

Nigel Lees on Sage Gold's first delivery of mineralized material

Nigel Lees, President, CEO and Director of Sage Gold Inc. (TSXV: SGX) ("Sage Gold") in an interview with InvestorIntel Senior Editor, Peter Clausi discuss their first delivery of mineralized material from Clavos gold mine to McEwen Mining's Black Fox-Stock mill. The mineralized material that is being shipped to mill is broken up underground and was left by the previous owners, St. Andrews Goldfields, who spent \$65 million on the project. Sage Gold has access to all of the left mineralized materials at a very low cost. As for the next big event for Sage Gold, Nigel states they will start seeing revenue in the next few weeks. Nigel also discusses their deeper drilling program at Clavos.

Peter Clausi: Clavos is in northern Ontario near Timmins.

Nigel Lees: It is a gold mine which plus \$65 million dollars was being spent on it over the years. We have gone back into the workings, dewatering, rehabbing, definition drilling and we are now shipping mineralized material to the mill, which is 10 kilometers away called Stock Mill.

Peter Clausi: Who owns that mill?

Nigel Lees: That is McEwen recently bought that from Primero. We are lucky to be able to get a mill run in very early in the new ownership. We started dewatering at Clavos, which is the gold mine in Timmins, Ontario, in January of the year. We dewatered it almost down to 300 meters. There is 7 kilometers of underground workings. We have rehabilitated the underground...to access the complete interview, [click here](#)

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McEwen Mining – Regaining the Long-Lost Gold Mojo

Back at the end of last decade (yes, that long ago) we found ourselves confounded when investors rhapsodized to us about the virtues of a company that then carried the portentous and momentous title, US Gold. The attraction of this stock was supposedly that it was run by Rob McEwen, a Canadian mining entrepreneur that we were reliably informed could walk on water. Despite the claims we were never able to see this stunt performed.

What we did see was our beloved Minera Andes taken over followed by an unseemly and rancorous shoving match with Hochschild Mining over the San Jose mine, a long and turgid legal dispute with TNR Gold over its back-in rights over part of the Los Azules project and a bunch of Nevada gold “assets” that supposedly had Closeology going for them. With a billion dollar market cap and a pack of swivel-eyed loons as its most ardent supporters the stock had **Short** written all over it in letters as large as the Hollywood sign. The stock dutifully (and thankfully) drove off a cliff and we closed the theoretical position in our Model Portfolio and went off as happy campers. As for the embedded investors there was a long and painful wait as the chart below shows.



Peace eventually broke out in the relationship with Hochschild, while the Los Azules matter eventually played out the way TNR had hoped (and it converted its back-in right to an NSR and a payout in event of an asset sale). The name of US Gold was changed to distance the company from these assorted bun-fights and to trumpet ever louder the connection with Rob McEwen.

Never one to shirk from grand ambitions the company now has the goal to qualify for inclusion in the S&P 500 Index “by creating a high growth gold and silver producer focused in the Americas”. The company refers to Rob McEwen in its promotional materials as Chairman and Chief Owner, due to his holding of 25% of the company. “Chief Owner” is a neologism we have not heard before.

Back on Track

Up until its latest transaction McEwen Mining’s principal assets consisted of the San José mine in Santa Cruz, Argentina (49% interest), the El Gallo Gold mine and El Gallo Silver project in Mexico, the Gold Bar project in Nevada, the Timmins projects (some properties acquired from Lexam VG Gold) in Canada and the Los Azules copper project in Argentina.

