Sage Gold fast-tracking into production

It’s not that long since St Andrew’s Goldfelds 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.

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 with electricity supplied from a local 27kv power line.

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 present at the time when over 100,000 tonnes of Clavos ore was processed hence the familiarity of the mill operators with the Clavos material.

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.

Proposed Mining Plan and Processing

A mine production rate of 600 tonnes per day was selected as being 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 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.

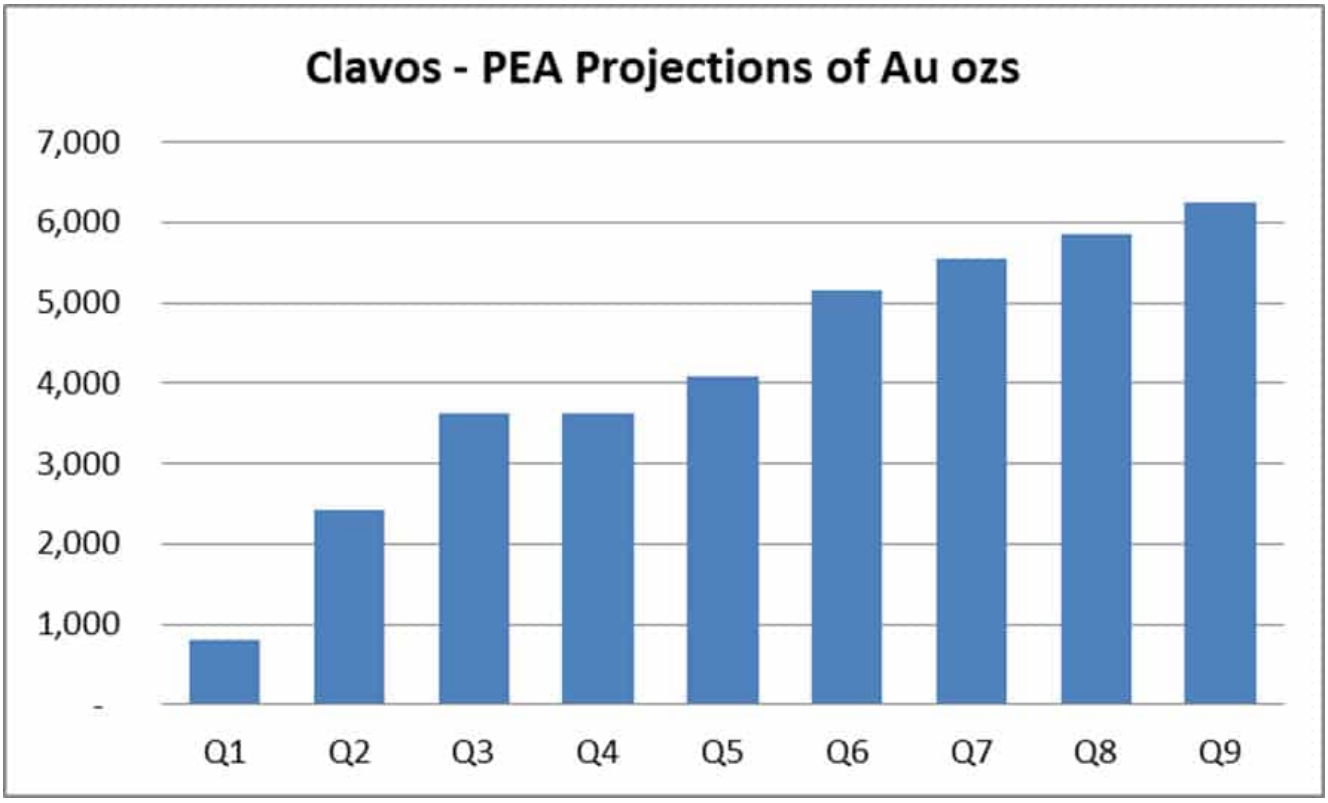
Historically, some $60 million was invested by St. Andrew Goldfields and Sage in the mine/project. The existing infrastructure in place, includes underground ramp access to the 300 metre level, underground levels developed every 25 metres, power to site, surface ventilation system and a water management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

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:



Conclusion

In some ways Sage Gold could be seen as 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.

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 “New” Gold Camp in the Making?

One seldom gets to name a planet or star, a new species of plant or animal, a street or a town. In the mining world new mining camps are relatively rare phenomena too so getting to name a “new” mining camp is something of an honour. Indeed it could be like a staking rush if anyone was actually noticing that an area with great potential is developing and remains unnamed as yet. However, that begs the question as to at what point a couple of disparate prospects and projects start to crystallise into a new district.

If Signature Resources Ltd.’s (TSXV: SGU | OTCQB: SGGTF) Lingman Lake project was alone out there in the Ontario/Manitoba borderlands or if it was solely greenfield then naming the area the “Red Sucker Lake Camp” would be jumping the gun but in fact its property was mined in the 1940s, made a false start at resumed production in the 1990s, and now the sizeable Monument Bay project in the hands of Yamana is making the area almost crowded (we jest) in

comparison to recent decades.

Both of these projects are located in an east-west trending granite-greenstone terrane exposed across northeastern Manitoba and northwestern Ontario.

