

Analyst directs investors south for the Latin American Mining Round-Up 2017

The grim years from 2011 to early 2016 produced a wholesale retreat to “close to home” locations in the mining sector. Stories that were in either Canada or Australia fared better than those in edgy locations, like Africa or Latin America. We had predicted that when the turn came there would be some feelers go out to these areas but that capital would not flow in substantial amounts until the recovery was robust. This has proven to be the case. However the one exception is the Lithium boom which sent companies scurrying to locations they had hitherto eschewed and produced somewhat of a staking boom, particularly in Argentina.

The countries that miners retreated from in 2011 are not necessarily the same territory when they return in 2017. Politics have changed, attitudes have changed, metals have come into or gone out of fashion and domestic priorities/needs have altered. This makes it an ideal time to revisit Latin America which had become a strong preserve of Canadian players from 2005 to 2011 and now is experiencing somewhat of a thaw in investors frosty outlook to the region.

Argentina

For many years Argentina had a paradoxically self-declared pro-mining government that miners loved to hate. The Kirchner regime did not make things easy. It was happy for miners to mine but then seemingly didn't want the miners taking the profits back to their mothership (wherever that might be). All that ended with the overthrow of Kirchner by Mauricio Macri in late 2016 and the arrival of a pro-business government. Frankly Argentina didn't miss all that much in the 2011-15

period as not much was happening in pro-mining OR anti-mining jurisdictions in Latin America. Indeed the timing of Macri's appearance with the revived mining sector around the same time (particularly the Lithium boom) was very timely. Deals are starting to be done like the Golden Arrow Resources (TSXV: GRG | OTCQB: GARWF)/Silver Standard combination. We would expect to see more deals, or at least fluidity in the ownership of assets that have long been in the freezer.

A weather eye should be kept upon the upcoming elections for the Congress where Cristina Kirchner is putting herself forward as a wannabe legislator. This will be a litmus test of where things might be heading in the next Presidential elections, which nevertheless are still a long way away in 2020.

Brazil

The country that is always "promising" but never delivers may not be true anymore but Brazil's attempts to move into the global big leagues have been hampered by repeat own goals. It wants to be a Permanent Member of the UN Security Council but has had two Presidents indicted for corruption in the space of one year!

The most positive side effect of the political wobbles and moreover the economic slowdown, now that easy money has ended, is the decline in the Real against the dollar which has been a healthy kicker to those already producing or looking at kickstarting projects in Brazil.



The political environment has not harmed mining though as much as metals prices have, with large scale projects (most dependent upon iron ore) no longer dominating the airwaves (which is probably a good thing). Smaller projects in niche metals seem to be getting more of an airing with developers of Manganese and Nickel projects having crossed our desk in recent times. This trend will continue as metals prices trend back up and indeed we suspect that we will hear Brazil linked to more and more minerals with which it has not been traditionally associated. As for gold in Brazil, pretty blah..

Ecuador

This country has been the inevitable beneficiary of cycles and a dose of reality. The falling oil price also focused minds in government(s) that had believed that oil would always provide and mining was an unnecessary evil. As we have observed before, oil provides way less jobs than mining and does not necessarily move the broader economy forward in the way that mining can.

The shift of Fruta del Norte out of the deathly grip of Kinross has electrified the local scene. It caused us to dig out and dust off our Intierra map for Ecuador circa 2008 and review the long lost names and their concessions. This country

is enormously prospective and if it can get its act together it might actually be what Colombia promised to be and did not deliver.

Watch this space..

Mexico

This country chugs along as the *tried and true* investment country of choice in LatAm. The main difference in recent times is that miners are finally 'fessing up that cartels and crime are a problem. For years investors asked the question and were told "that's another part of the state" now the truth (as much as can be) is being told. However from what we have seen it hasn't precluded any investment in the country.

Otherwise Mexico is still very much open for business and is riddled with great projects waiting to be sparked into action by either metals prices or financings. The likes of Chesapeake Gold's (TSXV: CKG | OTCQX: CHPGF) Metates project, Southern Silver's Cerro la Minitas and Azure Minerals' Alacran project spring to mind as some awaiting the appropriate trigger.