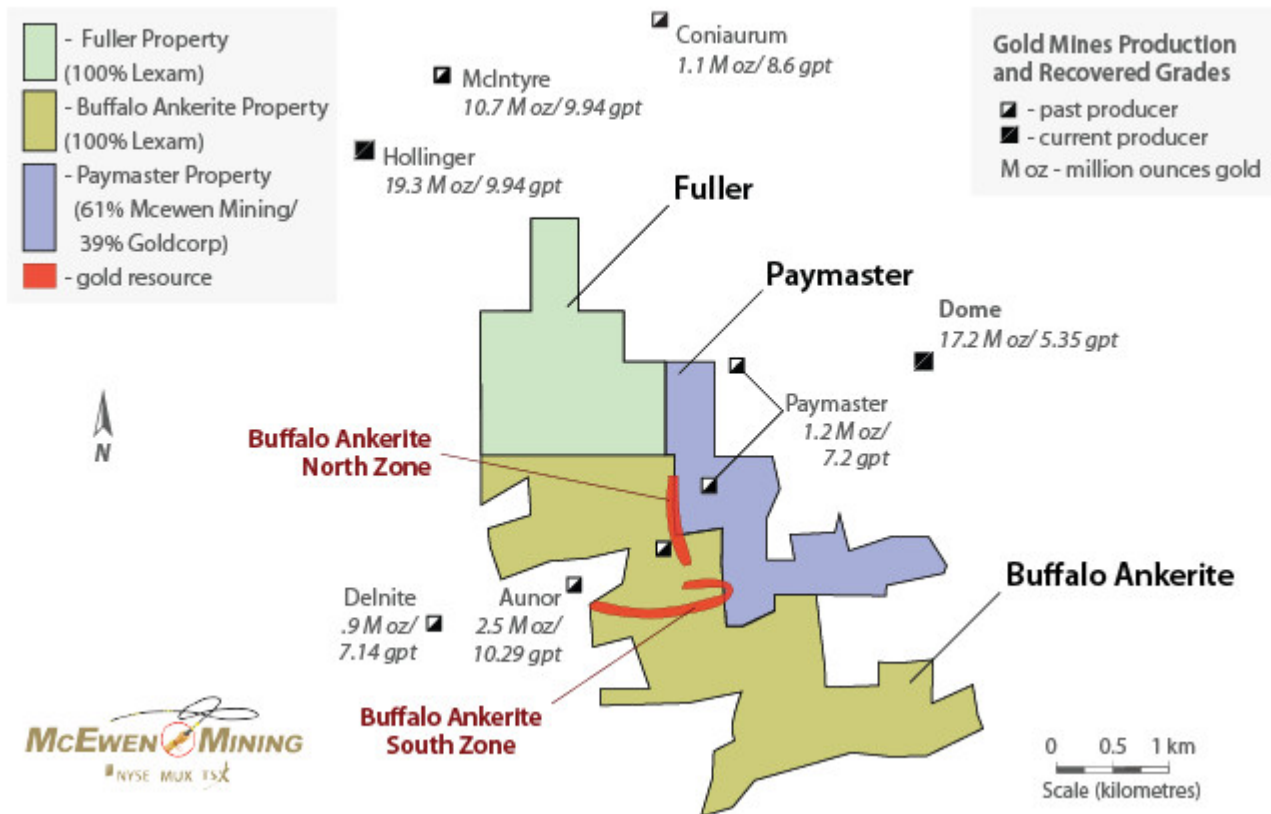
The Relevance for Sage

Sage watchers will recall that a key component in its plan is the deal to use the Black Fox processing complex to mill its output. This has recently been owned by Primero Mining which took the mill on from St Andrews Goldfields, which had previously operated the Clavos Mine that Sage Gold Inc. (TSXV: SGX) is reopening. Thus Sage is essentially bringing back together the scattered parts of a complex that made sense.

Primero though has been going through miseries of its own and then a few weeks back it was confirmed that McEwen Mining had signed the binding definitive agreement with Primero for the purchase of its Black Fox Complex in the Timmins Camp. The agreed purchase price was CAD\$35 million, subject to closing adjustments. Closing of the transaction is anticipated to be in late-September.

At first glance the transaction is not exactly earthshattering but it does increase McEwen Mining's gold production by 50,000 ounces in 2018 and gives it Canadian production for the first time. Furthermore, excess mill and tailings capacity provide the capability to increase future production.

Rightly, the company claims that it establishes a base of operations with an experienced and skilled site management and workforce who will operate and advance development of these assets and the Timmins properties (shown on the map below) acquired when it took over Lexam VG Gold in the first half of the year. Combined these properties include seven development and exploration stage projects.



