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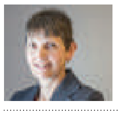
Minera Alamos begins construction of Santana mine

MEXICO | Junior fast-tracks construction based on bulk-sample results

Minera Alamos' Santana gold project in Sonora state, Mexico. MINERA ALAMOS



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Minera Alamos (TSXV: MAI) has started construction of its Santana open-pit, heap-leach mine in Sonora state and expects to transition from a developer to gold producer this year.

"This is a big year for us," Doug Ramshaw, the company's president, tells *The Northern Miner.* "There's probably only going to be six or seven new gold producers this year, which is a pretty exclusive club we're going to join, so it's going to be an exciting year."

Between now and the start of production, the company will release a maiden resource on the project.

"The Santana gold project does not have a completed feasibility study or technical report, however, results from the 50,000-tonne, bulk heap-leach test completed between 2018 and 2019 were positive, and management built the Castillo mine in Mexico in the same fashion," Kerry Smith of Haywood Securities said in a research note. "For 2020 we model 15,000 oz. of production in a partial year, followed by 35,000 oz. in 2021, with all-in sustaining costs of ~US$800 per ounce."

The mining analyst estimates the initial capital cost for the project will run to US$10 million.

"Minera Alamos holds two development projects in its project portfolio that can be quickly ramped up to production, with the

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potential to produce ~100,000 oz. gold over the next few years," Smith noted. "The company's strategy of finding, building and expanding low-capex, near-term projects in Mexico is something that the management team has successfully done."

CEO Darren Koningen was a founding member and vice-president of mine development at Castle Gold and played a key role in the development and commissioning of the El Castillo heap-leach gold mine in Durango, Mexico. **Argonaut Gold** (TSX: AR) acquired Castle Gold for $130 million in 2009.

Federico Alvarez, vice-president of project development at Minera Alamos, previously worked for Castle Gold and Argonaut Gold as vice-president of operations, supervising production at El Castillo. Alvarez has connections in Mexico, where he held the position of director of mining affairs for the state of Guanajuato.

Miguel Cardona, Minera Alamos' vice-president of exploration, managed exploration for Castle Gold, leading to a threefold increase in El Castillo's resources from 400,000 oz. gold to 1.2 million oz. before its acquisition.

Ramshaw notes that the team "specializes in low-capex projects," and says the company won't be building an ADR plant at Santana. Instead, it will ship loaded carbon to the U.S. for carbon stripping and doré production. On top of savings on opex and upfront capital costs, this will save the company money on local security costs because it won't produce doré at the mine site, he explains.

"It's an elegant way of keeping the upfront capital down to a minimum," he says. "We are in a very capital intensive business and there are ways to minimize that capex, especially if you're using contract miners. It's just heap-leach pads, ponds and a small carbon plant."

He also notes that the business model at the company is to expand resources out of cash flow and increase the mine's production profile as resources are expanded.

"What Darren and his team did at Castle Gold in 2008 is something very similar to what we're doing right now," Ramshaw says. "At Castle Gold, initial capex was around US$6 million to US$7 million on a starting resource of around 300,000 oz. gold. As they expanded the resource through cash flow, it was heading to 75,000 oz. gold a year when Argonaut bought them out. During that time their initial resource grew to 1.2 million oz. gold. We just like that approach. It's classic Australian bootstrapping. We don't mind starting on a 300,000 to 400,000 oz. gold resource, as long as we can see potential for 1.5 million oz., and that it justifies the permitting and all the other work."

Ramshaw points out that while Santana's previous owners did not publish a 43-101-compliant resource estimate, they drilled 30,000 metres "and were getting great results."

"We could easily come out with a 43-101 and before we get into production we'll come out with one," he says, adding that "by having annual resource statements we'll show we're not curtailing resource life."

As for starting construction without a feasibility study, he says, management thinks money spent on formal studies can be better spent on other things, like the 50,000-tonne bulk sample it did at various crush sizes in mid-2018 that recovered 1,000 oz. gold.

"We have all seen a lot of studies that ultimately don't work out … the best study is just to get it up and running and start producing," Ramshaw says. "The resource — though non-compliant — is very robust, and 50,000 tonnes of bulk-sample mining gives you a better handle on a project's met than if you did 50 bottle-roll tests. Seeing the leach kinetics gives you a lot more confidence on the met side, and Darren is a metallurgist. The Achilles heel in a lot of projects is met, so this demonstrates why we have confidence and Osisko has confidence to back this and get it up and running."

Osisko Gold Royalties (TSX: OR; NYSE: OR) owns an 18.7% stake in the company.

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DOUG RAMSHAW
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In addition to building the Santana mine, the company is undertaking a systematic review of the entire 85 sq. km project area, where breccias typically outcrop at surface.

Minera Alamos' other key asset in Mexico is its wholly owned La Fortuna project in Mexico's Durango state, 85 km southwest of the city of Culiacan.

Based on a preliminary economic assessment, the gold-silver-copper project has a mine life of five years based on an initial resource starter pit and average annual production of 50,000 equivalent oz. gold.

La Fortuna has measured and indicated resources of 3.5 million tonnes grading 2.78 grams gold per tonne, 16.51 grams silver per tonne and 0.22% copper for contained metal of 309,800 oz. gold, 1.84 million oz. silver and 7,600 tonnes copper.

At press time the company's shares were trading at 28.5¢, and over the last year have traded in a range of 10¢ to 32¢.

Haywood's Smith has a "buy" rating on the stock and recommends "accumulating shares at current levels." He has a 50¢ target price. Minera Alamos has 406 million common shares outstanding for a $116-million market capitalization. TNM