

## **SAGE GOLD INC. - MANAGEMENT DISCUSSION AND ANALYSIS**

### **FISCAL YEAR 2009 – YEAR ENDED SEPTEMBER 30, 2009**

This management discussion and analysis (“MD&A”) of results of operations and financial condition of Sage Gold Inc. (“Sage” or “the Company”) describes the operating and financial results of the Company for the fourth quarter and for the year ended September 30, 2009 (“fiscal year 2009”). The MD&A supplements, but does not form part of, the consolidated financial statements of the Company and should be read in conjunction with Sage’s audited consolidated financial statements and related notes for fiscal years 2009 and 2008. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles, presented in Canadian dollars.

#### **DATE OF MD&A**

This MD&A was prepared on January 7, 2010.

#### **OVERALL PERFORMANCE**

##### **Overview of Operations**

Sage is a precious and base metals exploration and development corporation with properties in North America. The Company’s main focus is the exploration of existing properties as well as the acquisition of properties with compliant resources, properties approaching near-term production, and additional exploration properties in the Americas. The Sage management team and Directors have extensive experience in all aspects of mineral exploration, development, and financing in both senior and junior resource companies.

The Company has a portfolio of precious and base metal properties, primarily in Ontario. The main focus in 2009 has been on the Beardmore-Geraldton properties in Ontario, primarily the Golden Extension property at Jacobus East, the copper/nickel property at Jacobus and the gold properties at Paint Lake and King Solomon’s Pillars. Interest in this area is being driven by favourable gold and other metal prices, favourable exploration results, good local infrastructure and milling facilities, and new insights into modes of gold mineralization.

For fiscal 2010 the Company’s exploration program will be primarily focused on the Canadian properties in the Beardmore-Geraldton area of Ontario which will be partially financed through the recently completed \$804,000 flow-through financing. See Subsequent Events.

During fiscal 2009 the Company incurred gross cash expenditures of \$3,231,471 on the Canadian exploration programs and \$13,553 on its U.S. exploration programs.

## Mineral Properties

<i>Mineral Property</i>	<i>Location</i>	<i>Sage interest</i>	<i>Acres</i>
	<b>Ontario</b>		
<b>Beardmore-Geraldton Gold camp</b>			
Onaman	Onaman Lake	100%	109,720
Onaman Patents	Coughlan Lake	100%	379
Onaman Leases	Onaman Lake	100%	731
Jacobus	Kaby and Tyrol Lakes, and Pifher Township	100%	9,200
Paint Lake Lease	Irwin Township	Option 100%	344
Missing Link	Lapierre and Legault Townships	Option 100%	4,240
Cote Two Rivers	Coughlan and Castlewood Lakes	Option 100%	2,400
King Solomon's Pillars Lease	Walters Township	Option 100%	697
Dorothea Lease	Dorothea Township	Lease 100%	475
Gzowski Patents	Gzowski Township	100%	340
Esquega Lease	Esquega Township	Lease 100%	337
Corbiere Lease	Corbiere Township	Lease 100%	100
Final Lake	Fullerton and Castlewood Lakes	Option 100%	80
		100%	7,720
Crooked Green Lake	Martin Lake	Option 100%	240
Vincent Lake	Leopard Lake	Option 100%	640
Crooked Green Creek	Pifher Township	Option 100%	480
Clist Lake	Clist Lake	Option 100%	240
Spooner	Summers and McComber Townships	Option 100%	2,480
Spooner Lease	Summers Township	Option 100%	24
Pillars	Leduc Township	100%	160
Pillars Lease	Walters Township	100%	179
Pauloski	Coughlan Lake	Option 100%	600

Bearskin Lake	Walters Township	Option 100%	880
Missing Link Extension	Lapierre Lake	Option 100%	600
South Rickaby	Lapierre Township	100%	240

	<b>Quebec</b>		
Chibougamau Barlow	Barlow Township	100%	198
Chibougamau Fancamp	Fancamp Township	100%	158
Fort Chimo Gold	Rougemont Township	75%	751
Fort Chimo Gold	Chute de la Pyrite Township	75%	593
Malartic	Malartic Township	100%	845

	<b>Arizona</b>		<b>Acres</b>
Gold Hill	Maricopa County	50%	116

In February 2007, Sage entered into a three year option agreement with Sheltered Oak Resources Inc., a private Ontario corporation, ("OAK") whereby OAK may earn a 55% interest in the Kerrs property and a 100% interest in the Chibougamau and Malartic properties. On August 28, 2008 OAK amalgamated with Lucrum Capital Corp., a TSXV listed company, which subsequently changed its name to Sheltered Oak Resources Corp. ("Sheltered Oak").