To pay for this transaction McEwen Mining announced that it had entered into an underwriting agreement with a syndicate of underwriters, on a bought deal underwritten basis, 18,000,000 shares of its common stock and warrants to purchase up to 9,000,000 shares of its common stock, at a price of \$2.25 per share and associated one-half common stock warrant, for gross proceeds of \$40.5 million. The warrants will have a term of 53 weeks from issue date and an exercise price of \$2.70 per whole share. In addition, McEwen has granted the Underwriters a 30-day option to purchase up to an additional 2,700,000 shares of common stock and/or warrants to purchase up to 1,350,000 shares of common stock. The offering is expected to close before the settlement date for the Black Fox purchase.

Exploration Potential at Black Fox

The property is located along a prime 4.5 mile (7 km) section of the Destor-Porcupine Fault, which is host to many substantial gold deposits. It is already well-endowed with the

Black Fox Mine, and the Grey Fox and Froome deposits; and has geologic traits that make it prospective to grow the existing deposits and for additional discoveries. However also in close proximity is Sage's revived mine. It would seem to be a natural progression for relations to evolve between Sage and McEwen Mining as the Black Fox mill is currently underutilized and whatever other twinkles there may be in McEwen's eye he is not going to have any more producing assets of consequence in Timmins in the very short term. This raises the potential also that Sage, in turn, might be a target for rolling into the structure.

Production

A glance at the production numbers would be useful. Of course the company has its share of the San Jose revenues in Argentina but its controlled production is only from the El Gallo mine in Mexico (another reason for not being called US Gold?!). Year to date production in the first two quarters was 19,400 ozs of gold with a forecast 49,700 for the full year. The addition of Black Fox will pump this up (almost double?) but it is not exactly massive output for a company that already has a market cap nearing \$700mn.

Conclusion

Somewhere along the way a revelation occurred that even the most die-hard fans wanted to see production and the message has finally been heard. The Black Fox deal doubles in-house production for 2018. The company should now be using its massive market cap to raise more funds or use stock for acquisitions that "make a difference". Sage Gold might be one of those as the logic is there for a combination, but from what we know of Sage they won't be selling themselves short when it comes to negotiating an exit price.

McEwen now needs some game-changing transactions to give his fan club something, finally, to cheer about. Coming back to

Canada would seem to be an important part of that process.

Sage Gold rated a Buy as they move towards a Q4 2017 Production Timeline

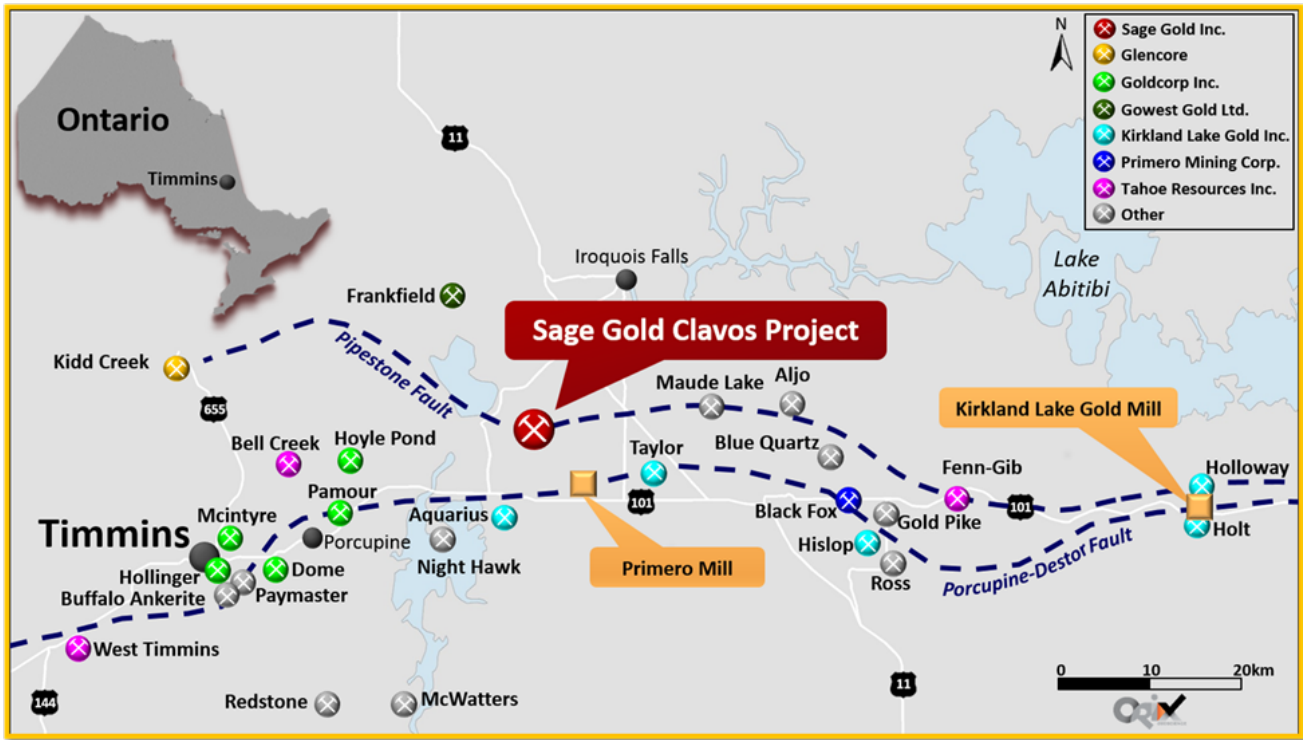
The mining industry has got itself a reputation in recent years for slowness, so a project that is moving rapidly towards a production date from a standing start, in less than a year, is impressive indeed. Such a stock is Sage Gold Inc. (TSXV: SGX).

