

Deconstructing Silver Standard in Argentina

One doesn't have to have too great a memory to recall the glory days of silver both before the 2008 crash and then the resurgence thereafter (when the metal hit \$50 per oz momentarily). Back at that time one of the 800lb gorillas of the silver space was Silver Standard Resources (TSX: SSO | NASDAQ:SSRI) and it was a ubiquitous presenter in New York, constantly doing the rounds and keeping its mammoth market cap in play.



At the time its main play was a project (not a mine) called Pirquitas in the far northern province of Jujuy in Argentina. The project eventually came into production and has carried Silver Standard through the dark times, both for silver and for perceptions of Argentina. Now Argentina is (almost) sexy again and silver is back on centre stage (though not as booming as the Tin Foil Hatters would like). And yet machinations are afoot to “distance” Silver Standard from the project that has long been its mainstay.

In this piece we shall look at what is going on to try and divine if this is the creation of a major new champion of the Argentine mining space or the steady retreat of Silver Standard from its traditional stamping ground.

The “Latest” Deal

In October 2015, the current main vehicle of the Grosso Group, Golden Arrow Resources (TSXV: GRG; FSE:GAC; OTCQB:GARWF) and Silver Standard entered into a business combination agreement for the joint development of Golden Arrow’s Chinchillas project and “an agreement to combine the producing Pirquitas Mine and the Chinchillas project, located approximately 35 kilometres apart in Jujuy Province of Argentina, into a single new operation.” The joint venture would be 75% owned by Silver Standard and 25% owned by Golden Arrow.

During the 18-month preliminary period, Silver Standard would invest up to approximately US\$12.6 million “at Chinchillas to advance the project and evaluate the feasibility of developing a combined mining business with its existing Pirquitas operation.”



The Grosso Group

This outfit is headed by Joe Grosso who might be called the doyen of Argentine mining. He was one of the early pioneers of the mining sector in Argentina in 1993 when mining was opened to foreign investment, and was named Argentina's 'Mining Man of The Year' in 2005. He proved to be a useful vector for foreign miners wanting local knowledge during the opening of the Argentine mining sector and fully formed strategic alliances and negotiated with mining industry majors such as Barrick, Teck, Newmont, Viceroy (now Yamana Gold) and Vale S.A., and government officials at all levels.

Rummaging through the dustbin of our mind (well, actually searching our back catalogue of research) brought us to our avid support (in the middle of last decade) for Aquiline in its legal battle over the *La Navidad* deposit with the Grosso Group company IMA (then IMR.v). IMA ended up losing out to Aquiline, then Aquiline was snapped up by Panamerican Silver for around CAD\$626 mn, if memory serves us right, only to have Panamerican mothball the project despite its enormous potential.

Then rolling on to after the 2008 crisis, IMA was reduced to a cashbox and became subject to the predatory moves of a certain Southern Californian guru who engineered its merger into a threeway structure with Kobex and International Barytex in a deal, which we opposed, that created a super cash-box that then did nothing with the money during one of the greatest bargain basement sales in mining history.

The Argentine Assets

Silver Standard's Pirquitas property is a well-known mine. It is positioned at an elevation of 4,100 meters above sea level and is accessible by all-weather roads. The open-pit mine achieved commercial production in December 2009. Ore is crushed and treated in a gravity pre-concentrator prior to processing in a conventional mineral flotation plant. The silver and zinc concentrates produced from the plant are shipped to third party smelters.

The mine delivered record silver production in 2015 with 10.3mn ounces of silver and 9.4mn pounds of zinc. For 2016 the production guidance was between 8-10mn ounces of silver and up to 5mn pounds of zinc.

The Probable Mineral Reserves amounted to 16.5mn ounces of silver at an average grade of 220.1 g/t and 7.7mn ounces of silver in stockpiles at an average grade of 109.1 g/t as at December 31, 2015. The Indicated Mineral Resources of 53.8mn

ounces of silver at an average grade of 122.4 g/t, 18.2mn ounces of silver at an average grade of 241.1 g/t at Pirquitas Underground and 8mn ounces of silver in stockpiles at an average grade of 107.3 g/t as at December 31, 2015.