On September 28, 2009, OAK and Sage jointly announced that OAK had agreed to purchase a 100% interest in Sage's unpatented claims and interests in the Larder Lake Mining district in Kerrs Township in the Abitibi Greenstone Belt of Ontario pursuant to a Purchase Agreement between the companies. The transaction was completed on December 23, 2009 and is subject to the registration of the transfers with various government offices.

In consideration thereof, Sage will receive 2 million common shares of Sheltered Oak upon closing (valued at \$280,000) and \$500,000 in cash (secured by a charge on the Kerrs gold property), to be paid to Sage twelve months following the date of closing of the Purchase Agreement. Sage will receive a 2% Net Smelter Royalty on the Kerrs Gold Property of which 1% can be purchased from Sage by Sheltered Oak at any time for \$500,000. Sheltered Oak will also pay to Sage an advance royalty payment of \$125,000, payable in five annual instalments with the first payment due twenty-four months following the date of closing of the Purchase Agreement.

A write down of \$694,167 was charged to the Statement of Loss in the fourth quarter of fiscal 2009 to reflect the value of the subsequent sale proceeds.

## Acquisitions

### Consolidated Puma Minerals Corp.

On August 6, 2009, Sage completed its acquisition of Consolidated Puma Minerals Corp. ("Puma") pursuant to a Plan of Arrangement ("Arrangement") dated June 23, 2009. Under the terms of the Arrangement Sage acquired 100% of the outstanding shares of Puma.

As consideration for the acquisition, the Company issued 62,299,090 of its common shares to the shareholders of Puma, with Puma shareholders receiving 1.202 common shares of Sage in exchange for each common share of Puma. In addition, Sage granted 3,425,700 common stock purchase options to existing Puma option holders, with Puma option holders receiving 1.202 options exercisable for common shares of Sage for each Puma option.

The acquisition of Puma has been treated for accounting purposes as a purchase of assets with a value of \$4,593,895 including acquisition costs. The value ascribed to each Sage share was determined using the closing value of the Sage shares on the date of closing of the transaction (Cdn. \$0.07)

The allocation of the acquisition consideration to the estimated fair value of the assets and liabilities acquired is as follows:

#### Calculation of Cost of Acquisition:

Issuance of shares by Sage	\$ 4,360,936
Acquisition costs	<u>232,959</u>
	<u>\$ 4,593,895</u>

#### Allocation of Cost of Acquisition:

Cash and cash equivalents	\$ 2,971,103
Accounts receivable and prepaids	42,448
Accounts payable and accrued liabilities	(179,450)
Deficit on acquisition	<u>1,759,794</u>
	<u>\$ 4,593,895</u>

### Beardmore-Geraldton Gold camp properties

Subsequent to the fiscal year end the Company acquired eleven additional properties, aggregating 12,064 acres, in the Beardmore-Geraldton Gold camp. These properties are either contiguous to or in close proximity to Sage's existing properties in the camp, and will be a part of the Company's exploration program in 2010.

## Exploration Activities

### Ontario, Canada

#### Jacobus – Beardmore-Geraldton Gold camp

Sage has discovered a total of ten veins at its "Golden Extension". These veins were discovered through stripping and channel sampling. Initially reported in the Company's press release of September 2, 2008, with channel results of up to 136.5 g Au/T, the Golden Extension is part of the same structural corridor that hosts Kodiak Exploration's Golden Mile discovery.

A total of 17 diamond drill holes have been drilled on the Golden Extension to date, totalling 1,068 metres. These initial drill holes were designed to test near surface targets related to surface channel results. Exploration plans for 2010 include additional drilling on this property to test both near surface and deeper mineralization.

Highlights on Veins 1-4 are:

- Visible gold with an aggregate strike length of 290 metres – veins open along strike.
- New channel results for Vein #1 - up to 35 g Au/T over a channel width of 0.7 metres.
- Vein structure discovered 1.5 km southeast of the Golden Extension at the property boundary with Kodiak.

Follow up exploration activities during the year were reported in press releases dated January 26, 2009, February 26, 2009, March 19, 2009, and April 16, 2009, where the Company updated the market on the increase in the number of mineralized veins uncovered by the stripping and trenching operations.

The summer drill program initial results revealed the following selected highlights:

Hole #	From (m)	To (m)	g/t Au	Metres (drill indicated width)
09GE007a	8.34	9.10	9.54	0.76
incl	8.64	9.10	14.90	0.46
09GE007b	13.81	15.08	1.49	1.27
incl	13.81	14.11	5.38	0.30
09GE008a	10.10	10.80	1.06	0.70
09GE008b	17.58	17.90	2.42	0.32
09GE011	6.68	7.07	4.01	0.39
09GE012	11.30	11.80	1.05	0.50
09GE015	58.41	58.71	2.59	0.30

*\*All values reported are metallic screen fire assays.*

Sage intends to continue to trench and channel sample the Golden Extension and parallel vein systems, and continue selective drilling operations in 2010. A plan map of the Golden Extension vein system is available at the Company's website at [www.sagegoldinc.com](http://www.sagegoldinc.com).

