2.4%) to settle at US$51.69 per bbl. This came after a couple of days of strengthening which moved the price up nearly 10% from the previous week’s lows.

Across the Atlantic, Brent North Sea crude for March, the European benchmark, ended the week at $US57.80 a barrel, up US$1.23 from the previous day. These oil price moves could of course be merely a dead-cat bounce as the growing amount of oil in storage should act as a shock-absorber to any revived demand and slow down a recovery as the stored oil is wound-down. It should also be noted that the fickle markets had been worrying only a week ago that ample supplies and slowing global economic growth would send oil down even further. This should not be discounted. However if rumours that the US engineered the price retreat for geopolitical reasons then it has probably gone as far as it needs to go to inflict maximum pain without shooting its own newly attained oil independence in the foot.

“Slowing global economy” is all in the eye of the beholder as the closely watched US monthly jobs report came in much better than expected with the Labor Department reporting the US economy added 257,000 jobs in January and revised upward already healthy growth in the prior two months. The unemployment rate edged up to 5.7% from 5.6%, but that was in part because more people were actively seeking jobs, in itself another positive.

While Greece did not have much of a tidal pull on markets last week with mainly toing and froing between Athens and Berlin, the market had the chance to digest what is seemingly becoming an irrevocable breakdown. The announcement over the weekend that the government in Athens was going to hike wages and rehire thousands of dismissed public sector workers signals that there can be no deal. How this plays out is difficult to see with neither side wanting to be the one seen to have pushed the “ejector-seat” button. We suspect the Germans at least have a game plan for remedial action in the event of Greece’s exit we are not so sure that Greece has the same plan. The main concern of the core members of the Euro scheme will be that any Greek-quake does not produce a financial tsunami. If achieved without excessive ructions then markets will be considerably relieved. In any case the chance of contagion developing amongst the other weaker members of the Euro is much reduced from when the crisis started to evolve in the wake of the 2008 crash.

Gold and silver prices had a rough week with silver losing over one dollar per oz. Despite this InvestorIntel member Carlisle Goldfields added over 7% with ongoing positive vibes from its rollback.

So to conclude matters, and to return to the deflation theme, we now have the hardcore goldbugs arguing in the debate on inflation versus deflation that gold is the solution… heads you win and tails you win..

Carlisle Goldfield's Drost on "defying gravity" in the gold market

December 12, 2014 — In a special InvestorIntel interview, the Editor-in-Chief and Publisher Tracy Weslosky speaks with Abraham Drost – President, CEO and Director of Carlisle Goldfields (TSX: CGJ | OTCQX: CGJCF) about their recent joint venture with AuRico and how as Carlisle is "defying gravity" in the gold market.

Tracy Weslosky: You just announced a large strategic venture partnership with AuRico Gold. Can you tell our audience about this?

Abraham Drost: Certainly. The new transaction with AuRico, which was in the form of a private placement and a new joint venture on the Lynn Lake property, was part of a larger strategy to essentially resurrect Carlisle from what's happened in the recent market trend. In addition to the AuRico transaction, which I'll get to, we also were able to attract research coverage through Paradigm with a $0.27 price target and, of course, the change of management. Augmenting the management team was a key piece of that as well. Now we have three pieces in place and we're — and Carlisle is set to go forward. Now with respect to AuRico, we received a nice cash infusion at $0.08 a share, about 100% premium to the market at the time. In addition, AuRico has contracted to advance a feasibility study on the Lynn Lake project.

Tracy Weslosky: Okay. For all of those out there looking for companies that are defying gravity, Carlisle Goldfields is certainly accomplishing this mission. Of course, you have a 43-101 on five different projects in Lynn Lake. Is that correct?

Abraham Drost: I think what attracted AuRico to the Lynn Lake project was two projects in particular: the Maclellan and the Farley Lake deposits, which are past producers. In addition to that, prior to my coming on board, Carlisle produced 43-101 resource updates on three additional deposits. In addition to that, part of the deal, then, as I said, AuRico advances on feasibility, Carlisle advances on further exploration as operator of the exploration side of the equation. To do that the partners have agreed to fund $4 million a year into exploration over the next 3 years, the earn-in period, to advance on twenty additional gold occurrences that we know about in the belt, but we've never been funded to actually pursue and test to see, you know, what additional resources there might be.

Tracy Weslosky: Of course, they were probably attracted to your NPV which is nearly, what? $300 million?

Abraham Drost: Yes. On the two assets, the, as I mentioned, the Maclellan and the Farley Lake, there's an after tax NPV of $250 million dollars. I think one of the most exciting aspects of those particular deposits are the grade equation.

To access the rest of the video, click here

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Carlisle Goldfield's Lynn Lake joint venture with

AuRico Gold – a strong vote of confidence

Carlisle Goldfields Limited ('Carlisle', TSX: CGJ | OTCQX: CGJCF), which has full ownership of the Lynn Lake Gold Camp (Lynn Lake), a highly prospective 20,000 acre past-producing gold property that includes five near surface deposits backed by full infrastructure, has announced the establishment of a joint venture partnership with AuRico Gold Inc. ('Aurico', TSX: AUQ | NYSE: AUQ). Aurico Gold is a Canadian gold mining company with projects in Canada and Mexico (its core operations include the Young-Davidson gold mine in northern Ontario, and the El Chanate mine in Sonora State, Mexico).

Aurico will acquire a 25% interest in Lynn Lake, contributing an initial sum of CAD$ 5 million, while retaining an option to (earn additional 35% in interest) fund CAD$ 20 million over a three-year period, facilitating the completion of the feasibility study. Carlisle has completed a Preliminary Economic Assessment (PEA) using a conservative pricing estimate based on a USD$ 1,100/oz. gold price. Even at that price, **Carlisle would still enjoy a 34% internal rate of return**; these are favorable project economics, which have no doubt continued to drawing Aurico's attention.

