



CHUBUT: IN FROM THE COLD EVOLVING BACK TOWARDS MINING

Christopher Ecclestone
cecclestone@hallgartenco.com

Chubut

In From the Cold?

- + The long reign of Kirchnerite governors in the province of Chubut came to an end in late 2023
- + The provincial administration in Chubut is *sotto voce* pro-mining
- + A number of heavyweight names that have long mined in other Argentina provinces have long been positioned in the province (including Pan American Silver and Patagonia Gold)
- + The new RIGI (Regime of Investment for Large Projects) scheme of the national government gives financial underpinning to big budget undertakings
- + The imminent listing of Piche Resources on the ASX provides a litmus test of what can be done in the province
- ✗ We expect that projects specifically in the cordillera (i.e. Esquel) will remain undoable at least as long as developers are inflexible in coming up with alternative proposals
- ✗ The likes of Pan American Silver, with their mule-like insistence on open-pit mining, do not help the cause
- ✗ There is still an aspect of “Argentine discount” to any mining undertaking, which adds an extra layer of uncertainty, particularly when the projects are largely in the capex category with many exceeding US\$500mn

The Wheel Turns

Just as some London investors waited decades for Robert Mugabe to pass from the political stage in Zimbabwe thus a collection of holders of impressive precious metals assets in Chubut have waited a decade and a half for Chubut to return to the “path of righteousness”, which essentially means doing what they want and allowing them to mine in an open-pit format and use cyanide. The latter, in particular, is a bridge too far (and likely to stay that way) but open-pit mining might manage to return to the realm of the possible.

As we explain later there has been a certain element of convenience for Chubutophobes in the mining community because as it gave them an excuse to proffer to shareholders as to why they weren’t moving forward on projects that could have been reengineered profitably for underground exploitation. Similarly, they could blame things on Argentina, the country, that were actually provincial matters and investors would be none the wiser. We note the oscillating likes/dislikes of Australian states like Queensland and Western Australia to uranium mines.

As a result, the province has become a fly-over zone with almost nothing spent on exploration until recent times. Is this about to change?

The Historical Events

The sorry tale of Chubut's self-exclusion dates back to events in 2003, when US-based miner Meridian Gold Inc. ran afoul of local interests with its planned mine near the town of Esquel in the Andean foothills. Long a haunt of what passes for hippies in Argentina, it was probably

Meridian's project, as of year-end 2002, had estimated gold reserves of more than three million ounces.

Unlike most Patagonian projects that are located in the wilderness away from population centres, Esquel is a tourist zone (with the famous Trochita narrow gauge railway amongst other attractions) as well as being a specialty agricultural zone (e.g. raspberries) due to its microclimate.

Residents of the area around Meridian's Esquel site voted 80% against a mine development there in 2003, and soon afterward Meridian hired a firm of business consultants to try to improve relations with local residents, with no success.

The legal struggle dragged on for a few years and then in April of 2007 the company lost an appeal to Argentina's Supreme Court over the environmental ban on its mining project in a Patagonian province.

Unsurprisingly, the court rejected the company's argument that national mining laws should take priority over the provincial laws that have prohibited the resumption of activity at the Esquel site.

The judges said the national mining code "establishes that the authority charged with applying environmental-protection norms will be determined by the provinces".

The Blanket Ban

The Province of Chubut passed a law in 2003 (Law 5001) that prohibits open pit mining and the use of cyanide in mineral processing in the entire province, effectively preventing the development of Navidad. To date, this law remains in place.

Most unfortunately the events in Chubut created wider waves which miners (and Chubut) have had leisure to regret as exploration and mining dried up in the province making it a total no-go zone. Even worse was that, at the international level, investors unable to discriminate.

Other parts of the country, most recently the Andean province of La Rioja, have passed laws banning open-pit mining. Mendoza province voted to suspend the issuing of new mining permits, but the local governor vetoed the legislation.

On December 15, 2021, the legislature of the Province of Chubut passed a bill to amend the provincial mining law to enable open pit mining within a given area that comprises the Gastre and Telsen Departments. This new law regarding mining zoning was subsequently promulgated on December 16, 2021 by the then Chubut Governor, Mariano Arcioni.

Why Chubut is Worth It

The multifarious bans instituted by the provincial government appeared to close and lock the door with the key then thrown away.

This was perceived as excluding explorers who already had territory, or those that might have otherwise gone after the province's rich mineral endowment.

Royalties

There is a Chubut Provincial royalty of 3%.

Navidad – Stuck in the Starting Gates

The Navidad project, one of the world's largest undeveloped silver deposits, is in north central Chubut Province.

Those with longer memories will remember our intervention in the showing match between Aquiline Resources and the Grosso Group in 2004. Our note on the subject can be found [here](#).

After Aquiline won its legal dispute, Pan American Silver (NYSE: PAAS |TSX: PAA) launched a takeover in 2009 for that company, offering CAD\$626mn and now owns 100% of Navidad. This became a case of acquire in haste and repent at leisure for Pan American.

The Navidad Project is comprised of eight individual mineral deposits in three separate mineralized trends (Navidad, Esperanza and Argenta trends). The six deposits of the Navidad Trend occur along strike over a distance of ~5.8 kilometres and are essentially continuous. Mineral Resource estimates (dating back to 2010) exist for eight of these deposits and amount to:

La Navidad - Resource							
Category	Grade			Contained Metal			
	Tonnes (Mn t)	Ag (g/t)	Cu (%)	Pb (%)	Ag (Mn oz)	Cu (kt)	Pb (kt)
Measured & Indicated	155.2	127	0.06	0.86	632.4	71	1,326
Inferred	45.9	81	0.02	0.57	119.4	9	262

From what we gather a 50g/t Ag silver cut-off was used and the NI43-101 from that time employed \$18 per oz Ag as the base case.