This rocket propulsion is a combination of a skilled management team steeped in mine operating experience combined with an “oven-ready” project that was built at heavy expense by St Andrew’s Goldfields and picked up by Sage’s management for a song. This is the mining industry equivalent of Plug-and-Play.

What Sage has....

The Clavos mine, located within the Timmins mining camp, was mined briefly between mid-2005 until August 2006 and again until May 2007 under the ownership of St Andrew’s Goldfields.

The Clavos property covers 2,540 hectares in total area with the property 100% owned by SGX. Clavos is 20kms from the Hoyle Pond mine, which has produced more than 2.4mn ozs since 1985 and is still in operation.



Historically, some \$60 million was invested by St. Andrew Goldfields and Sage in the mine/project. The existing infrastructure in place, includes underground ramp access to the 300 metre level, underground levels developed every 25 metres, power to site, surface ventilation system and a water management system. The project has an existing mining permit valid up to 2019.

The Black Fox Mill – The Shortcut to Production

A key part of the strategy to minimize the capital spend at Clavos is the utilization of a nearby mill to process the ore from the mine. Clavos is located around 10 kilometres from the Primero Gold’s mill (pictured below) in Stock Township. The Black Fox mill site is located at the past-producing Stock mine, 28 kilometres by road from the Black Fox mine site. The mill is a 2,500 tonnes per day carbon in leach (CIL) facility.



Like Clavos, the mill was previously owned by St. Andrew Goldfields (now Kirkland Lake Gold) during the 2005-2007 period when St. Andrews was operating the Clavos mine. The current operating management of the mill were around when over 100,000 tonnes of Clavos ore was processed hence the familiarity of the mill operators with the Clavos material.

Sage Gold has signed a binding toll milling agreement with Primero over the flow of ore they expect to send to the mill, processing up to 200,000 tonnes per year for a total of 1.1 million tonnes over the estimated seven-year mine life of the Clavos Mine.

It's worth noting that the mill is actually closer to Sage's mine than it is to Primero's. Also, the haul road between Clavos and the mill is owned jointly by Sage and Primero. The haul road is not part of the Provincial highway system and Sage will be able to use larger haul trucks between Clavos and the mill than would otherwise be permitted on the Provincial highways.

The modus operandi will be that rather than a continuous feed from Clavos the ore from the mine will be loaded underground and trucked directly to the mill. It shall be stockpiled there and then the mill will operate alternating between feed from

Clavos and feed from Black Fox in 10,000 tonne batches.

