Star Gold Corporation Conference Call on Updated Technical Report Transcript

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Speakers: David Segelov
President and CEO

Lindsay Gorrill
Chairman

Kelly Stopher
CFO

OPERATOR:

At this time I would like to turn the conference over to Mr. David Segelov, President and CEO for Star Gold Corporation. Please go ahead.

DAVID SEGELOV:

I'm David Segelov, CEO of Star Gold and with me on the call I have Kelly Stopher our CFO and Lindsay Gorrill, our Chairman. The purpose of the call is primarily to go through and explain the technical report that we recently released on the Longstreet property. You can find a copy of the report on our website on – at www.stargoldcorp.com and if you go to the "Projects" tab it is listed under "Longstreet Technical Report 2014." I'm going to briefly run through the key findings of that report and give some explanation of that report and furthermore give some color as to what it means, what the next steps of the company are and we would be then happy to answer some questions.

The report basically concludes that using a cut off of .005 ounces per ton that we have a pit which outlines about 4.4 million tons of indicated resource at an average grade of about .022 together with the silver giving about 96,000 ounces of gold and the silver gold equivalent. About 90% of it is in Indicated and only about 10% of it is Inferred.

As you'll know we use the same – we use the same firm to do the two reports that is Hrayr Agnerian up in Toronto and what I really want to go through is basically what he did and what the differences are between the two reports.

So just briefly, if you look at the two reports his initial report in let's call it the 2013 report, came up with a pit design which contained about 96,000 ounces plus the silver gold equivalent ounces. This report came in at about 91,000 plus the silver gold equivalent. So if you want to look at the two reports there's a couple of things – a couple of moving parts that you have to understand. There's a few variables that changed. One is that obviously during 2013 we did some more drilling, we did about 16 holes that were in the pit and we drilled about four holes to the east outside of the pit.

More importantly the silver price assumed from Agnerian went down from about $28 to $23. The silver recovery went from 30% to 15%. And I'll talk a little bit more about the metallurgy later. We –

many of you will be aware that we took material from the Added in the middle of the year and started to do common leach test which is still ongoing. I'll talk more about that later. The gold-to-silver ratio in his 2013 report was 1-to-50 which he subsequently changed to 1-to-60 in the 2014 report. And more importantly the assumed mining costs were increased from $531 a ton to $725 a ton. So, all these changes resulted in a smaller pit size and shape but with an almost equal profitability.

Looking at the variables that he didn't change; he used the same gold price assumption of $13.50. He used the same gold recovery rate at about 80% and used the same grade cut off for both reports. Just to explain how these changes flow through his model, so in the Agnerian model, what he does is he calculates what the value of one ton is of ore-grade material. So in the 2013 report each ton in his block model was about $23.24 and in the 2014 report each block – each ton was $22.19. So it was about a 4.5% increase.

What he does is he uses a methodology where he will block model 20-foot-cube portions of the pit and put them together to maximize profitability. So if you look at his block model in 2013 he had about 4.6 million tons and in 2014 report he had about 4.75 million tons, not much difference. What was different was that the variable that explains the lack of the gain of ounces in the model was the cost to mine from about $531 to $725. So basically he ends up cutting out a lot more blocks that he considered uneconomic whereas in the 2013 model there were about 5.7 million short tons of mineralized rock. In 2014 the pit only contains 5.4 million short tons. Interestingly the 2013 model contains about – the pit contains about 92% of all the blocks that are mineralized whereas in the 2014 model it only – the pit only contains about 84% of all of the mineralized blocks. So it's a much tighter, shallower pit but with almost all the same economics so despite the tightening of the pit, it's shallower, he left a lot more at the bottom and he basically excluded everything on the southern foot wall, the economics remain the same at Longstreet because the model adjusts to the lower price of each ton by excluding more tons and lowering the order strip ratio. So the order strip ratio in the 2013 report was 1-to – I think .82. And in this new 2014 report the strip ratio goes to 1-to-.56.

Essentially he excludes about 5,600 ounces of gold at 1350 means about a $7.5 million of value went missing from the project based on the 2013 report but because he excludes about 3 million tons in the new report – sorry, he excludes about 1.9 million tons in the new report at $3 a waste ton the difference means that the economics is almost the same.

The latest report uses more conservative numbers for silver , it uses a lower silver recovery and uses a high cost to mine but the profitability remains the same. What you have to understand I think is that the report is very conservative. It has a very shallow pit, it's only 1,500 feet by 1,100 feet and the maximum depth is 365 feet deep. There's a lot that's left outside of the pit for the purposes of this report. Probably the most important table for the investor is the table on – is figure 14-9 which is on page 83 which essentially gives you the cash flow given all his assumptions of cost recovery and price for that pit. And you can see the operating cash flows are pretty strong given what we think the CapEx will be. You can also get a very good picture of the shallowness of the pit, on page 84.

