



Expanding the universe of exploration capital.

## Analyst Note

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### **Balmoral Resources Ltd. (BAR-T)**

#### **Divesting a small advance high-grade gold asset on the Detour Trend**

**Event:** Balmoral to sell the Fenelon high grade gold deposit (Discovery Gold Zone).

**Impact: Generally positive.** Balmoral enters into agreement to receive minimum \$3.6M (\$3.4M cash) through sale of a non-core asset. Fenelon Mine Property is a carve-out leaving Balmoral's large acreage intact.

#### **Analysis**

- **On May 25, 2016, Balmoral announced that it entered into a binding Letter of Intent with Wallbridge Mining Company Limited (WM-T) permitting Wallbridge to acquire 100% of the Fenelon Gold Property for a purchase price of \$3.6M.** The Fenelon Mine Property is a small advanced stage high grade gold project, with near-term production potential, located within the Detour Trend in northwestern Québec, (see Exhibit 1). The Fenelon Mine Property covers 1,052ha (10.5km<sup>2</sup>) and is a carve-out of the current, larger Fenelon Property, 100% owned by Balmoral. Under the terms of the agreement, Balmoral shall receive an immediate payment of 2,381,575 common shares of Wallbridge (equal to \$0.2M), cash payments totaling \$3.4M within the next 2 months (or \$3.5M over the next 4 months), and, notably, shall retain a 1% NSR on all future production from the Fenelon Gold Property.

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- **Balmoral keeps focus on exploration upside:** The transaction provides near term, dilution free, infusion of \$3.4-3.5M cash from the sale of what was essentially, at this stage, a non-core, inactive asset. The Discovery Gold Zone was last targeted by Balmoral in 2011 when it completed a drill program that returned multiple high grade shallow gold intercepts, such as 3.65m @ 11.37 g/t Au and 5m @ 5.46 g/t Au from the D Vein, as well as 5.26m @ 6.46 g/t Au and 2.77m @ 7.23 g/t Au from the C Vein. Balmoral had indicated that it had no immediate plans for additional investigation of the Discovery Gold Zone and was seeking a partner to further develop the Zone. The Fenelon Gold Property (Discovery Zone) being sold does not include any portion of the Grasset Ultramafic Complex which hosts the 3.45Mt @ 1.56% Ni, 0.17% Cu, 0.03% Co, 1.18 g/t PGE Grasset deposit (see March 15, 2016 Analyst Note), nor does it cover any of the projected extension of the Sunday Lake Deformation Zone (see Exhibit 2). Both of these highly prospective target environments remain with Balmoral. The transaction permits Balmoral to focus on its exploration plays with considerable upside such as on-going efforts to delineate and expand the nearby (28km to the west) Martinière Gold System (Bug Lake – see May 13, 2016 Analyst Note) as well as throughout the Québec Detour Trend Project area.

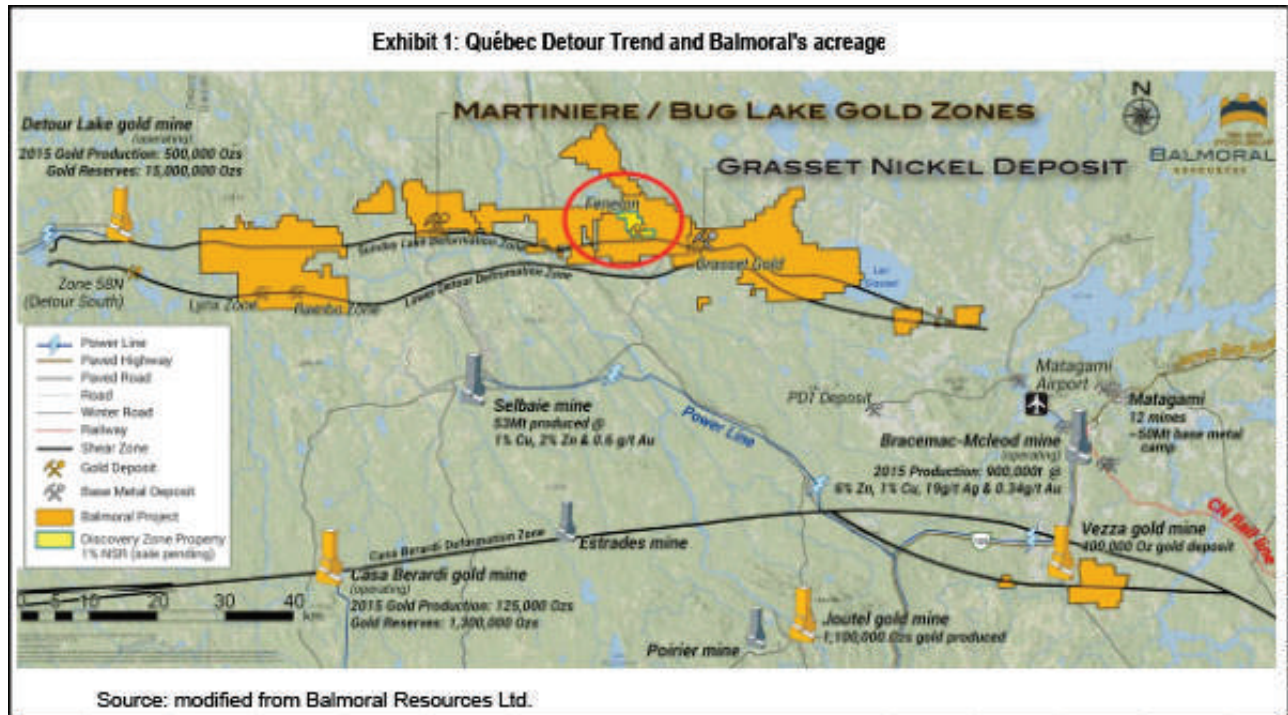
- **The Discovery Zone had been the subject of historic metallurgical, economic, and engineering studies.**

