

**SAGE GOLD INC. - MANAGEMENT DISCUSSION AND ANALYSIS**  
**THIRD QUARTER ENDED JUNE 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 third quarter of fiscal 2009 ended June 30, 2009. The MD&A supplements, but does not form part of, the financial statements of the Company and should be read in conjunction with Sage's audited consolidated financial statements and related notes for fiscal 2008, since the interim unaudited consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period.

**DATE OF MD&A**

This MD&A was prepared on August 27, 2009.

**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 exploration, development and production 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 in Ontario, Québec, and Arizona. The main focus in the nine months of fiscal 2009 has been on the Beardmore Geraldton properties in Ontario, primarily the Golden Extension property at Jacobus East. Interest in this area is being driven by favourable gold prices, excellent exploration results and good local infrastructure and milling facilities.

For the rest of fiscal 2009 the Company's exploration program will remain primarily focused on the Canadian properties.

During the nine months of fiscal 2009 the Company incurred gross cash expenditures of \$1,716,729 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>		
Kerrs Lease	Kerrs Township (Chesney Bay)	100%	459
Kerrs	Kerrs, Chesney Bay and Rayner Lake	100%	11,040
Kerrs – Kidston/Dyment	Kerrs Township	Option 100%	160
Onaman	Onaman Lake	100%	117,598
Onaman Leases	Onaman Lake	100%	731
Jacobus	Kaby and Tyrol Lakes, and Pifher Township	100%	12,720
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

	<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

## Acquisitions

On August 7, 2009 Sage announced the closing of the merger with Consolidated Puma Minerals Corp. ("Puma") in an all-share transaction. Under the terms of the agreement, Puma shareholders received 1.202 Sage shares for each Puma share; thereby resulting in Puma shareholders owning a 25% stake in the combined company. Accordingly, a total of 62,317,876 treasury shares of Sage were issued to Puma shareholders. Subsequent to related closing costs, Puma adds approximately \$2.8 million net cash to Sage's bank account. In addition to the cash asset acquired, Sage has expanded its Board of Directors with the addition of two former Puma directors - Mr. Geoffrey Gold (Executive Vice-President and Chief Legal Officer of Kinross Gold Corporation) and Mr. Christopher Westdal (former Canadian Ambassador to Russia). The Business Corporations Act (Ontario) restricts the addition of directors to one (1). Mr. Joseph Baylis has agreed to step aside until the next Annual General Meeting, at which time the Company proposes to include Mr. Baylis in the expanded slate of Board nominees. Mr Baylis will act in an advisory capacity to the Company in the intervening period.

In conjunction with the merger, Sage has approved the grant of 3,425,700 stock options to replace the existing Puma stock options held by Puma directors, officers, employees and consultants.

## Exploration Activities

### Ontario, Canada

#### Jacobus – Golden Extension (Beardmore Geraldton Gold camp – "BGG")

On April 16, 2009 the Company announced the discovery of two additional high-grade gold vein structures on the Golden Extension property in the BGG, referred to as Veins 9 and 10. Vein 9 comprises two discrete veins separated by up to 15 metres of sheared carbonatized and mineralized wall rock. Visible gold is present within the sheared wall rock between the north and south offshoots. Grab samples from this vein ranged from 0.56 g Au/T to 36.23 g Au/T, and a channel sample of 2.95 g Au/T over 0.30 metres was reported.

A 3,000 metre summer drill program has been set for the Golden Extension to expand on the exploration results received to date.

Channel and grab results obtained to date, along with a plan map of the trenched areas to date on the Golden Extension vein system with the associated channel locations, are available at [www.sagegoldinc.com](http://www.sagegoldinc.com).

#### Paint Lake (BGG)

Sage has discovered nine new gold veins on its optioned Paint Lake property as disclosed in the Company's press release of June 17, 2009.

Selected highlights of the current sampling are detailed below:

- Vein 10 – channel samples – 22.77 g Au/T over 0.40 metres  
22.16 g Au/T over 0.40 metres  
14.45 g Au/T over 0.45 metres  
16.69 g Au/T over 0.55 metres
- Vein 7 – channel samples – 12.54 g Au/T over 0.20 metres  
grab samples 26.06 g Au/T  
20.37 g Au/T

34.66 g Au/T

- Veins 1,7,8 and 10 - 1.3 kilometres strike length
- Vein 4 – exposed over 95 metres of strike length – veins up to 3 metres in width.

A drill program is underway, along with additional trenching and channel sampling on the new zones.