#### **Onaman – Beardmore-Geraldton Gold camp**

In the second quarter of fiscal 2009 Sage announced the completion of a NI 43-101 compliant resource estimate for the Lynx Cu-Ag-Au project located in the Onaman property. Highlights are:

- The Inferred Resource comprises 1,936,000 tonnes at an average grade of 1.44% Cu, 39.6 g Ag/T and 0.58 g Au/T and contains 61.3 million pounds of copper, 2.24 million troy ounces of silver and 33,000 troy ounces of gold. The resources are reported at a cut-off grade of 0.5% copper.
- Lersch-Grossman Pit Optimization techniques were utilized to evaluate the near surface potential of the resource that could be amenable to mining by open-pit methods. The results indicate the potential for one pit located in the Lynx North area. Using a cut-off grade of 1% Cu, inferred resources are estimated at 485,000 tonnes at 2.1% Cu, 45.3 g Ag/T and 0.70 g Au/T, and at a cut-off grade of 0.5% Cu inferred resources are estimated at 845,000 tonnes at 1.55% Cu, 34.6 g Ag/T and 0.51 g Au/T.
- The Lynx deposit zones are located in the North area and South area of the property. The Resource modeling indicates that there is scope to expand the high-grade resource in the South area down dip to the southwest and up dip to the northeast. Further, the North area has not been closed off to the north and all zones have only been drilled down dip to an average depth of 200 metres. Refer to [www.sagegoldinc.com](http://www.sagegoldinc.com) for illustrative models of the North and South areas.

During the year the Company also released the results from the 2008 sampling program on the Headway zone section of the Onaman property, reporting silver values ranging from 110-1050 g Ag/T (averaging 352.7 g Ag/T), gold values ranging from 0.1-3.9 g Au/T (averaging 1.0 g Au/T), zinc values ranging from 0.52-20.70% (averaging 5.3%) and lead values ranging from 0.37-22.30% (averaging 3.55%). The Headway zone is located approximately 250 metres northwest and stratigraphically above the Lynx zone.

**Paint Lake – Beardmore-Geraldton Gold camp**

Sage has drilled 13 diamond drill holes to date for a total of 3,288 metres on the optioned Paint Lake property located in the Irwin and Walters Townships near Beardmore, Ontario.

Selected drill highlights include:

Hole #	From (m)	To (m)	g/t Au	Metres (drill indicated width)
09PL002	11.05	13.20	2.37	2.15
09PL004 incl	124.40 124.40	126.05 125.20	9.59 17.05	1.65 0.80
09PL005	199.00	200.00	7.91	1.00
09PL007	15.90	17.99	2.60	2.09
09PL008 incl	111.63 112.63	112.94 112.94	9.99 41.00	1.31 0.31

Channel results during the year included 22.77 g Au/t over 0.40 metres (Vein 10) and grab samples of 34.66 g Au/t (Vein 7). Recent channel results also show high grade silver mineralization in addition to the gold and copper content, including channel # 103 on Vein 4 which showed 32.25 g Au/t, 347.09 g Ag/t, and 2.4% Cu over 0.45 metres.

The Paint Lake Property is situated on a 500 metre wide structural break which separates the Beardmore-Geraldton Belt in the south from the Onaman-Tashota Belt in the north. This structural break hosts Ontex Resources Ltd's Brookbank Deposit, approximately 3.5 km west of Sage's Paint Lake property. Gold mineralization occurs as high-grade quartz, Fe-carbonate and pyrite veins and silica-sulphide flooded zones that tend to occur toward volcanic flow contacts. The veins are largely controlled by the east-northeast trending Paint Lake shear corridor. Northwest trending dextral shear kinks also host auriferous quartz veins – an important discovery as they have never been noted in the historical data. These later northwest trending structures may prove to be a significant gold bearing host as suggested by Kodiak's Golden Mile and Sage's Golden Extension.

**King Solomon Pillars – Beardmore-Geraldton Gold camp**

Sage has completed 26 diamond drill holes for a total of 3,777.50 metres on the Solomon Pillars and the King Solomon Pillars properties in the Beardmore-Geraldton Gold camp.

Selected drill highlights include:

Hole #	From (m)	To (m)	g/t Au	Metres (drill indicated width)
09S012	60.62	65.81	5.75	5.19
incl			8.34	2.29
incl			17.27	0.99
09S014	62.56	67.96	4.64	5.40
incl			7.54	2.19
and incl			7.09	0.82
09S016	109.95	114.50	3.41	4.55
09S017	69.83	71.24	6.41	1.41
09S018	17.53	20.73	3.14	3.20

These properties are included as part of the exploration budget for 2010 and activities will include additional selective drilling together with stripping and trenching operations.