Here is the San Miguel open-pit at Pirquitas.



The Chinchillas property is a less-well-known quantity in comparison. It has near-surface mineralization providing the potential for an open-pit mining scenario, plus conventional metallurgy that has shown high recoveries of silver, lead and zinc to concentrates in bench-scale testing, and access to infrastructure including highways, power and water. The project which hosts a resource of 100mn ounces of silver (155mn ounces in AgEq) in the Measured & Indicated categories and 44mn ounces of silver (90mn ounces AgEq) in the Inferred category.

However, it's vital to note in light of the storming Zinc price that this resource dates from April 2016 when Zinc was a whole different ball of wax. This project has a Measured and Indicated Zinc component of 401mn lbs with a further 548mn lbs

Zn in the Inferred category. With silver having fallen and Zinc having risen, the AgEq equation would register substantially more ounces now and Zinc would be a greater part of the economics. This is the type of stuff that gets our pulse racing.

This updated resource estimate is the result of the Chinchillas Project pre-development activities, funded by Silver Standard, which are being undertaken to evaluate the feasibility of creating a combined mining business with Silver Standard's Pirquitas mine.

What has Happened?

The two major events in the last two months have been the retreat of the silver price from over \$20 and, probably more importantly, the change of government in Argentina. After nearly a decade and a half of irregular iconoclastic governments in Argentina ruled most recently by the dynasts of the Kirchner family and before that the Duhalde regime the country has returned to a certain orthodoxy with the election of Mauricio Macri as President in the last quarter of 2016. While not reinserting Argentine directly into the good books of mining investors it has certainly made thinking about the possibilities not being grounds for insanity. Foreign exchange rules and foreign purchasing restrictions have been freed up thus removing two of the major bugbears of foreign miners operating in the country. This reopening has coincided with the Lithium boom which has placed Argentina at the centre of the action because of its ample supply of *salares* in its northwestern provinces.

With these developments in the foreground the Silver Standard/Golden Arrow alliance has been pattering along in the background. In 2016, work completed included: a Phase VI drill program, an upgraded resource estimate, metallurgical studies, engineering studies, environmental monitoring, and community relations programs. The Environmental Report, which is the

major mine permit application, was submitted to the authorities in September.

Joseph Grosso, chairman, president and CEO of Golden Arrow, went on record in December as saying “as of the end of September 2016, Silver Standard has invested approximately US\$11mn to advance the project towards pre-feasibility”. He also noted that “currently at Chinchillas, there are two drills working to complete detailed geo-mechanical and hydrogeological programs in and around the designed open pit by mid-December. Exploration work is also continuing both at Chinchillas and regionally, to delineate additional potential ore feed for the proposed operation.”

The price action at Golden Arrow seems to echo what has happened with the silver price over the last six months more than any developments on the ground with its Silver Standard deal.



Conclusion

Supposedly J.P. Morgan was once asked how he became so wealthy and his response was “I sold too early”. The question here is whether Silver Standard “sold too early” in engineering the

transaction discussed above. We think not. Production is over the hill at Pirquitas and its best chance of extending its own mine's life and gleaning extra value out of its smelter at the mine. Without an extra source of feedstock, a decision on whether to shutter it will need to be made in the next two months. The obvious solution is to ramp up Chinchillas and start sending a stream of Silver (and Zinc) ore in the direction of Silver Standard's processing facilities at Pirquitas. We are constantly asked where the next big Zinc mine is coming from and have hitherto been saying Chesapeake's Metates project or shrugging our shoulders. However with the silver and zinc planets aligning in Jujuy the combined operation of Pirquitas and Chinchillas adds a major dark horse in the race to production.

As to which of the players to go for, the choice is between Silver Standard with 75% of the combined operation (but with a \$1.5bn market cap) or Golden Arrow with a \$69mn market and 25% of the action. While Silver Standard has two other producing mines (Marigold and Seabee, which are rather ironically both gold mines), Golden Arrow would appear to be the purer play, the cheaper stock and the better leverage to the renascent Argentine mining sector.