The Fenelon Property forms part of Balmoral's ~700km<sup>2</sup> Detour Trend Project and is road accessible. The Discovery Zone is a ~50,000oz. high-grade Archean lode gold deposit located 2km north of the regional Sunday/Detour Lake Deformation zone, discovered in 1994. The Discovery Zone is comprised of a series of sub-vertically oriented gold-bearing shear veins (A to F) hosted within or adjacent to a mafic-ultramafic intrusion. The Discovery Zone is currently flooded and over 50,000m of surface and underground drilling has defined a number of narrow, high-grade, gold mineralized veins from the bedrock surface to ~250m vertical depth. The deposit is associated with shearing and silicification represented by sulphide bearing quartz veins within gabbro intrusive or dyke (or pyroxenite body) with ~5% to 10% pyrrhotite, chalcopyrite, and pyrite. Advanced works realized by Cyprus and Taurus in the 1990s and early 2000s (approximately \$25M spent) led to the delineation of the Discovery Zone (~65,000 oz. Au). The deposit has seen development works, such as bulk sampling and some underground drifting. Between 2001 and 2006, an underground access ramp from a test pit and two working levels, initial test milling, commercial-scale metallurgical tests, and environmental studies. A resource estimate in 2004 for American Bonanza Gold Mining Corp. had Indicated mineral resources of 47,927t @ 19.61 g/t Au (30,217oz. Au) and Inferred resources standing at 27,245t @ 12.79 g/t Au (11,204oz. Au) at 5 g/t Au cut-off. In 2001, a 13,835 tonne bulk sample mined from a small open pit at the Discovery Zone was test milled at the Camflo mill in Malartic and returned 4,245oz. Au, giving a reconciled grade of 9.84g/t Au using a calculated recovery of 97%. A second bulk sample, mined from underground and also milled at Camflo, was comprised of 8,169 tonnes and returned 2,596oz. Au giving a reconciled grade of 10.7 g/t Au. The open pit and underground workings are currently flooded, with de-watering expected to last perhaps 6 to 8 weeks after all permits are in place (see Exhibit 3).