The Beardmore-Geraldton Gold camp exploration projects are being supervised by APEX Geoscience Ltd., under the direction of Robert B. L'Heureux, M.Sc. and P.Geol. Mr. L'Heureux is a Qualified Person as defined by NI 43-101 and is responsible for the technical content of this property information relating to the Beardmore-Geraldton Gold camp excluding the resource estimates for the Lynx deposit. W. A. Hubacheck Consultants Ltd. (HCG) and Kirkham Geosystems Ltd. (KG) have completed a National Instrument 43-101 Mineral Resource Estimate on the Lynx Cu/Ag/Au Deposit based on the phase 1 and phase 2 drill programs completed in 2006 and 2008 along with historic drill holes from 1975.

#### **Quebec, Canada**

During the fiscal year 2009 the Company determined that no further exploration work would be performed on either the Malartic or the Nicole properties.

As a result, Sage wrote off the accumulated expenditures aggregating \$76,169 as a charge in the Statement of Loss for the year.

#### **Arizona and Nevada, USA**

During the fiscal year 2009 the Company determined that no further exploration work would be performed on the Gold Hill, Pony Spur, Dike, Corridors and Sugarloaf properties.

As a result, Sage wrote off the accumulated expenditures aggregating \$1,779,783 as a charge in the Statement of Loss for the year.

#### **Financing Activities**

In October, 2008 the Company completed three tranches of a non-brokered private placement of \$3,450,000 through the sale of 27,600,000 flow-through units, at \$0.125 per unit, to a group of institutional investors. Each unit consisted of one flow-through common share plus one half of a non flow-through common share purchase warrant. Each whole common share purchase warrant is exercisable at \$0.20 for 24 months from the closing date of the offering. If the Company's common shares achieve a closing price of \$0.30 or higher for a period of 21 consecutive trading days, the Company may then accelerate the expiration of the warrants upon not less than 30 days notice by the Company, and thereafter repurchase any unexercised warrants at \$0.001 per underlying common share. All shares and warrants issued under the offering were subject to a four month hold period, which has expired. The Company paid \$204,000 in cash and issued 2,176,000 compensation options on the same terms as the subscribers' units. The issuance of these flow-through common shares created a future income tax liability of \$1,000,500 which was allocated as a cost of issuing the flow-through shares at the time of renunciation.

On July 15, 2009 the Company closed a non-brokered private placement of \$601,110 financing through the sale of 10,018,508 common share units, at \$0.06 per unit, to a group of institutional investors. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at \$0.10 for 24 months from the closing date of the offering. If the Company's common shares trade at or above \$0.14 per share for 21 consecutive trading days, the Company may then accelerate the expiration of the warrants upon not less than 30 days notice by the Company. All shares and warrants issued under the offering were subject to a four month hold period, which has expired. The Company paid a finder's fee of \$36,060 in cash and issued 534,800 compensation options on the same terms as the subscribers' units.

During the fiscal year 2009, Sage issued 470,138 common shares valued at \$36,222 to the vendors of several of the Canadian properties in accordance with the terms of the applicable option agreements.

During the year the Company granted 6,200,000 options to acquire common shares of Sage at an average exercise price of \$0.10 per common share to members of management, the board of directors, employees and consultants of the Company.

On August 6, 2009 Sage completed its acquisition of Consolidated Puma Minerals Corp. pursuant to a Plan of Arrangement dated June 23, 2009. Under the terms of the Arrangement, Sage acquired 100% of the outstanding shares of Puma. As consideration for the acquisition, the Company issued 62,299,090 of its common shares, valued at \$4,205,155, to the shareholders of Puma, with Puma shareholders receiving 1.202 common shares of Sage in exchange for each common share of Puma.

See Subsequent Events.

### **Selected Annual Information**

The following tables set out financial performance highlights for the last three years and were prepared in accordance with Canadian GAAP.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Expenses	\$4,536,637	\$3,596,299	\$1,222,353
Net (loss) (including interest income)	(5,147,247)	(2,803,817)	(926,268)
Net (loss) per share	(0.03)	(0.02)	(0.01)
Cash flow (used in) operations	(1,401,087)	(2,153,816)	(1,270,289)
Cash & cash equivalents, end of period	545,065	356,186	1,864,572
Assets	18,510,905	16,224,860	7,798,400

### **Results of Operations**

#### **Year ended September 30, 2009**

Sage's operations in fiscal 2009 were focused on exploration and financing, and the Corporation did not generate any operating revenue. Sage's net loss for 2009 increased to \$5,147,247 from a loss of \$2,803,817 for 2008, with the increased loss being primarily due to the deficit on the acquisition of Consolidated Puma Resources Corp. (\$1,750,751 in 2009; nil in 2008) and higher write-offs of mineral properties ( \$2,550,119 in 2009; \$527,216 in 2008) offset in part by lower expenses related to directors' and management stock based compensation costs (\$86,541 in 2009; \$907,163 in 2008), lower professional fees (\$387,636 in 2009; \$590,789 in 2008), and a larger future income tax recovery (\$1,128,380 in 2009; \$671,000 in 2008) resulting from the higher pre-tax loss in fiscal 2009 over fiscal 2008.

