

# Bay St. and Scorpio prepare for three-year gold rally

The eyes of many investors are settled firmly on gold this fall as it continues its two-week wrestling match with the \$1,300 pressure point. Rising political tensions surrounding the US administration's fickle foreign policy are very likely to push the gold bulls into action, and once the price achieves lift-off it is thought that it will begin a three-year rally from which Scorpio Gold Corporation (TSXV: SGN) ("Scorpio") are in a good position to reap significant gains.

Scorpio are presently undertaking development works on their assets that could settle the company's remaining debt by next year and bring significant additional gold reserves online just in time for a precious metals heyday. Should the planned works be successfully approved and completed, the experienced management team are hopeful that Scorpio can continue to produce our favourite yellow metal from their chosen jurisdiction of Nevada.

Scorpio holds interest in two gold projects in Nevada, one of which, Mineral Ridge, has been producing for almost seven years under current management, but the company is now proceeding with a drilling project in order to extend the mine-life of the area beyond 2017, as well as initiating a NI 43-101 Compliant Bankable Feasibility Study Report for the construction of a milling circuit to recover up to 125,000oz of additional gold from the site's remaining heap leach material. The continuation of Mineral Ridge is a critical factor in the future success of the business as an uninterrupted cash flow will be necessary to bring the company's secondary asset online.

Scorpio's second project, Goldwedge, has recently provided

some promising high-grade drill results, with three cores returning significant values of up to 11.14 g/t Au. These new results corroborate historic drill programs at the site which returned similar values of up to 16 g/t Au. The late exploration stage property in Manhattan, Nevada, has a fully permitted underground mine and 400 tonne per day mill facility which has previously been employed to process material from Mineral Ridge, and should it be brought online in the near future, the company would be able to comfortably ride the current expansion phase of the precious metals market.

The company is in good health in terms of cash flow and costs as of Q1 of 2017, with revenue of \$9.9 million, compared to \$9.4 million during Q1 of 2016, and total cash cost per ounce of gold sold holding steady at \$876 compared to \$801 during Q1 of 2016. Mine operating earnings increased to \$2.4 million compared to \$1.9 million during Q1 of 2016. Should the price of gold make the bullish advance that the market anticipates, 2018 could provide some truly meaty bonuses for Scorpio by driving up the cash flow that the company is already working hard to boost.

Given the potential future value of Scorpio's post-work assets, shares in the company are likely significantly undervalued at present at only C\$0.06. A mining company that brushes the edge of feasibility does indeed face challenges, but I have a hunch that the team at Scorpio will pull this off and continue with their producer status well into the future, since the current market situation is precisely the motivation any operator needs to pull out all the stops during crunch time; showing some faith and investing in Scorpio now could mean explosive portfolio growth over the next twelve months

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# Scorpio Gold getting its glitter back

My morning ritual starts with a cup of tea, served the British way, booting up my PC and making my first cyber stop of the morning to my favoured news sites to see what the Trumps and the King Jong-uns of this world have been up to overnight.

As a commodity analyst, I observe politics and global trends closely and consider the medium-term impacts these trends would have on commodity markets. In general, uncertainty around border control, beefing up defence and changes to leadership of key economies is exactly the type of environment that favours gold investors. Last year gold had a great run, this year would be no different.

Scorpio Gold Corporation (TSXV: SGN) (“Scorpio”) is a company which is regaining its shine with investors, which is currently focused on optimizing production at its 70%-held Mineral Ridge gold mine in Esmeralda County, Nevada.

The company’s legal settlement with National EWP, Inc. (“National”) in mid-February meant that Scorpio could remove the possible spectre of drawn out legal action that was hanging over its Mineral Ridge mine, and focus on the business of mining gold.

I became even more positive about Scorpio’s prospects when it announced the signing of the milling agreement with Lode-Star Mining Inc. (“Lode-Star”) shortly after the settlement. The Letter of Intent has certainly been a plus for the company, a positive sign that management had kept their heads in the game of mining and had refrained from becoming distracted.

This deal will restart the 400-ton-per-day Goldwedge mill, which has been on care and maintenance. Scorpio’s greatest challenge is growth. At the moment, the Mineral Ridge mine is

its only producing mine at present. It started production in 2012 and produced 36,879 oz last year, above its high-end guidance of 35,000 oz, but unless the company's exploration proves successful, its growth will be constrained by its current resource volumes.

Restarting the Goldwedge mill will provide some much-needed liquidity to the firm, while Scorpio continues its exploration of the 100%-owned Goldwedge property, which is now at an advanced stage and delivering some promising results.

Scorpio is also in the process of obtaining permits for the possibility of open pit mining at its Custer and Oromont deposits. Exploration is continuing at Mineral Ridge and Goldwedge. These are positive attempts by management to seek expansion of mining production.

As I see it, I generally like the fact that Scorpio is choosing to grow organically through exploration, using some of its cash from its producing asset rather than going on an acquisition spree. The latter strategy may bulk up the asset base faster, but slow and steady, bedding down its current properties, should win out in the long run. This strategy also tends to sit well with long term, deep value-type investors and could pay very well for the company's investors over time. Overall, approach to business has a certain kind of sensibility to it.

Of the existing operations, I also like that Mineral Ridge is a low-cost operation. Even without expanding the resource base, it should have another three years or so of mining.

It is a great comfort that the company remains cash positive, which will assist it in continuing its exploration initiatives and finding suitable targets to expand its operations. For this reason, I have confidence in the management team's experience and decisions.

However, the test is in the taste of the pudding, as the

saying goes. Scorpio will have to maintain its focus in order to capitalize on the increasing gold price that I'm expecting for the immediate future, and to ensure longevity for the company.