The Paint Lake property is contiguous to the eastern end of Ontex's Brookbank gold deposit which has 43-101 compliant indicated and inferred mineral resources. On December 18, 2008 Ontex announced a drill intersection of 85.9 g Au/T over 3.4 metres from drilling completed on the Brookbank deposit. Sage's new occurrence, vein 7, southwest of the original stripped area is 400 metres east of the property boundary and lies stratigraphically at the contact of the southern metavolcanics and the northern conglomerates within the Paint Lake shear zone. In general, this structural and stratigraphic location is the host environment for both the Brookbank Gold deposit and Sage's original discovery on the Paint Lake property.

The geotechnical information relating to the above properties in the BGG area has been approved by Peter Hubacheck, P. Geo. A.P.G.O.: #1059 P. Geo, A.P.E.G.G.A #33789, a qualified person as defined by NI 43-101. Mr. Hubacheck is an acting consulting geologist for the Company.

### **Other Properties**

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 in Ontario and a 100% interest in the Chibougamau and Malartic properties in Quebec. On August 28, 2008 OAK amalgamated with Lucrum Capital Corp., a TSX-V listed company, which subsequently changed its name to Sheltered Oak Resources Corp.

As at June 30, 2009 OAK had met all of its financial obligations under the agreement on the Kerrs property, and has indicated its desire not to continue its interests in the Chibougamau and Malartic properties. In order to maintain the option agreement on the Kerrs property, OAK is required to pay \$100,000 to Sage by September 6, 2009, and spend an additional \$1,000,000 in exploration expenditures by June 30, 2010, including \$125,000 on the Kidston/Dyment property by August 30, 2009.

Sage and OAK jointly announced on July 10, 2009 that unpatented mining claim L1140877 (the "Claim") covering approximately 240 hectares of the Kerrs Gold Property, one of the 43 unpatented mining claims for which OAK has an option to acquire a 55% interest from Sage, was forfeited on June 26, 2009 due to an error resulting from a failure to apply assessment work credits for work which had already been completed on the Claim. The area covered by the Claim is where most of the recent exploratory drilling has been done by OAK on the Kerrs Gold Property.

Sage and OAK are actively negotiating a resolution to this situation.

### **Financing Activities**

In July 2009, subsequent to the quarter end, Sage closed a non-brokered private placement of Cdn. \$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 consists of one common share plus one-half of one share purchase warrant. Each whole warrant is exercisable at \$0.10 for 24 months from date of closing.

A finder's fee of \$36,060 in cash was paid in addition to the issuance of 534,800 broker warrants, under the same terms and conditions as the warrants issued to the unitholders.

During the third quarter, Sage issued 1.2 million stock options to third party consultants, at an exercise price of \$0.10 per share; exercisable for a two year period from date of grant, and vesting over one year.

On August 7, 2009, the Company completed the merger between Sage and Puma. Under the terms of the arrangement agreement, Puma shares will be acquired at an exchange ratio of 1.202 shares of Sage

for each Puma share. In total, the Company will be issuing 62,317,876 treasury shares to complete this transaction, increasing the total number of Sage shares outstanding to 249,271,505. In addition, the Company has approved the grant of 3,425,700 options to former officers, directors and consultants of Puma. See Subsequent Events.

Subsequent to the quarter end, the Company granted 5,000,000 stock options to officers, directors and consultants of Sage, at an exercise price of \$0.10 per share; exercisable for a five year period from date of grant, with vesting over a two year period.

## Personnel

There were no changes in management or directors during, or subsequent to, the quarter ended June 30, 2009 that have not been disclosed in this report..

## Mineral Properties

Refer to Consolidated Statements of Mineral Properties in the June 30, 2009 unaudited consolidated financial statements for a breakdown of material costs.

Description	Cumulative to September 30, 2008	Additions	Cumulative to June 30, 2009
CANADA			
Kerrs Property	\$ 1,410,748	\$ 14,551	\$ 1,425,299
Malartic	12,511	(12,511)	-
Onaman Property	7,487,566	184,375	7,671,941
Jacobus Property	3,574,132	1,192,055	4,766,187
Nicole Property	63,658	(63,658)	-
Hopkins Properties	221,705	37,695	259,400
Beardmore Geraldton Properties	611,983	390,989	1,002,972
	13,382,303	1,743,496	15,125,799
UNITED STATES			
Pony Spur, Dike, and Corridors Properties	842,031	(842,031)	-
Gold Hill Property	972,793	(35,548)	937,245
	1,814,824	(877,579)	937,245
	\$15,197,127	\$ 865,917	\$ 16,063,044

For a description of these properties, refer to Note 5 of the audited consolidated financial statements as at September 30, 2008.