Just a little update on the metallurgy; as many of you will be aware we took material in July and August 2013 from the upper add-it, we made a composite of it and we've been running leach tests through it. One of the interesting things was that the silver didn't leech out quite as well as we thought. We have been using a 30% leachable reversible for silver based on the 1988 study. So we're a little bit perplexed as to why there would be such a difference between the 1988 study and what we were finding and I think the answer – we did some further tests. We increased the concentration of the acid, that didn't seem to have much effect. We did some x-ray diffraction and basically what we saw was that when we ground up the material very fine we were able to leach out the silver up to about 60%. That means that the silver is basically encapsulated in the silica and it doesn't leach out very well. The reason why the 1988 material leached out a lot better was that they took surface material which had – the silica had been broken down by exposure to the sun. Right now, even though there's excellent liberation if we crush it fine I don't think that you're going to see us put in a separate circuit for that.

Given the report and given the nice economics that seem to flow out of the report we've undertaken to do a scoping type study, it's already begun. We hired a team that was out of Coffee International, their North American Division. And the goal of the study is to fill in the missing pieces. So the missing pieces that we don't have is a fully formalized idea of the CapEx and what it's going to cost to operate the leach pad and the recovery system. We think that the numbers in the Agnerian report are pretty good in terms of mining the ore and getting it to the leach pad. But the scoping study, they're going to design their own pit, we don't think it's going to be materially different from what you find in the

Agnerian report. And they're going to do their own costings and we'll see exactly what the IRR and what the sensitivity to gold price is.

Again, the goal of Star Gold is to get into production on a very small profitable pit with the smallest CapEx to do it and the tight financing, and have margin given the volatility that we see in gold. And once we're in production with a good return we see a lot of blue sky on the Longstreet property. Many of you have been down there and you can see that it's not just Main that's oxidized but there's a lot of other potential great targets.

But our goal is to get a real scoping type study with real diameter and realistic assumptions. You won't see us use like a 5% discount rate when most companies can't do that. And the reason why we're excited about Star Gold going forward is that we know that it's a – it's going to be a reasonably low CapEx.

So to conclude, there aren't that many juniors around with a profitable project with most of their ore in an indicated body with a very high degree of confidence in those numbers. And we think that once a scoping study comes out we can offer a return to investors and an excellent chance of adding to that return in a meaningful way.

In terms of 2014 plans, right now we're in the middle of putting a new plan of operations to the forestry service. We're waiting to hear back on that. Our goal is really to drill to the east of the pit and much more down towards Opal Ridge at the south of the pit. As for drilling Main itself we're not sure that more drilling is going to give us more ounces it will give us a greater degree of confidence but I think the confidence level that we have at Main is more than sufficient.

Anyway, that's really what I wanted to say and I'm happy to ask people if they want to have any questions.

OPERATOR:

There are no questions at this time. I'll turn the call back over to David.

DAVID SEGELOV:

Okay, if there are no questions I'm more than happy to take any calls or questions on the report. I understand it's fairly technical. I think what we want to get across is that it's a very conservative report and it sets the platform for a scoping study which will show that you can build a nice little starter mine on that property and then go and further explore. Maybe I want to turn it over just – to Lindsay for some concluding comments.

LINDSAY GORRILL:

Yes, thanks David. That was great. I think what's important to the shareholders is the last tour I did last year we sort of laid out a plan for Star Gold and we sort of kept to that plan whereby first finish the drilling, get the new 43-101 do some metallurgical work which we've done which David talks about and then work through to a scoping study which is basically similar to a pre-feas. And then get – that way we can get a good number on CapEx and OpEx. And then move forward as we decided – we've talked about, on the design of the pit and putting this company into production. We think that's the best way to go.

So I think we're still on target for the timelines etcetera and as David said, the drilling program this year will focus more on Opal Ridge than Main as we try to extend our ore body. That's all. Thanks David.

DAVID SEGELOV:

I just want to run through where we might – just a couple of housekeeping items in terms of where the corporation stands. So our cash as of now is at about $750,000. Our required spend for this year is $550,000 but we have a credit built up over the last couple of years of about $300,000. So we only have to spend $250,000 this year. That $750,000 includes having paid already for the scoping study. So we're in good shape.

We have 35 million shares outstanding, 42 million fully diluted. There are about 3.9 million warrants that are exercised at an average price of about $0.58 and insiders still own about 35% of the company. So we're definitely focused on creating return for the shareholders.

I think we can wrap it up now.

OPERATOR:

Thank you. Ladies and gentlemen, this concludes today's conference call you may disconnect your lines. Thank you for participating and have a pleasant day.