The deficit on the acquisition of Consolidated Puma Resources Corp. arose as detailed in Note 5 to the consolidated financial statements for the year ended September 30, 2009. The deficit represents the excess value of the shares issued by Sage, together with the costs of acquisition, over the value of the related net assets acquired. The increase in the write-offs of mineral properties relates to the decision by

the Company to write off the remaining property asset values of the U.S. properties based on the decision by management to focus available exploration funds on the Beardmore Geraldton Gold camp properties for the foreseeable future, in addition to the write down of the Kerrs property to the reflect the value of the sale proceeds. Directors' and management stock based compensation costs declined significantly as options granted during the year decreased from 4,485,000 to 3,385,000 and the weighted average exercise price declined from \$0.36 to \$0.10 per share. The decline in professional fees related primarily to the allocation of \$49,181 (\$357,469 for 2008) of stock-based compensation relating to stock options awarded to this group.

In summary, stock-based compensation expense totalled \$222,945 for the fiscal year ended September 30, 2009, of which \$25,246 was capitalized to Mineral Properties, compared to \$1,840,825 for the fiscal year ended September 30, 2008, of which \$450,883 was capitalized to Mineral Properties. As this expense is non-cash in nature, actual comparative cash flow used in operations rose to \$1,767,095 in the current year from \$1,669,533 in the prior year.

During the current year a charge of \$33,625 (\$25,123 in 2008) was recorded as Other Comprehensive Loss in accordance with CICA Handbook Section 1530, representing the decline in value of the investment in the shares of Sheltered Oak Resources Corp. as noted in Note 6 (iii) of the consolidated financial statements for Sage Gold as at September 30, 2009.

### **Summary of Quarterly Results**

The following tables set out financial performance highlights for the last eight quarters and were prepared in accordance with Canadian GAAP.

	<b>Fourth Quarter Sept. 30, 2009</b>	<b>Third Quarter June 30, 2009</b>	<b>Second Quarter March 31, 2009</b>	<b>First Quarter Dec. 31, 2008</b>
Expenses	\$2,216,286	\$1,227,283	\$528,847	\$564,221
Net income (loss) (including interest income)	(2,836,841)	(1,227,283)	(526,953)	(556,170)
Net income (loss) per share	(0.02)	(0.01)	-	-
Cash flow from (used in) operations	(211,642)	(109,813)	(366,503)	(713,129)
Cash & cash equivalents, end of period	545,065	91,480	90,524	224,755
Assets	18,510,905	17,202,754	18,193,797	18,740,508

	<b>Fourth Quarter Sept 30, 2008</b>	<b>Third Quarter June 30, 2008</b>	<b>Second Quarter March 31, 2008</b>	<b>First Quarter Dec.31, 2007</b>
Expenses	\$1,058,090	\$ 759,853	\$996,478	\$781,878
Net income (loss) (including interest income)	(590,251)	(734,281)	(934,308)	(544,977)
Net income (loss) per share	-	(0.01)	(0.01)	-
Cash flow from (used in) operations	(317,184)	(1,027,051)	(21,546)	(788,035)
Cash & cash equivalents, end of period	356,186	189,007	318,374	803,468
Assets	16,224,860	17,110,653	16,987,542	15,575,466

## **Fourth quarter ended September 30, 2009**

Sage's operations in the fourth quarter of 2009 resulted in a net loss of \$2,836,841 as compared to a corresponding loss of \$590,251 for the fourth quarter of 2008, with the increased loss being primarily due to the deficit on the acquisition of Consolidated Puma Resources Corp. (\$1,759,794 in 2009: nil in 2008), higher write-offs of mineral properties (\$1,630,883 in 2009; \$527,216 in 2008), higher general and administrative expenses (\$573,979 in 2009; \$526,968 in 2008), together with a larger future income tax recovery (\$1,128,380 in 2009: \$468,000 in 2008). The mineral properties written off in the current year's quarter related to the reduction in the value of the Kerrs property to reflect the subsequent sale proceeds and the Gold Hill property in Arizona on which the Company has decided not to conduct further exploration. In addition, higher expenses were incurred in the current year's quarter in investor relations and corporate development (\$133,073 in 2009; \$93,857 in 2008) related to increased efforts to further corporate awareness in the market.