## Results of Operations

### Third Quarter ended June 30, 2009

Sage's operations in the third quarter of fiscal 2009 were focused on exploration, and the Company did not generate any operating revenue. Sage's net loss for the third quarter of fiscal 2009 increased to \$1,227,283 from a loss of \$734,281 for the comparable quarter in fiscal 2008, with the increased loss being primarily due to a write off of mineral properties (\$834,047 in fiscal 2009; \$nil in fiscal 2008) and

lower interest income (\$nil in fiscal 2009; \$25,572 in fiscal 2008) offset in part by lower general and administrative expenses (\$380,796 in fiscal 2009; \$756,770 in fiscal 2008), as detailed below.

The property write offs in fiscal 2009 relates to the Company's decision not to conduct further exploration on the Pony Spur, Dike, Corridors and Sugarloaf properties, and their accumulated capitalized costs were accordingly expensed. Interest income declined in the current year from the prior year's comparable quarter due to the bank's policy in the current period to not pay interest on investment certificates less than \$1 million. General and administrative expenses declined by \$375,974 primarily resulting from decreases in directors' and management stock-based compensation of \$184,466, lower professional fees of \$74,882, decreased travel and entertainment costs of \$41,552, and a decrease in office supplies of \$23,973. The decline in professional fees related primarily to the allocation of \$nil (\$93,614 for 2008) of stock-based compensation relating to stock options awarded to individuals in this group. The decrease in travel and entertainment expenses for the quarter was due to a reduction in the number of corporate presentations outside of Canada.

In summary for the quarter, stock-based compensation expense included in General and Administrative costs totalled \$4,492 for the three months ended June 30, 2009 compared to \$309,748 for the three month period ended June 30, 2008. As this expense is non-cash in nature, actual comparative cash-related expenses declined to \$376,304 in the current three month period from \$447,022 in the prior year's comparative period.

### **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>Third Quarter June 30, 2009</b>	<b>Second Quarter March 31, 2009</b>	<b>First Quarter Dec. 31, 2008</b>	<b>Fourth Quarter Sept. 30, 2008</b>
Expenses	1,227,283	528,847	564,221	1,058,090
Net income (loss) (including interest income)	(1,227,283)	(526,953)	(556,170)	(590,251)
Net income (loss) per share	(0.01)	-	-	-
Cash flow from (used in) operations	(109,813)	(366,503)	(713,129)	(317,184)
Cash & cash equivalents, end of period	91,480	90,524	224,755	356,186
Assets	17,202,754	18,193,797	18,740,508	16,224,860

	<b>Third Quarter June 30, 2008</b>	<b>Second Quarter March 31, 2008</b>	<b>First Quarter Dec. 31, 2007</b>	<b>Fourth Quarter Sept. 30, 2007</b>
Expenses	759,853	996,478	781,878	294,427
Net income (loss) (including interest income)	(734,281)	(934,308)	(544,977)	(442,894)
Net income (loss) per share	(0.01)	(0.01)	-	(0.01)
Cash flow from (used in) operations	(1,027,051)	(21,546)	(811,601)	(297,829)
Cash & cash equivalents, end of period	189,007	318,374	803,468	1,864,572
Assets	17,110,653	16,987,542	15,575,466	7,798,400

### **Nine Months ended June 30, 2009**

Sage's operations in the first nine months of 2009 were focused on exploration and financing, and the Company did not generate any operating revenue. Sage's net loss for the nine months ended June 30, 2009 was (\$2,310,406) compared with a loss of (\$2,213,566) for the corresponding nine month period the

year earlier, with the increased loss being primarily due to the write off of mineral properties (\$919,216 in fiscal 2009; \$nil in fiscal 2008), lower future income tax recoveries (\$nil for fiscal 2009; \$203,000 for fiscal 2008) and lower interest income (\$9,945 for fiscal 2009; \$121,643 for fiscal 2008), offset in large part by lower general and administrative expenses (\$1,390,815 in fiscal 2009; \$2,532,507 in fiscal 2008), as detailed below.