The problem for us is the producing companies that investors stuck with through the grim days who still aren't giving up a dividend. We have a special part of hell reserved for these companies (you know who you are). Ironically that makes the Mexican-owned and -listed companies (e.g. Peñoles, Frisco) more attractive than many of the TSX-listed ones. To the offenders.... must try harder..

Peru

Peru has, in some ways, become the new Chile. As Chile gets tougher to do business, Peru in comparison starts to look less complicated. One should not dismiss the potential for NGOs to stir up a roadblock by "locals" faster than you can say "rent-a-crowd" but generally most areas of the country are mining-friendly and out to get the jobs and trickle down that having

a major operation in their vicinity brings.

The campaign to grab Chile's crown has been slow and steady, but it's getting there, particularly in the copper space. We were surprised at a recent lunch by Panoro Resources to hear of Peru's stealth advance in Copper. Below can be seen the progress made.



If it keeps on at this pace the baton of copper leadership will shift from Chile to Peru before 2030.

Chile

One can never really know but I have the suspicion that somewhere in the Chilean Ministry of Mining there is a type of "Bat Phone" that connects the Powers That Be to the heavies of the Lithium Cartel and this phone has been ringing hot over the last year.



As Argentina has been advancing with somewhat of a Lithium “gold rush” Chile is scarcely mentioned despite its importance in the Lithium space. Why? Well, maybe the cartel makes the call and say “no interlopers” and the Ministry gets the message. The result Chile is the word on nobodies’ lips.

The first question any investors ask at presentations by miners operating in Chile is the water issue. This has become, probably rightly, an investor obsession. At higher levels (pardon the pun) the issue becomes Pascua Lama and a number of other dents in Chile’s reputation of being miner-friendly.

Codelco meanwhile sits as the omnipotent master of all it surveys and we would hazard a projection that as long as Codelco exists there will probably not be another major copper mine developed by any other major. Codelco needs to own all the big projects to ensure its ongoing status as 800lb gorilla. We might also mention that the military have a special royalty off its mines.

Chile going forward will mainly be small-scale plays and that is why we find Coro, Amerigo and their ilk as the most interesting players to watch.

Colombia

We have long been in two minds on this country and been justified in that view. Too many spoilers in the form of local

“entrepreneurs” got into the listed plays and the presence of artisanal miners also muddied the waters. While we have one favorite that is running a small mine and upgrading it (as well as tolling for artisanals on its patch) the rest of Colombian “big” deposits will most likely stay as deposits and nothing more.

Nicaragua

The country shows how do it. From Sandinistas and Contras in the 1980s to a mining hotspot in the current decade. Let it be a lesson to those countries still in the Dog House (see anon). This is a country to watch and should certainly be a model for the others around it (Guatemala being a good case) that have yet to turn themselves into mining friendly destinations. Until they do this, Nicaragua will be the sexiest place in Central America to mine gold, in particular.

The Dog House

Venezuela and Bolivia remain in the dog house. The former staggers from bad to worse and the cataclysmic final scene may be playing out in the next few weeks. This is however a “death scene” that has been forecast before and perpetually forestalled. This country has to have the definitive shift in government that produces that moment where “the blood runs in the streets” that signals the turn. Nothing can be achieved as long as the remnants of *Chavismo* cling on.

Bolivia is also not on the beaten path but at least is not as idiosyncratic as Venezuela. The country is doing its own thing and just as well, as miners have good memories that this place has been the graveyard of more than a few Canadian players. Interesting though was to see the Bolivian ambassador to the UK at a recent Neometals event in London, apparently scoping out the potential of that company’s *salar* extraction technology for its own Lithium riches.

Conclusion

Mining executives, particularly in Canada, always had a soft spot for Latin America (if only for the weather being great when it is frosty north of the border) but also for its proximity and its enormous potential. The first wave of players were rewarded in spades with a frenzy of takeovers that “made” certain Canadian players as they shuffled assets and piles of cash. There were debacles, (Venezuela, Bolivia and Ecuador) but the successes (particularly in Mexico) far outweighed those mishaps.

It’s a new cycle and things have changed both down in Latin America and in the major capital markets. Priorities are different but one cannot take one’s eye off the best prospects and Latin America has more than its fair share of those. As long as the US dollar remains so “expensive” the best thing TSX denizens should do is regard Nevada etc as “flyover” territory and just keep heading more to the south.