Here's the Plan

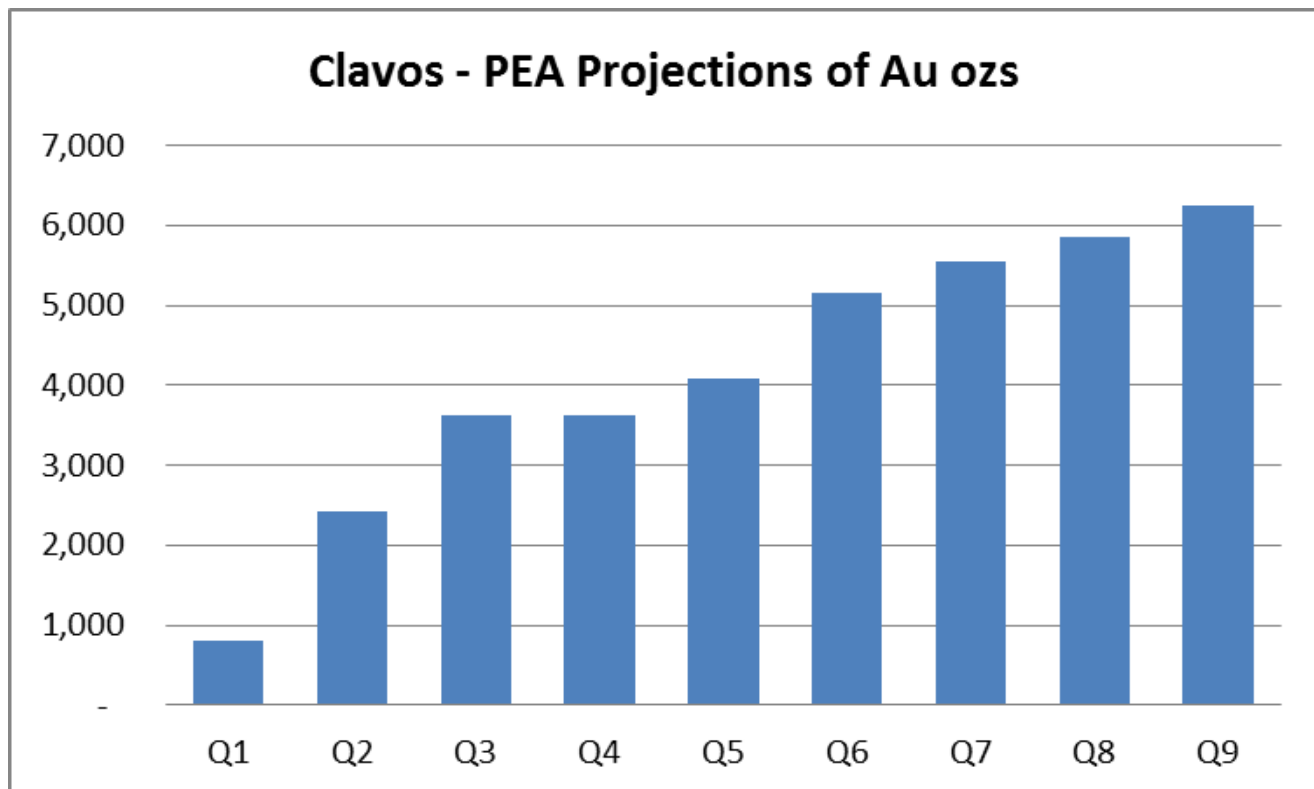
A mine production rate of 600 tonnes per day is optimum for the mineralized structures contained within the Clavos deposit. The mine is however permitted to 700tpd. The plan is to start with 40 tpd production with cut & fill mining of the stopes. An incremental 40tpd per day will be added to production every thirty days until capacity is reached.

This tonnage would permit a life of mine of seven years to extract 70% of the outlined mineral resource estimated tonnage of Indicated 1,258,400 tonnes plus Inferred 796,000 tonnes.

In the Clavos mine plan, there is readily available 847,133 tonnes of the 1,148,900 tonnes to be extracted prior to having to extract the remaining 301,767 tonnes which includes removing the crown pillar. The remaining 30% of the Indicated and Inferred resource estimate was not included in the mineralized material extraction scheduling process.

A 23-month period to permit mine dewatering, mine rehabilitation, definition/delineation diamond drilling and pre-stope development scheduling is envisaged to achieve a full production rate of 600 tonnes per day, or 210,000 tonnes per year based on 350 operating days per year.