The property write offs in fiscal 2009 relates to the Company's decision not to continue to explore the Pony Spur, Dike, Corridors and Sugarloaf properties in Nevada, as well as the Malartic and Nicole properties in Quebec, and accordingly their accumulated capitalized costs were expensed. The income tax recovery relates to the timing of the renunciation of the income tax benefits to the holders of the flow through shares. The decline in the interest received pertains to the lower average short-term investment balance between the two fiscal periods and the bank's change in policy to not pay interest on investment certificates under \$1 million. General and administrative expenses declined by \$1,141,692 resulting from decreases in directors' and management stock-based compensation of \$791,269 and lower professional fees of \$227,586, which were partially offset by higher charges of \$128,439 relating to flow-through tax penalties. The decline in professional fees related to the allocation of \$19,697 (\$308,572 for 2008) of stock-based compensation relating to stock options awarded to individuals in this group. The increase in the flow-through tax penalties relates to the timing issues on the raising of flow-through funds and the timing of the related allowable exploration expenses.

In summary for the year-to-date period, stock-based compensation expense totalled \$61,575 for the nine months ended June 30, 2009 compared to \$1,227,332 for the nine month period ended June 30, 2008. As this expense is non-cash in nature, actual comparative cash-related expenses rose to \$1,329,240 in the current nine month period from \$1,305,175 in the prior year's comparative period.

### **Summary of Nine Month Results**

The following tables set out financial performance highlights for the nine month periods ended June 30, 2009 and 2008 and were prepared in accordance with Canadian GAAP.

	<b>Nine Months to June 30 2009</b>	<b>Nine Months to June 30 2008</b>
Expenses	2,320,351	2,538,209
Net loss (including interest income)	(2,310,406)	(2,213,566)
Net income (loss) per share	(0.01)	(0.02)
Cash flow used in operations	(1,237,530)	(1,860,198)
Cash & cash equivalents, end of period	91,480	189,007
Assets	17,202,754	17,110,653

### **LIQUIDITY AND CAPITAL RESOURCES**

At the end of the third quarter of fiscal 2009 Sage reported working capital of \$527,197 (\$2,632,026 – fiscal 2008), cash & cash equivalents of \$91,480 (\$189,007 – fiscal 2008), and short term investments of \$370,000 (\$1,950,904 – fiscal 2008). Subsequent to the quarter end, the Company closed a private placement of shares in July for net proceeds of \$565,050, and completed the acquisition of Consolidated Puma Minerals Corp. in August which added \$2.8 million to Sage's working capital. As a result, working capital is now sufficient (see Subsequent Events). As a result, the Company has determined that it has sufficient financial resources to manage the Company through fiscal 2009. The consolidated financial statements as at June 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 unaudited interim 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 currently does not have credit facilities with financial institutions, and does not anticipate that it will generate revenue from its activities in fiscal 2009; therefore it will rely on its ability to obtain equity financing for operations. The Company raised \$9,384,682 (net of costs) in equity financing in fiscal 2008, and \$3,214,443 (net of costs) in financing in the first quarter of fiscal 2009. Management anticipates that it will be able to raise sufficient capital to further explore and develop its properties and carry out its projects in the future. However, specifically in light of the turmoil in the current financial markets, 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 reduce related expenses as necessary. Refer to "Risk Considerations".

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

During the third quarter of fiscal 2009, management and consulting expenses of \$87,250 (fiscal 2008 - \$70,900) were paid or accrued to officers or a corporation whose shareholder is a director or officer of the Company.

During the third quarter of fiscal 2009, mineral property expenditures include consulting fees of \$3,750 (fiscal 2008 - \$21,600) paid to an officer of the Company.

Directors fees accrued to independent directors in the third quarter of fiscal 2009 amounted to \$11,250 (fiscal 2008 - \$11,250).

All of the above transactions noted above were recorded at the exchange amount.

Included in accounts payable and accrued liabilities as at June 30, 2009 is \$84,766 (June 30, 2008 - \$43,917) owing to these related parties.

## **PROPOSED TRANSACTIONS**

There are no material decisions by the Board of Directors of the Company with respect to any imminent or proposed transactions that have not been disclosed herein.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

Sage shares trade on the TSX Venture Exchange under the symbol "SGX." The Company is authorized to issue an unlimited number of common shares, and as at June 30, 2009 there were 176,935,121 common shares issued. Subsequent to the end of the quarter, the Company closed a non-brokered private placement of 10,018,508 common share units, and, pursuant to the completion of the merger agreement between Sage and Consolidated Puma Minerals Corp. ("Puma"), issued an additional 62,317,876 common shares to complete the transaction. Subsequent to these events, the Company has a total of 249,271,505 shares outstanding. See Subsequent Events.

