

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.

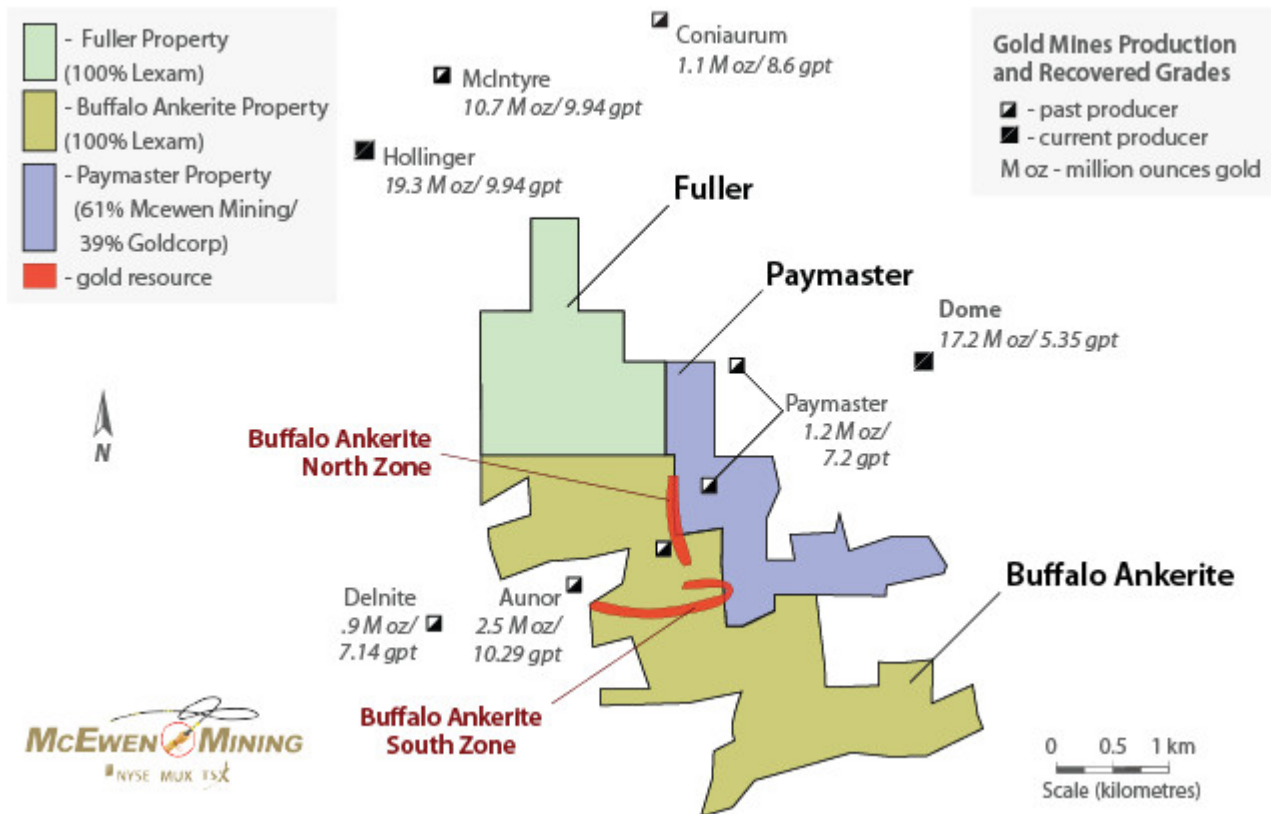
The Relevance for Sage

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.