Aurico has also subscribed for 70,600,000 common shares of Carlisle at a price of CAD$ 0.08/share (about CAD$ 5.6 million representing some 20% of Carlisle's issued and outstanding common shares of Carlisle on a non-diluted basis. Aurico's strategy is to target highly prospective mining assets in North America. Carlisle completed a preliminary economic assessment (PEA) for the Farley Lake project on April 15, showing intersections of 20.3g/t gold at over 6.0m of depth, which is higher than expected. The PEA covers two of the five deposits being explored by Carlisle and it suggests the project will be characterized by very favorable economics including a 34% internal rate of return and a very significant asset value of about CAD$ 250 million. Moreover, the mine itself has the potential to produce 145,000 ounces per year at an average grade of 2.2 grams, which makes it one of the highest grade open pit deposits in North America.

The idea that the cost of mining and producing gold (and silver) is too high to derive any meaningful profit from gold at prices below the current lowest acceptable 'floor' price (now USD$ 1,100/oz. – today it is trading at USD$ 1170/oz.) is a deeply rooted concept. However, based on the activities of some of the largest gold companies, such as Goldcorp, the price of gold will be rising rather than falling despite the high value of the US Dollar. Goldcorp's CEO, Chuck Jeannes, suggested that 2015 will see the rise of the phenomenon he unoriginally calls 'peak gold', quite simply a 'gold' equivalent of the theory of "peak oil" based on the fact that gold production is heading toward a decline rather than an increase; the decline will be slow but irreversible. "Whether it's this year or next year, I do not think we will ever see gold production reach those levels again," said Chuck Jeannes. This is because few new gold mines are being discovered and even fewer developed to any kind of potential. Moreover, some 70% of gold is being mined less for direct profit than as a way to finance the production of other wider market metals such as, for example, copper, zinc or even rare earths in some cases.

In the case of individual companies and gold juniors, this suggests that any investment, taken as a sign of confidence in the future, is significant and carries far more weight than its monetary value. In this optic, the fact that Aurico has invested in Carlisle suggests that the former Company's management has great confidence in the latter's ability to deliver a profitable project at the current, or any other, gold price.

Gold price catalyst for ‘mysterious stock performance’

Carlisle Goldfields Limited (‘Carlisle’, TSX: CGJ | OTCQX: CGJCF) says that it has no material explanation to account for the recent drop in its share price. On September 9, Carlisle stock reached a yearly low of CAD$ 0.03/share only to rebound to CAD$ 0.04/share on Wednesday and holding on to that level today, September 11.

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Gold prices have dropped to yearly lows, hovering around the USD$ 1,280/oz. mark. The market appears to be acting counter-intuitively; the summer of 2014 has been characterized by at least three major geopolitical crises: Ukraine, Islamic State (ISIS) and the war in Gaza. Indeed, the crises and the Russian switch away from US bonds to gold ingots (some USD$ 400 million of them in August alone) to retaliate against western sanctions should, and have, supported gold prices. Gold has proven its characteristic as a safe haven, in a context of geopolitical crises; however, gold has also been confronted with pressure from improving economic conditions in the United States, the all-time record highs of the S & P 500. Meanwhile, the good news from the US has come just as geopolitical tensions have started to ease, thanks to the recent truce between Russia and Ukraine, on the one hand, and between Israel and Hamas on the other. The markets have reacted generally favorably to President Obama's speech on September 10 outlining his government's strategy to confront the threat from ISIS. This has had the effect – temporary as it may be – of diminishing that threat and the markets need few excuses these days, it seems, to rally. In addition, this optimism has also focused investors' attention to the increasing strength of the dollar.

All eyes are on the outlook for monetary policy of the United States, since October marks the end of quantitative easing (QE) and is expected to prompt the Federal Reserve to raise interest rates in the first half of 2015. These factors have definitely halted the rise of gold prices – for the time being. The economic improvements from the US have gained momentum such that even the European Central Bank's decision to inject more liquidity into the financial system, cutting interest rates by 10 basis points, while launching its program to purchase Asset-backed securities (ABS) could not boost the gold price. This is because the ECB's actions have actually pushed the dollar to the highest level of the past 15 months, making gold – denominated in dollars – more expensive for investors who operate in currencies other than the dollar. Accordingly, this has made gold more expensive for Russia and China, which have been among the biggest gold buyers for geopolitical reasons – of the past summer. Therefore, traders see no compelling reasons to keep gold in their portfolios in the short term and prices appear to have found a base at USD 1,250 USD/oz or so. Nevertheless, the market highs are temporary. Geopolitical tensions are bound to increase again.

There is nothing resolved between Russia and Ukraine and new sanctions came into effect today against Russia, which has not shown any signs of relinquishing its authority over Crimea or what it sees as the pursuit of vital national interests in eastern Ukraine. The US strategy against ISIS and the related international efforts will be pointless without direct ground intervention and it is unclear how the markets will evaluate a 'return to Iraq', given all the risks this implies. There is also little permanent about the ceasefire in Gaza. The conditions leading to the war have not changed and a conflict could re-ignite at any time. Therefore, the chances for a gold rebound remain very high. Meanwhile, the World Gold Council (WGC) predicts that physical demand for gold (jewelry, coins and ingots, industrial uses) in China is expected to reach at least 1350 tons at the end of 2017 or some 20% higher than the record level of consumption in 2013. The WGC used fairly conservative economic assumptions (average growth rate of 6% over the 2014-2017 period), which means that Chinese gold demand could increase in larger proportions.