## **LIQUIDITY AND CAPITAL RESOURCES**

At the end of the fiscal 2009 Sage reported working capital of \$1,524,382 (\$360,670 – fiscal 2008), cash & cash equivalents of \$545,065 (\$356,186 – fiscal 2008), and short term investments of \$1,520,000 (\$20,167 – fiscal 2008). The working capital amount at the end of fiscal 2009 is not sufficient to support the Company's operating expenses and projected exploration budget for 2010. The Company completed a flow-through financing for \$804,000 on December 18, 2009 (see Subsequent Events). The Company anticipates that additional flow-through financing may be required depending upon the exploration program in Canada in 2010. In addition to further flow-through financings in 2010 the Company will need to raise additional non flow-through financing to fund the related operating expenses required to manage the Company through fiscal 2010. The consolidated financial statements as at September 30, 2009 have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. The consolidated financial statements do not reflect the adjustments to the carrying value of the assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material. See Note 1 (b) to the consolidated financial statements.

Sage does not have any credit facilities with financial institutions, and does not anticipate that it will generate revenue from its activities in fiscal 2010; therefore it will rely on its ability to obtain equity financing for growth. The Company raised \$3,779,493 (net of costs) in equity financing in fiscal 2009. Management anticipates that it will be able to raise sufficient capital to further explore and develop its properties and projects in the future as well as fund its administrative expenditures. However the Company cannot provide any assurance that financing will be available, and on terms and conditions that would be acceptable to the Company. In the event the Company is unable to raise sufficient capital to finance the non-exploration segment of the business, primarily the administrative costs, the Company's strategy would be to pare back related expenses to match the related capital raised. Refer to "Risk Considerations".

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

During fiscal 2009, management and consulting expenses of \$350,600 (fiscal 2008 - \$312,700) were paid to officers or a corporation whose shareholder is a director or officer of the Company.

During fiscal 2009, mineral property expenditures include consulting fees of \$27,465 (fiscal 2008 - \$109,800) paid to an officer of the Company.

Directors fees paid or accrued to independent directors in fiscal 2009 amounted to \$45,820 (fiscal 2008 - \$45,000).

All of the above transactions noted above were in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the parties.

Included in accounts payable and accrued liabilities as at September 30, 2009 is \$31,436 (2008 - \$26,629) owing to these related parties.

## DISCLOSURE OF OUTSTANDING SHARE DATA

Since December 14, 2005, Sage shares have traded on the TSX- Venture Exchange under the symbol "SGX." The Corporation is authorized to issue an unlimited number of common shares, and on January 7, 2010 there were 249,252,719 common shares issued. Subsequent to the end of the fiscal year, the Company closed a non-brokered private placement of 13,400,000 common share units. See Subsequent Events.

As at September 30, 2009, there were 29,717,824 warrants outstanding with a weighted average exercise price of \$0.28, all of which expire in 2009.

The following table represents the warrants outstanding at September 30, 2008.

Number of Options	Black-Scholes Value (\$)	Exercise Price (\$)	Expiry Date
5,428,570	700,286	0.19	October 12, 2009
5,480,000	1,002,840	0.75	November 14, 2009
12,800,000	499,200	0.20	October 17, 2010
1,000,000	39,000	0.20	October 25, 2010
5,009,254	160,296	0.10	July 15, 2010

As at September 30, 2009, there were a total of 21,755,700 stock options outstanding and 3,975,486 compensation stock options outstanding. The stock options have the following terms and conditions:

Number of Options	Black-Scholes Value (\$)	Weighted Average		Year of Expiration
		Exercise Price (\$)		
1,264,686	246,285	0.33		2009
3,441,000	175,860	0.19		2010
5,681,000	431,900	0.30		2011
6,940,000	1,680,655	0.20		2012
1,962,100	213,585	0.10		2013
6,442,400	410,315	0.10		2014

The 1,264,686 compensation options expiring in 2009 were not exercised by December 31, 2009, thereby reducing the number of compensation options as of the date of this report to 2,710,800.

## COMMITMENTS

a) The Company leases its office space under a lease agreement which expires in February 2011. Annual lease payments under the agreement are as follows:

2010	\$ 48,333
2011	<u>20,833</u>
	\$ <u>68,166</u>

b) Pursuant to the terms of the flow-through share agreements with subscribers with respect to the Income tax Act (Canada), as at September 30, 2009, the Company was committed to incurring

approximately \$840,000 in qualified exploration expenditures in Canada (“CEE”) by December 31, 2009. This commitment was fulfilled by December 31, 2009.

## FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, short term investments and accounts payable and accrued liabilities approximates their carrying value due to the short-term maturity or to current market rates.