Argentina – A New Mining Finance Frontier?

It is rather ironic that after over ten years of the Brazilian “ascendancy”, it should now be that Argentina looks the most promising place in Latin America and Brazil should be wracked by economic problems, corruption and protests. But ever was it thus that Argentina is under-appreciated while Brazil is always “the country of the future and always will be” as the other Latin Americans rather ironically observe. Despite Brazil’s long period “in the sun”, even a cursory visit to Argentina shows that the more southerly nation has a more dominant middle class and much better infrastructure and education, with less poverty and crime than its northern

neighbor.

Whatever advantages Argentina may have it always seems to let them slip every fifteen to twenty years through some lapse into populism. Another dark phase has just ended with the democratic ousting of the abysmal Cristina Kirchner late last year and in time-honoured tradition there has been a massive reaction with a swift undoing/reversal of many of the idiocies, inconsistencies, blockages and boondoggles that the rampantly corrupt former administration had implemented for its greater personal enrichment. Chief amongst the initial changes were a reversal of many barriers to imports, punitive taxes on exports and freeing up the exchange rate. Since then the government has moved on to some sort of accommodation with the "hold outs" on previous debt restructuring (some vulture funds with dubious support of the US "legal" system). Next up is unravelling the byzantine fuel subsidies and reforming the mining sector.

The Ministerial Roadshow

I was invited this week to an event at the Argentine embassy in London that was essentially a "meet the ministers" opportunity. The speakers were Miguel Braun, Trade Secretary and Lucio Castro, Secretary of Productive Transformation. Prominent in their speeches was the issue of prioritizing mining in Argentina. Even in the days of Menem (who reformed the mining code and decentralized decision making) or Cristina Fernandez de Kirchner (who was pro-mining as long as it danced to the many conflicting tunes that the government was playing) there was little overt prioritization of mining because, for the urban masses of Argentina, mining was an obscure thing not branded on to the national consciousness like it is in Australia, Canada or South Africa. Much of this lack of perception of the sector and its potential originates in the virtual absence of mining between 1947 and the late 1990s. In any case it is now seen as one of the productive (and export-earning) pillars of the new regime.

Your intrepid correspondent was itching to ask a question by the time the Q&A came around. The trade attaché had arranged for me to go up afterwards and talk about mining but I could not resist the temptation, given that nothing had been said about the Argentine stock market, to mention the subject in front of the audience. I firstly dropped the statistic that listings had gone from over 600 in the 1970s to less than 100 these days and that volumes had shriveled under the dual assault of the hostile government of the undearly departed CFK regime and the on-going mediocrity of the cabal of stockbrokers that have had their death like grip on Argentine equity markets for well past their "use-by" date. This came totally out of left field and left the ministers floundering but hopefully it has added capital market reform onto the agenda as well. Clearly though they knew the dire statistics on the shrunken number of listings (most in the economic cabal in Argentina do not) and I think the issue resonated as a "must remember to address this" mental note for future action.

The Holy Grail of Mining Listings

There was method to my questioning. There has not been a listed miner on the Argentine stock exchange since before the Second World War.

It's now nearly twenty years since, when living and operating as a stockbroker in Buenos Aires, I tried to convince the late, lamented Minera Andes to list itself on the Argentine stock exchange and diversify its investor base to include emerging market players rather than just mining investors.

Since that time, the only development that has managed to tempt anglophone mining managements out of their comfort zone was the launch of the Lima Venture Exchange, which is an offshoot of Peru's principal trading platform the Lima Bolsa. The Lima Venture appears to have gone somewhat by the wayside and been merged into the main listings of miners. This would make sense as some of the companies listed are veteran

producers rather than “venture” in any way. Southern Copper is an NYSE-listed company that is enormous.