During this 23 month period, the following mineralized material will have been delivered to a custom milling facility for processing, and Clavos will have produced the gold as detailed below:



Reasons to Invest

Sage Gold might be looked at as being St Andrews Goldfields Junior. Its main asset was developed by St Andrews at sizeable expense and now Sage Gold have picked it up for a mere fraction of the previously invested amount and are bringing it back to production. Meanwhile Primero Mining had acquired up the Stock Mill complex (changing its name) from St Andrews and in a case of history repeating itself this mill (and the privately owned road connecting mine to mill) will be put back into operation to obviate the need for processing at site. Sage Gold is making the original vision of St Andrews into a functioning reality.

So how can a junior succeed where a well-known mid-tier could not? The secret we believe is a combination of a team that is heavy with skills from first tier players combined with restoring the previous synergies of the various assets and doing so with a strict approach to costs and efficiencies.

With dewatering moving ahead at a brisk pace, production should be initiated in the second half of 2017. With mining

stocks having retreated from 2016 highs the old discriminator of producer versus developer/explorer comes back into play and the move by Sage Gold into production moves it into the most favoured category of mining stocks, those with cashflow.

We rate Sage Gold as a **Long** and are have upped our twelve-month share price target to CAD\$0.94.

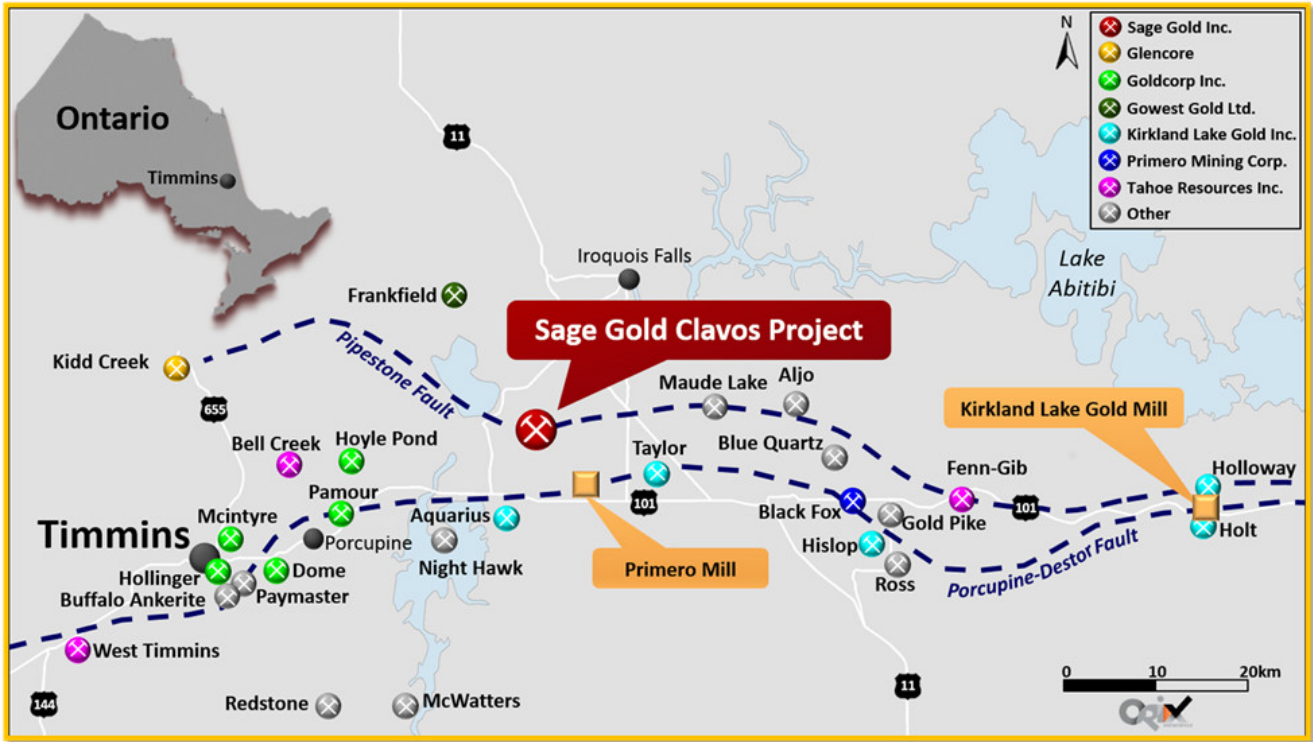
Sage Gold fast-tracking into production

It's not that long since St Andrew's Goldfields disappeared from the scene but already we can talk of some companies as being the "offspring" of that storied name. In the case of Sage Gold Inc. (TSXV: SGX) it is a case of doing it better than St Andrews as it picks up the pieces of the Clavos mine and works together with Primero (which also owns ex-St Andrews assets in the vicinity) and puts them back into a cohesive and functioning package.