With many of the historically productive gold zones of Ontario and Quebec being well-picked over, exhausted or totally staked, the natural course for up-and-coming explorers is to push the borders of exploration beyond the same old, same old. What looks however like striking out into the wilderness in the case of Signature is actually a return to proven territory that has come to grief in the past not through lacking geological potential but due to the swings and roundabouts of gold pricing and financing moods. So with Signature's team having multigenerational prospecting history and Yamana moving into the zone this has started a process that we might call "mining gentrification".

Lingman Lake

Signature Resources consolidated its acquisition of the property, which is located in the Kenora district of Ontario in the fall of 2013. Initially it encompassed 78.5-hectares. It later added a further 12-staked claims totalling 538.3-hectares. A significant portion of the historic resource that is contained in the North Zone, approximately 50%, resides on this property. The historic resource estimate (not NI43-101 compliant), dating from 1989, speaks of 234,647 oz Au.

The property is remote with no all-weather roads leading into it. Lingman Lake being 6,000-meters long and 500-meters wide accommodates safe aircraft landings and take-offs. Thus the site can be accessed by float- or ski-equipped aircraft, either from the Town of Red Lake 325 kms south or from the First Nations community of Red Sucker Lake located in

Manitoba, 55 kms northwest, or from the First Nations community of Sachigo Lake Ontario 50-km east.

The Geology

The Lingman Lake property is situated in the Lingman Lake greenstone belt. The belt consists of complexly folded assemblage, of mafic metavolcanics, felsic metavolcanics and metasedimentary rocks. The assemblage is in intrusive contact with marginal granitic rocks and internally intruded by various intrusive rocks. There are mineralized high angle shear zones and faults proximal to a large pluton. The pluton appears to have a late magmatic phase resulting in the formation of feldspar porphyry stocks and dikes that are intrusive to the volcanic-sedimentary succession. Gold mineralization at Lingman Lake is associated with shear hosted veins in the volcanic-sedimentary rocks, the contact zone of intrusive rocks with the volcanic-sedimentary succession and within the intrusive phases.

A Location with History

Exploration work began on the site in the 1930s and has seen bursts of intense activity since, interspersed with long fallow periods. In 1947, reports indicated that 5,919-meters of diamond drilling were completed. East of a major north-south trending dike, 1,617-meters of drilling were performed on the North zone and 2,132-meters of drilling were conducted on the South zone. West of the dike; 1,480 metres were drilled on the North zone.

The North zone was estimated to be 152 metres long and averaged 2.44 metres in width, with a reported average grade of 46.32 g/t Au. Free gold was observed in core from this zone. The South zone was estimated to be 274 metres long and averaged 2.16 metres in width, with a reported average grade of 12.82 g/t Au. The West zone was estimated to be 244 metres long and averaged 1.92 metres in width, with a reported grade

of 8.02 g/t gold. It was at this time that the shaft was sunk and a lot of above ground infrastructure was put in place (bunkhouses, assay lab etc.). Some more work was done in 1948/9 then financial difficulties resulted in the mining and exploration efforts being abandoned. There is still a stockpile with exceptional grades on site. Always useful for a starter revenue flow…

Agassiz Resources financed three diamond drill campaigns in 1987, 1988 and 1989, when approximately 28,000 metres of diamond drilling were completed on the property and it commissioned a "pre-feasibility" – scoping study, and three resource determinations. The last resource estimate, complied in 1989 is the historic estimate of 234,647 oz. (non-43-101 compliant). An attempt to revive mining in the 1990s came to grief again due to financial considerations.

Near Neighbour

As a result of Yamana Gold's takeover of Mega Precious in early 2015, it ended up as the owner of the 338km2 Monument Bay project which is the closest development to Lingman Lake in proximity, but the two projects differ greatly in the fact that Signature's property is a high grade standalone resource and does not use any other resource to reach its grades. It is located some 80kms NNW of Lingman Lake over the provincial border in Manitoba and is also in the territory of the same First Nations group, the Red Sucker Lake community. Yamana picked this up for around $17.5mn, but over $50mn in work has gone into the project since 2011.

Monument Bay's mineral resource base has been expanded in recent times to 1.8 million ounces of Indicated resource and 1.8 million ounces of Inferred resource. It grades around 1.5 g/t and includes Tungsten credits.

Conclusion

It is key to note that Signature's management see themselves

as explorers and not developers. Thus they see a timeline of 24-36 months of intensive exploration before “turning this over” to a major (or mid-tier) developer to carry through to the production phase.

Looking at the history of this site one can only attribute its obvious attractions having been overlooked for so long (particularly during the last boom) as being due to its access issues. Ironically though the operators in the 1940s shipped in a sizeable mill over a long distance and were planning a high tension electricity connection, so 70 years ago, it was not that daunting. Frankly if this project had been 100kms closer to traditional mining areas it would have been swarming with prospectors in the go-go years from 2003-2011. With Yamana’s Monument Bay project showing the attractiveness of the area, this border region between Ontario and Manitoba promises to be the “next frontier” in Canadian gold exploration AND production.

Past operators have seen the worth of going off the beaten track to try and exploit the Lingman Lake potential. They suffered in their day from either the low gold price and/or difficult financing conditions. Clearly with grades at depth of the order of 9ozs per tonne over decent lengths the potential exists for a concerted and intense exploration campaign to significantly boost Lingman Lake up the rankings of takeover targets in the Ontario gold space and cementing the position of the “Red Sucker Lake Camp” as the new district to watch.

To access the Hallgarten and Company research report released today, click here.