As at September 30, 2008, the Company’s exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Short term investment	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing

## SUBSEQUENT EVENTS

a) On December 18, 2009, the Company completed a non-brokered private placement of 13,400,000 flow-through units for gross proceeds of \$804,000; each unit consisting of one common share plus one non flow-through common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.10 during the first twelve months from closing, and of \$0.12 for a period of twelve months following the first anniversary date of closing. If the Company’s shares trade at or above \$0.18 per share for 21 consecutive trading days, the Company may then accelerate the expiration of the warrants upon not less than 30 days written notice by the Company.

The Company paid a finders’ fee of \$52,320 in cash and issued 1,072,000 broker warrants pursuant to the offering. The warrants are exercisable to purchase common share units at a price of \$0.06 per unit. Each common share unit consists of one common share in the capital of the Company and one warrant to purchase common shares on the same terms as the warrants.

- All shares and warrants issued under the financing are subject to a four month hold period which expires on April 19, 2010.

The Company intends to renounce the exploration expenditures generated by this flow-through financing, and accordingly, upon renunciation, will be committed to incurring \$804,000 in qualified exploration expenses in Canada by December 31, 2010.

b) On December 23, 2009 OAK and Sage jointly announced that OAK had completed a transaction whereby OAK purchased a 100% interest in Sage’s unpatented claims and interests in the Larder Lake Mining district in Kerrs Township in the Abitibi Greenstone Belt of Ontario.

In consideration thereof, Sage will receive 2 million common shares of Sheltered Oak upon closing (valued at \$280,000) and \$500,000 in cash (secured by a charge on the Kerrs gold property), to be paid to Sage twelve months following the date of closing of the Purchase Agreement. Sage will receive a 2% Net Smelter Royalty on the Kerrs Gold Property of which 1% can be purchased from Sage by Sheltered Oak at any time for \$500,000. Sheltered Oak will also pay to Sage an advance royalty payment of \$125,000, payable in five annual instalments with the first payment due twenty-four months following the date of closing of the Purchase Agreement. This agreement is subject to the registration of the transfers with various government offices.

A write-down of \$694,167 was charged to the Kerrs property to record the property at the value reflected in the agreement.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

### **(a) Use of estimates**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known.

Critical accounting estimates represent estimates that are highly uncertain and for which changes in those estimates could materially impact the financial statements. The following accounting estimates are critical: the measurement of deferred income tax assets and liabilities and assessment of the need to record valuation allowances against those assets; valuation of options; and capitalized mining costs.

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established or the properties are sold or abandoned. Based on the results at the conclusion of each phase of an exploration program, management re-evaluates properties that are not suitable as prospects to determine if future exploration is warranted, and that carrying values are appropriate. If the estimated fair value of a property is deemed to be less than that of the carrying value of the property, a provision for impairment is recorded based on the undiscounted estimated future cash flows. Fair value has been defined by the Company as the estimated future cash flows, on an undiscounted basis. The decision to capitalize exploration expenditures and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits can materially affect the reported earnings of the Corporation.

### **(b) Mineral properties**

All direct costs associated with exploration properties are capitalized as incurred. If a property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The Company's policy is to defer expenditures related to acquisition, exploration and development of its exploration properties. If an exploration property is abandoned, continued exploration is not planned in the foreseeable future or when other events and changes in circumstance indicate that the carrying value may not be recovered, the accumulated costs and expenditures are written down to fair value. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects.

Indications that the net carrying amount of the capitalized costs on the exploration properties will not be recovered would include when:

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire, are cancelled or expropriated;
- sufficient funding is not expected to be available to complete the exploration program; or
- other indications of impairment exist.

Development projects include those projects where studies of development alternatives are in process and/or have been completed suggesting that the properties are economically viable. The Company reviews the carrying amount of development projects when events or changes in circumstances suggest that the carrying amount may not be recoverable. A development project may no longer be recoverable when:

- determined to not be economically viable;
- ownership rights or other key requirements cannot be met;

- sufficient funding is not expected to be available to complete the project;
- other indications the project is not viable exist; and
- if the estimated fair value of the property is deemed to be less than that of the carrying value of the property, a provision for impairment is recorded based on the discounted estimated future cash flows. Fair value has been defined by the Company as the estimated future cash flows, on an undiscounted basis.

When the carrying value of a development property is no longer recoverable, it would be written down to fair value.

Mineral properties and related expenditures are recorded at cost. These net costs are deferred until the mineral properties to which they relate are placed into production, sold or abandoned. The costs will be amortized using the unit-of-production method over the estimated useful lives of the mineral properties following the commencement of production or written off, if the mineral properties are sold, impaired or abandoned.

General exploration and development costs not specifically related to a mineral property are expensed as incurred.