Background

The Clavos mine is located within the Timmins mining camp in German, Stock and Clergue townships and is comprised of 69 patented and leased claims and 14 unpatented claims. The patents, leases and claims are 100% owned by SGX. The Clavos property comprises 2,540 hectares in total area. Clavos is close geographically (20kms) to Hoyle Pond mine which has produced more than 2.4mn ozs since 1985 and is still in operation.

The Clavos deposit was mined briefly between mid-2005 until August 2006 and again until May 2007.



The Black Fox Mill – a Key Consideration

Part of the strategy to minimize the capital spend at Clavos is the utilization of a nearby mill to process the ore from the mine. Sage Gold has signed a binding toll milling agreement with Primero over the flow of ore they expect to send to the mill, processing up to 200,000 tonnes per year for a total of 1.1 million tonnes over the estimated seven-year mine life of the Clavos Mine.

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Proposed Mining Plan and Processing

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The plan is to start with 40 tpd production with cut & fill mining of the stopes. An incremental 40tpd per day will be added to production every thirty days until capacity is reached.

This tonnage was based on a 2.75 g/t cut-off proposed tonnage estimate, with a 60 g/t cut grade, and would permit a life of mine of seven years to extract 70% of the outlined mineral resource estimated tonnage of Indicated 1,258,400 tonnes plus Inferred 796,000 tonnes.

Both Indicated and Inferred resources (70%) were included in the mine design, scheduling of mineralized material extraction and economic analysis for the Clavos deposit.

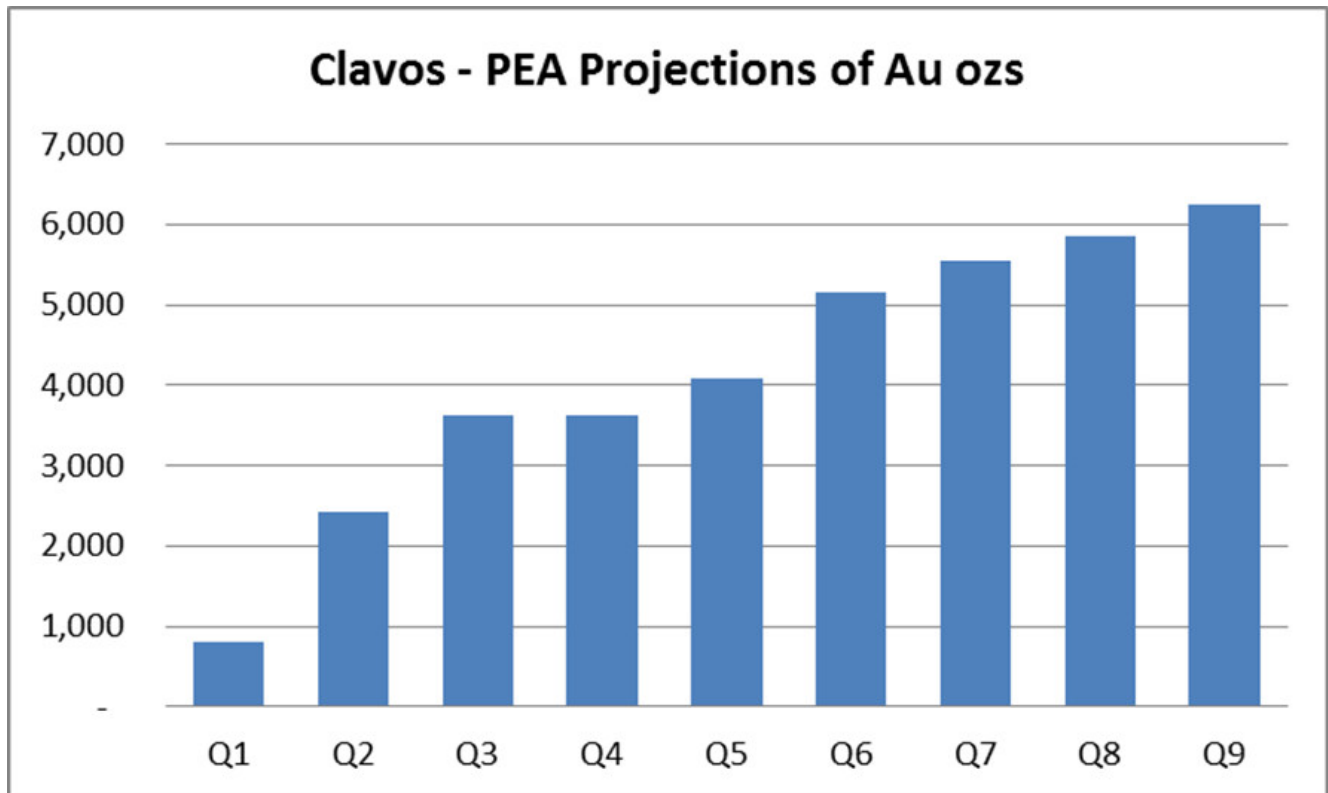
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Conclusion

