Steppe Gold nears production at ATO in Mongolia

BY TRISH SAYWELL
tsaywell@northernminer.com

Since Steppe Gold (TSX: STGO) bought Altan Tsagaan Ovoo (ATO) from Centerra Gold (TSX: CG) for $19.8 million in January 2017, the junior has made steady progress de-risking and building the heap-leach, gold-silver mine in eastern Mongolia.

Seven months after the acquisition last year, the company teed-up a US$23-million gold and silver stream agreement with Triple Flag Mining Financing, and raised US$25 million in an initial public offering in May 2018 (with 12.5 million shares at $2 per share).

The company says it’s on track to finish construction before January 2019, leach ore in April, and pour first gold before June.

In a recent market update, Steppe said ATO’s crushing circuit fully operates and that ore is being crushed to specification. About 30,000 tonnes of mineralized material has been mined from the ATO 1 deposit and stacked on the run-of-mine pad.

Before selling ATO to Steppe Gold, Centerra spent over US$25 million on exploration and studies on the epithermal gold and polymetallic deposit, including 67,000 metres of drilling and 28,000 metres of trenching.

It also obtained all the major permitting for a 30-year mining licence. In addition to the heap-leach operating permit, Steppe Gold has permission to build a carbon-in-leach plant, which the firm will consider in the coming years.

“It was an exceptional deal — they had spent close to US$30 million on the project,” Matthew Wood, Steppe Gold’s chairman, president and CEO, said in a telephone interview from Sydney, Australia. “We’ve got a huge data set with the project. Centerra did an excellent job of collecting data but a poor job of interpreting it, and we’ve had some huge wins out of that.”

The ATO project has three pipe deposits — ATO 1, 2 and 4 — and has measured and indicated resources of 12.2 million tonnes grading 1.49 grams gold per tonne, 9.99 grams silver per tonne, 0.75% zinc and 1.34% lead for 587,000 contained oz. gold, 3.93 million oz. silver, 202 million lb. lead and 362 million lb. zinc.
Inferred resources add 1.05 million tonnes grading 1.03 grams gold, 25.18 grams silver, 0.52% lead and 1.11% zinc for 35,000 oz. gold, 848,000 oz. silver, 12 million lb. lead and 26 million lb. zinc.

Steppe Gold says the small heap-leach operation at ATO will have a four-and-a-half-year mine life and produce 147,000 oz. gold and 673,000 oz. silver, at life-of-mine cash costs of US$33 per ounce. Recoveries are estimated at 70% for gold and 40% for silver.

“But that, Wood says, is just the mine life on the small oxide open pit down to 40 metres’ depth.

“The main part of the orebody is open at depth and open to at least 300 metres, and that’s fresh rock, and that’s what we’re doing strike and depth. and open to at least 300 metres, and that’s what we’re doing strike and depth.

In the meantime, Steppe Gold has reinterpreted the model at the ATO 4 pipe with new extensions and found more mineralization north at the Mungu deposit — neither of which are included in the 10-year mine life Wood envisages for the larger project.

The company says ATO 4 is less a pipe than part of a 20 km long mineralized structure that includes the Mungu prospect, 500 metres north of ATO 4, and another discovery 3 km north of Mungu, called Bayangol. The northern extension of the ATO 4 deposit is open along strike and depth.

“We will continue to drill ATO 4 outside its interpreted boundaries, and we’re getting very good results,” Wood says. “We’ve extended ATO 4 and Mungu, where we’ve found additional material, so we should get five years plus on the oxide.”

The company is also investigating the Bayanmunkh prospect, 25 km northwest of the ATO and Mungu deposits, and the Tsagaan Temeet prospect, 17 km north of ATO and Mungu.

Since taking over the 54.9 sq. km project, 660 km east of Ulaanbaatar, Steppe Gold has carried out three drill programs.

Highlights at Mungu have included 46 metres grading 14.98 grams gold and 82.02 grams silver from 218 metres downhole in hole 49; and 62.5 metres grading 3.28 grams gold and 29.79 grams silver from 258 metres in hole 51. Other results from Mungu included 152 metres of 2.06 grams gold and 72.64 grams silver from 190 metres in hole 52, and 56 metres of 1.03 grams gold and 35.15 grams silver from surface in hole 67.

Drilling at ATO has returned 1-metre intercepts grading 212 grams gold and 49.3 grams silver from 104 metres downhole in hole 299; 1 metre of 183 grams gold and 33.9 grams silver from 166 metres in hole 317; and 63 metres of 6.53 grams gold and 5.95 grams silver from 54 metres in hole 297.

Steppe Gold plans to update the resource estimate for ATO in the first half of 2019, and issue a resource estimate for the Mungu oxide deposit before July 2019.

“We’re not in Mongolia to build a small heap leach,” Wood says. “The heap leach pays for the whole show, it gets us into production and builds a platform in Mongolia, and gives us credibility in the local community and with the local and federal governments. It makes us an employer. And from there we expand into the much larger project.”

“Establishing credibility shouldn’t be too difficult for Wood, who had already built the Hunnu Coal company in the country and sold it for AS$500 million (US$360 million) in 2011 to Banpu PLC — a mining and power company in Thailand, and that country’s largest coal producer. (Wood also has lived in Mongolia for more than a decade, is married to a Mongolian, and was awarded the Order of the Polar Star, the highest state honour that can be awarded to a non-Mongolian.)

Elsewhere in Mongolia, Steppe Gold owns 80% of the Uudam Khundii gold project, 800 km southwest of Ulaanbaatar. The property adjoins the Bayan Khundii gold discovery and the Altan Nar epithermal gold deposits that are being explored by Erden Resource Development (TSX: ERD).

Steppe Gold plans to start a trenching program in the first quarter of 2019, and drill in the first half of the year.

Steppe Gold’s partner in the project is the provincial government of Bayankhongor. “It’s the first of its kind — the first joint venture ever with a provincial government being a 20% partner,” Wood says. “It’s really going to help us.”

Where some see political risk operating in Mongolia, Wood sees opportunity.

“I’ve done very well in the country and don’t see the level of political risk others do,” he says. “If you look at all these post-Soviet countries, Mongolia is probably the best functioning democracy out of all of them.”

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CHAIRMAN, PRESIDENT AND CEO, STEPPE GOLD

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“Disappointing drill results could negatively impact the stock.”