**(c) Stock-based compensation**

The Company has a stock option plan to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The maximum number of shares which may be set aside for issuance under the plan is 10% of the outstanding common shares. The fair value of any stock options granted to eligible parties is recorded as an expense or capitalized to mineral properties over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

**(d) Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not likely.

**(e) Flow-Through Shares**

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If a Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

**(f) Foreign currency translation**

Assets and liabilities of integrated foreign subsidiary operations and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. The revenues and expenses, except amortization, are converted at the average exchange rates for the year. Amortization is converted at the same rate as the related assets. Gains or losses on translation are recorded through earnings.

### **(g) Capital Disclosures**

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to the consolidated financial statements as at September 30, 2009.

### **(h) Financial Instruments**

Handbook Sections 3862 and 3863 place emphasis on disclosures about the nature and extent of risks arising from financial statements and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook sections in Note 4 to the consolidated financial statements as at September 30, 2009.

### **(i) Going Concern**

In June 2007 the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The Company has made appropriate disclosures in Note 1 to the consolidated financial statements as at September 30, 2009.

### **(j) Goodwill and Intangible Assets**

Section 3064 of the CICA Handbook, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Corporation may no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2009.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

### **(a) International Financial Reporting Standards ("IFRS")**

In January 2006, the CICA Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publically-accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2012 filing, comprehensive financial statements in accordance with IFRS, including comparative information, for the three months ended December 31, 2010.

Consequently, the Company will continue to present its results for the years ended September 30, 2009 and 2010 using contemporary Canadian GAAP. In 2011, the Company will be required to restate for comparative purposes amounts reported for 2010 using Canadian GAAP to reflect contemporary IFRS. To accomplish this, commencing in fiscal 2010, the Company will maintain accounting records in accordance with both Canadian GAAP and IFRS in order to have comparable financial statements on full implementation of IFRS in 2011.

Under IFRS, the primary audience is capital markets and, as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. While the Company has begun addressing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company is continuing to assess the level of disclosure required and any necessary system changes to gather and process information.

The Company has begun its initial planning process for the IFRS conversion. The Company continues to monitor standards development as issued by the International Accounting Standards Board and the

Canadian Institute of Chartered Accountants Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

### **(b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests**

The CICA issued three new accounting standards in January, 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is the equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

### **(c) Financial Instruments**

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") was amended to require disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 - Inputs that are not based on observable market data.

This will be effective for the year ending September 30, 2010. The Company is currently assessing the impact of this change.

## **RISK CONSIDERATIONS**

### **Nature of Mineral Exploration and Development Projects**

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that exploration efforts will continue to be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities.

Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves. Whether a resource deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size; its proximity to existing infrastructure; financing costs and prevailing prices for the applicable minerals. Also of key importance are government regulations, including those related to prices, taxes, royalties, land tenure, land use, the importing and exporting of resources and production plant and equipment, and environmental protection. Development projects have no operating history upon which to base estimates of future cash operating costs. Particularly for development projects, resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns could differ significantly from those

estimated for a project before production. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

Sage's business of exploring for mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Sage common shares should be considered speculative.

There can be no assurance that any funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects, or that they can be secured on competitive terms.

## **DISCLOSURE CONTROL AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for certifying certain matters relating to the Company's disclosure controls and procedures; being the internal systems, controls and procedures that have been established to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely. The Chief Executive Officer and the Chief Financial Officer have designed and evaluated the Company's disclosure controls and procedures, and have concluded that the disclosure controls and procedures provide these assurances.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for certifying that appropriate internal controls over financial reporting have been designed which provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Chief Executive Officer and the Chief Financial Officer have evaluated the design of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings, and have concluded that the design is sufficient to provide such reasonable assurance.

During fiscal 2009, there were no changes in the Company's internal control over financial reporting that materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

## **LIMITATIONS OF CONTROLS AND PROCEDURES**

The Company's management including the Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they can not provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of certain events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on the Internet at the SEDAR website located at [www.sedar.com](http://www.sedar.com) and at [www.sagegoldinc.com](http://www.sagegoldinc.com).

### **Additional Disclosure for Venture Issuers Without Significant Revenue**

Discussion regarding the Company's Share Capital and Capital Deficiency may be found under Note 8 of the consolidated financial statements for fiscal 2009.

### **FORWARD-LOOKING INFORMATION**

Certain information in this MD&A contains management's assessment of the Company's future plans and may constitute "forward-looking information" under applicable securities laws. Such information may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, achievements, or opportunities expressed or implied by such forward-looking information. This forward-looking information includes estimates, forecasts and statements as to management's and others' expectations with respect to, among other things, exploration, development and production strategies and the outlook for the Company and the precious metals and base metals exploration and mining industry. When used in this MD&A, such information uses words such as "may", "will", "estimate", "expect", "anticipate", "believe", "intend", "plan", "could" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed under "Risk Considerations". Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, the Company cannot assure that actual results will be consistent with this forward-looking information. This forward-looking information is made as of the date of this MD&A, and the Company assumes no obligation to update or revise it to reflect new events or circumstances.