Lima Bolsa - Foreign Issuers	
	Ticker
Armor Minerals	A
AndeanGold Ltd.	AAU
Alturas Minerals Corp.	ALT
AQM Copper	AQM
Candente Copper	DNT
Duran Ventures Inc.	DRV
Karmin Exploration	KAR
Lupaka Gold Corp.	LPK
Minera IRL	MIRL
Panoro Minerals Ltd.	PML
Peruvian Precious Metals	PPX
Southern Legacy Minerals	REG
Rokmaster Resources Corp.	RKR
Southern Copper Corp.	SCCO
Sierra Metals Inc.	SMT
Trevali Mining Corporatio	TV
Vena Resources	VEM

Our thesis is that all Latin markets represent an untapped source of funds from smaller savers and wealthy investors as well as institutions and other portfolio investors. In particular Argentines are well-padded with funds and hold minimal levels of personal debt (most properties are owned outright and mortgages are a rarity). This means there is a large amount of funding that is available for mobilization. Before the change of government it would have been a waste of time to consider activating this. Indeed it would have bordered on the irresponsible to urge investors into any listed situation there. But today the situation has diametrically changed. Miners should be at the forefront of capitalizing on this.

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16 Mar, 2016



Some Names to Conjure With

The table below shows the main players with an Argentine presence. There are undoubtedly others who are “hiding their light under a bushel” and shall start bragging about hidden assets when the country becomes fashionable again. But for now this is quite an impressive list and represents the type of players that have made Argentina the second largest gold producer in the continent.

Company	Ticker	Project
U3O8	UWE.to	Laguna Salada
Austral Gold	AGD.ax	Pinguino
Hochschild	HOC.L	San Jose
McEwen Mining	MUX.to	San Jose/Los Azules
Patagonia Gold	PGD.L	Cap Oeste
Panamerican Silver	PAAS	La Navidad, Manantial Espejo
Silver Standard	SSO.to	Pirquitas
Yamana	YRI.to	Cerro Moro, Agua Rica
AngloGold Ashanti	AU.L	Cerro Vanguardia
Orocobre	ORE.ax	Olaroz
Western Lithium	WLC.to	Cauchari-Olaroz
Galaxy Minerals	GMM.ax	Sal de Vida
Blue Sky Uranium	BSK.v	Various
Couer D'Alene	CDE	Mina Martha
Barrick	ABX.to	Pascua Lama
Glencore	GLEN.L	Alumbrera
Goldcorp	G.to	Alumbrera, Cerro Negro

Looking at this list, at least half are in the range of companies that could do with more financing to move their projects forward, while almost all could package up whatever they have and list the local subsidiaries on the Buenos Aires to make them self-funding or to raise funds for development elsewhere. Many of the projects in the hands of majors are somewhat long in the tooth. A good example is Alumbrera which is nearing its end of mine-life and could not really be sold even if they wanted to.

This is not just a list of foreign miners, this is a list of ALL miners because, believe it or not, Argentina does not have any Argentine-owned mines of note. This goes some way to explain why the sector has not had any of the local economy heavyweights going into to bat for the activity as they have had no skin in the game. Certainly listing miners on the local exchange and getting investors literally and figuratively "invested" in the industry would make the activity something more present for those denizens of the Buenos Aires banking district and middle class investors.

Conclusion

Metals prices are in recovery mode and we suspect that, in particular, Canadian miners will find that Toronto/Vancouver are still shallow ponds and then the attractions of secondary listings (or shifting main listings) in London, Latin America or even Frankfurt will start to exert a siren call upon miners looking to escape the cycle of financing misery they have been in since 2011.

Capital markets are all about "follow the money" and if the money is not in Vancouver for one's venture then what is one supposed to do? Sit in the office withering away waiting for a situation which may never turn.. to turn? If the money is in Latin America and most particularly in the pockets of local high net worths and the middle class then why would one not go there to seek it out? The argument that one cannot do it as one would have to translate annual reports or press releases into Spanish (or Portuguese) is a rather feeble one. Frankly if you can operate a mine in the country but you cannot translate a report or release then maybe you are not competent enough to be operating in that market.

Managements need to wise up. The Toronto and Vancouver mining worlds are only slightly less crowded than they were at their peak, but they are considerably more capital hungry and the investors are a quantum wiser as to what projects (and managements) they will back or not back. With the best will in the world there will NOT be the funds for the types of projects that were funded either pre-2008 or in the Dead-Cat Bounce years of 2009-2011. There will be some funds but these will be rationed and probably go to the companies that need the money the least or those that could borrow the money if they wanted. Those that are most needy and least creditworthy will be locked out.

It's raining pennies from heaven for Argentine miners at the current time and the smart will turn their umbrellas upside

down to catch some of them while the shower lasts.