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The question arises as to how a junior can succeed where a well-known mid-tier could not. The secret we believe is a combination of a team that is heavy with skills from first tier players (two of the board are involved at Yamana) combined with restoring the previous synergies of the various assets and doing so with a strict approach to costs and

efficiencies.

With dewatering moving ahead at a brisk pace, production should be initiated in the second half of 2017. With mining stocks having retreated from 2016 highs the old discriminator of producer versus developer/explorer comes back into play and the move by Sage Gold into production moves it into the most favoured category of mining stocks, those with cashflow.

Therefore we are rating Sage Gold as a **Long** call and are instituting a twelve-month share price target of CAD\$0.94.

A 'Sage' gold egg for the portfolio?

We have by now established that gold gives me a warm fuzzy feeling at the moment. What makes me particularly excited about Sage Gold Inc. (TSXV: SGX) ("Sage") is its near-term production prospects, which means it could be in a better position to take advantage of the current positive gold environment. As we know, gold is positive in general negativity, thriving on uncertainty and instability.

I also like Sage because of its potential diversification. It owns two properties in Ontario, Canada: Clavos; and Onaman Lake. The Clavos deposit is a high-potential gold deposit that is yielding promising results. The Onaman Lake deposit also promises numerous high grade gold, silver, copper, lead and zinc showings.

The firm's greatest strength is that its Clavos gold mine is set for restart later this year. Having a producing asset is far more desirable than being merely in exploration phase.

Sage has just secured financing in order to get its Clavos mine into production. If that is one thing that shareholders appreciate it is to see returns on their investment from the firm they have invested their good money in.

The Clavos mine has solid potential, boasting one of the lowest capex in the industry. It promises a seven-year life of mine, with a two-year payback period. What makes Clavos even more appealing is that Sage has already secured a toll milling agreement, and all permits have been finalised for production. Now all Sage really has to do, is press the start button. We can't wait! The sooner Sage starts bringing in the money, the sooner it can prove to the market that it is a company worth including in an investment portfolio.

Generally, I feel Sage management's strategy is one of the safer ones that promises yield for shareholders sooner rather than later, and why I would consider Sage for inclusion in an investment portfolio. The firm's strategy is to invest in near-term production and exploration properties, a strategy management has had from the word go, and has really stuck to. It is worthwhile investing in the company before it goes into production while it is still discounted in the market. Once it starts producing, the value of Sage shares can only go up.

Another point to note is that management runs a tight ship, which is appreciated in these uncertain times. Management has shown discipline from the outset in running the company with financial prudence, and I can only hope that it will remain prudent with the firm's finances during the transition phase from explorer to producer. So far, management has given me no reason to doubt the prudence with which they run the company.

However, the key to making Sage a valuable investment is its diversified product palette. The base metals at the Onaman deposit will position the company well to utilise a bull run in different commodities, while remaining within the safety of the gold market. Therefore, bringing the Onaman deposit to a

point where it can start producing would be instrumental in the company's success and in becoming a sizable player in the market.