As at June 30, 2009, there were 30,146,070 warrants outstanding with a weighted average exercise price of \$0.30 of which 16,346,070 expire in calendar 2009 and 13,800,000 expire in 2010. Subsequent to the end of the quarter, the Company issued an additional 5,009,254 warrants in conjunction with the private placement noted above, and 3,651,500 warrants expired unexercised on July 11, 2009. See Subsequent Events.

As at June 30, 2009, there were 13,430,000 stock options outstanding with a weighted average exercise price of \$0.25 of which 1,015,000 expire in calendar 2010, 4,425,000 expire in calendar 2011, 7,040,000 expire in calendar 2012, and 950,000 expire in calendar 2013. Subsequent to the end of the quarter, Sage approved the granting of 3,425,700 options to former officers, directors, and consultants of Puma in conjunction with the terms of the merger agreement noted above, and approved the issuance of 5,000,000 options to officers, directors and consultants of Sage. See Subsequent Events.

As at June 30, 2009, there were 3,440,686 compensation stock options outstanding with a weighted average exercise price of \$0.33, of which 1,264,686 expire in calendar 2009, and 2,176,000 expire in calendar 2010. Subsequent to the end of the quarter, the Company issued 534,800 compensation stock options pursuant to the private placement issue in July, 2009. See Subsequent Event.

## COMMITMENTS

a) The Company leases its office space under a lease agreement which expires in February 2011. Remaining lease obligations, under the agreement, by fiscal year, are as follows:

2009	\$ 11,500
2010	48,333
2011	<u>20,833</u>
	<u>\$ 80,666</u>

b). The Company renounced the flow-through offerings that occurred in October 2008. Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Income Tax Act (Canada) requirements for the look-back rule. The look-back rule requires the Company to incur qualifying exploration expenditures in Canada ("CEE") within 12 months from the effective date of renunciation. As at June 30, 2009, the Company is committed to incurring approximately \$2,087,000 in CEE by December 31, 2009 arising from the flow-through offerings.

## SUBSEQUENT EVENTS

i) On July 10, 2009, the Company closed a non-brokered private placement of Cdn. \$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 consists of one common share plus one-half of one share purchase warrant. Each whole warrant is exercisable at \$0.10 for 24 months from date of closing.

A finder's fee of \$36,060 in cash was paid in addition to the issuance of 534,800 broker warrants, under the same terms and conditions as the warrants issued to the unitholders.

ii) On August 7, 2009 the Company completed the merger of Sage and Puma. Under the terms of the arrangement agreement, Puma shares have been acquired at a share exchange ratio of 1.202 shares of Sage for each Puma share.

In accordance with the arrangement agreement, the Company has approved the grant of 3,425,700 options to former officers, directors, and consultants of Puma. The Sage options are replacements of the existing Puma options, and are exercisable at a strike price of \$0.0832 for the \$0.10 Puma options, \$0.1498 for the \$0.18 options, and \$1.4559 for the \$1.75 options for a term of up to five years with immediate vesting.

Transaction costs amounting to \$162,998 incurred to June 30, 2009 are included in deferred transaction costs. The combined entity will retain the Sage Gold Inc. name and trading symbol SGX on the TSX Venture Exchange.

iii) On August 10, 2009 the Company approved the grant of 5,000,000 options to officers, directors and consultants of Sage. The options are exercisable at a strike price of \$0.10 for a term of five years with vesting over a two year period.

## 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 discounted 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 Company.

**(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 amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the property and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

**(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 expensed.

#### **(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 June 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 June 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 included disclosures recommended by the new Handbook sections in Note 1 to the consolidated financial statements as at June 30, 2009.

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

Effective October 1, 2008, the Company adopted Section 3064, Goodwill and Intangible Assets, which replaced CICA Handbook sections 3062 and 3450, EIC abstract 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under IFRS. The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at June 30, 2009.

#### **(k) Mining Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The Company has applied this new abstract for the three and nine months ended June 30, 2009 and there was no significant impact on its unaudited interim consolidated financial statements as a result of applying this abstract.

## **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 (generally accepted accounting principles) 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. While the Company has begun assessing the impact of the adoption of IFRS on its consolidated financial statements, the financial reporting impact of the translation to IFRS cannot be reasonably estimated at this time.

### **(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 Section 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 of 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 equivalent to the corresponding provisions for IFRS IAS-27, “Consolidated and Separate Financial Statements”. The Company is in the process of evaluating the requirements of the new standards.

## **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.

### **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).

### **CAUTION REGARDING 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.