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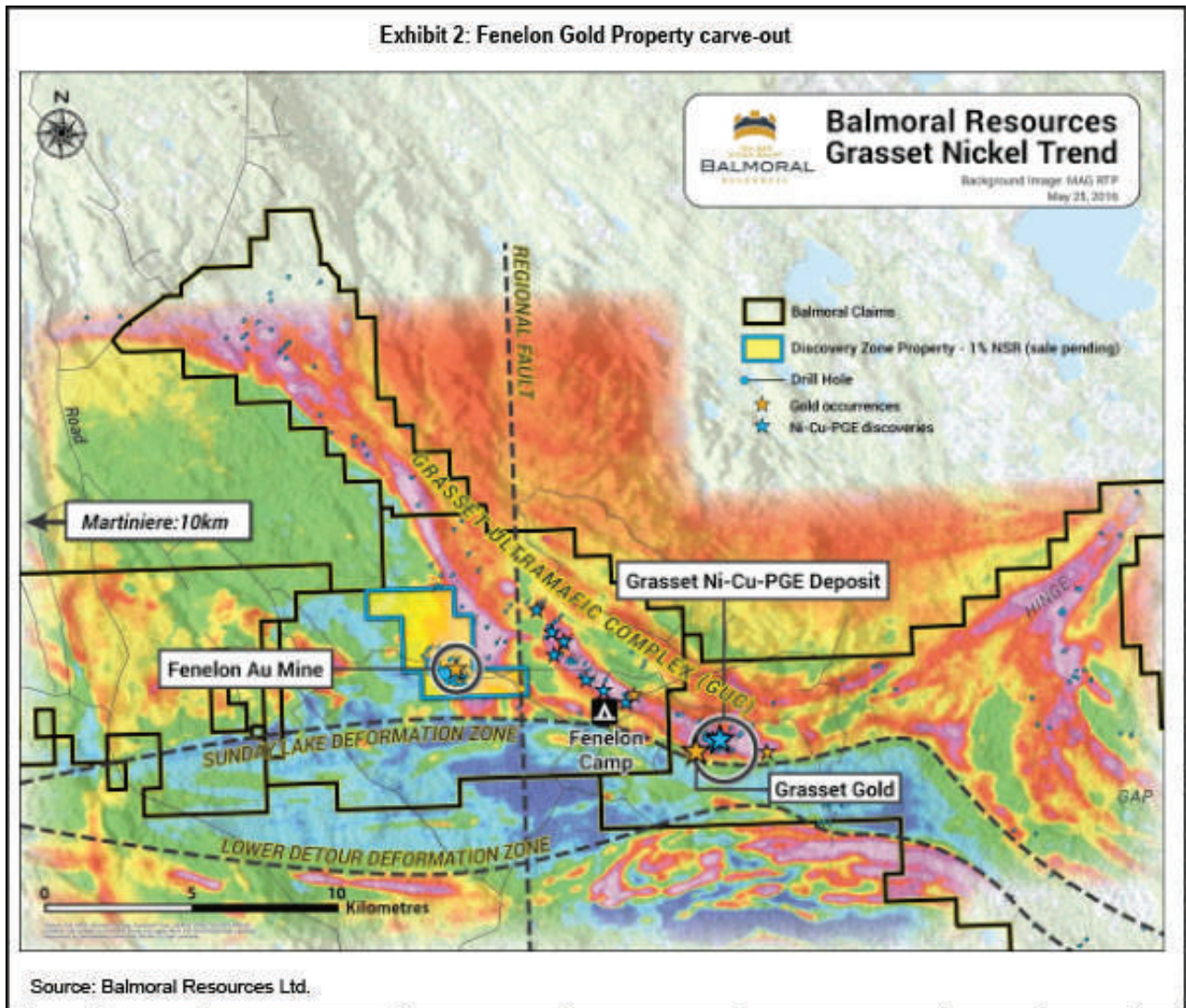
- With the 1% NSR and share position (1.3%) in Wallbridge, the potential for future cash flow from the Discovery Zone could be an interesting outcome without the required time and energy of management to develop, construct, and operate a gold mining operation. We understand that Wallbridge had transitioned from explorer to producer with the Broken Hammer Cu-PGE open pit mine located in Sudbury and intends to become a sustainable producer while leveraging their experience and knowledge as a proven mine operator. The Fenelon acquisition satisfies Wallbridge's criteria of being in a mining friendly jurisdiction, having a short timeline to a potential production decision, having an initial minimum 1-3 year mine life, and having a manageable capital cost. Indeed, Fenelon has 1km of underground development, provincial and local road access, reasonable proximity to a number of gold milling facilities with some available capacity, as well as drill indications for potential resource expansion. Exploration opportunities at Fenelon include open mineralized zones close to the existing underground workings as well as high grade drill intersections at depth and along trend. Wallbridge anticipates moving this project forward with potential completion of a PEA within 8-12 months.
- Recent high grade intersections by Detour Gold Corp. on the 58N Zone and the TMA Target support the potential for high grade gold systems proximal to the Lower Detour Deformation and the Sunday Lake Deformation Zones. Balmoral is well positioned to maximise its knowledge base and capacity to identify and delineate more potential gold targets along the Detour Gold Trend.





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Exhibit 2: Fenelon Gold Property carve-out





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**Exhibit 3: Fenelon Gold Deposit (Discovery Zone).**



Source: PearTree Securities Inc.