Pan American claims that its activities at Navidad currently are guided by an investment plan that focuses primarily on satisfying the legal requirements necessary to maintain our property interests under the current mining law. It plans to continue with such maintenance requirements and remain committed to Navidad and to contributing to the positive economic and social development of Chubut, should a favourable legislative framework be adopted.

Piche Resources – First In, Best Dressed?

The imminent listing of Piche Resources on the ASX may be the first swallow of Spring in Chubut's mining renaissance, if there is one. The assets, in Uranium and Gold, are principally in Chubut province though they do have a uranium asset in Western Australia.

The reawakening of investor interest in Uranium has coincided with the reemergence of Argentina as an investment option with the almost inevitable result that the long-becalmed U-scene in Patagonia has started to see some corporate actions.

Now upon the scene has appeared Piche Resources, with whom we have met numerous times in Buenos Aires over the last twelve months. This company comes with auspicious antecedents as its guiding lights are from Peninsula Energy and Areva/Avocet/Lion One.

Be under no illusion, uranium is the main target of Piche Resources. As we noted in [our survey](#) of the Argentine nuclear industry last August, uranium is vital to recreating a fully vertically integrated nuclear industry as existed until the 1980s.

Gold, as we have related, has been a hot-button topic in Chubut, but the difference here is that the production (if it gets to that) will be underground and not employing cyanide. It is also nowhere near Esquel.

Other Projects

Amongst other projects in a holding pattern are:

- That of AbraSilver (which we cover), which owns 100% of the 6,300 ha Aguas Perdidas project approximately 137 km southwest of Pan American's Navidad project
- That of Yamana Gold, which has most unfortunately ceded 40% of its stake in the Suyai gold project near the town of Esquel. Under the agreement, the investor, owned by Eduardo Elsztain and Saúl Zang, will be in charge of obtaining permits and "all environmental, social, and governance" issues. Yamana asserts that the Suyai mining project could produce as much as 250,000 ounces (nearly 7,780 kgs) of gold each year for the first eight years of the project
- That of Patagonia Gold (TSX-v: PGDC), which holds approximately 473,485 ha (4,735 kms²) of mining concessions in Chubut, including a 100% interest in the Mina Angela property, located some 45kms to the north of Navidad. Patagonia acquired an option in March 2021 on Mina Angela. It is located on the northern border of the Province of Chubut and is secured by 44 tenements totaling 2,100 ha with historic mine production of over 1.04 million tonnes of material grading 4 g/t Au and 48 g/t Ag along with base metals including lead, zinc and copper. The aforementioned legal change freed up the potential for open pit mining in two departments was viewed as potentially enabling the development of 101,151 ha of its mining concessions, including Mina Angela (while the remaining 372,334 ha of its mining concessions in Chubut are outside the area that is subject to the new zoning law)
- That of Blue Sky Uranium (TSX-v: BSK), which holds the Cerro Parva project (including a 100% ownership interest in eleven mining properties covering over 36,237 hectares in the central part of Chubut Province). The property is situated within the same district and shares a similar geological environment to the Cerro Solo uranium deposit, which is located at 40-50km to the

west, and is controlled by the National Commission of Atomic Energy (CNEA). It is road accessible year-round, at low elevation, with low relief, in an area of semi-arid climate.

Pacto de Mayo & Its Implications

One of the main legs of the Milei strategy has been to get the governors on board by a series of carrot and stick measures, and the affirmation of their collaboration is the so-called Pacto de Mayo (Pact of May) which has ten main precepts. He managed to get 18 of the governors to sign-on, with the hold-outs being the most die-hard Kirchnerite caudillos in provinces that the K-crowd had managed to cling onto.

The relevant commitment for the purposes of our discussion is Article Seven which states:

- El compromiso de las provincias argentinas de avanzar en la explotación de los recursos naturales del país (being “a commitment of the Argentine provinces to advance the exploitation of the natural resources of the country”)

This is essentially the “dog in the manger” clause that demands that all resources at the command of the provinces be put to work before they come rattling their begging bowl in Buenos Aires for extra funds. A number of provinces in the last two decades have been able to eschew mining projects knowing that the Kirchnerite governments at the national level would dispense largesse to make up for the mineral royalties and other taxes foregone by refusing development of certain projects.

Chubut was one of the provinces that signed up to the Pacto.

Ringling the Political Changes

Ignacio Agustín "Nacho" Torres is currently serving as Governor of Chubut of Chubut Province having been elected In the July 2023 provincial elections, with 35% of the vote. He took office on 10 December 2023. Thus, his term in office coincides with that of Javier Milei in the national presidency.

Torres however is a member of Republican Proposal (PRO) the party which had Patricia Bullrich, now Milei's Secretary of Security, as the unsuccessful runner for the Juntos por el Cambio parliamentary inter-bloc (which included the PRO).

He previously served as a National Senator for Chubut for the PRO having been elected in 2021 and had served as a National Deputy from 2019 to 2021.

Torres is the first non-Peronist governor of the province since the shutters came down on Meridian at Esquel.

Back to Navidad

We shall start by noting that the website of PAAS refers to this project as being on “care & maintenance”. This is NOT true. This is an undeveloped prospect. Care & maintenance implies a mine that has been halted and yet construction has not even begun.

As is well-known, mine designers are pushing on an open-door when they suggest open-pit mining to a major. Then again, mine owners plead with the designers for open-pit to be designated as the only way forward. The fact that open-pit mining is not permitted in this jurisdiction (and increasingly

frowned upon in many others) does not prompt a “back to the drawing board” moment, but instead a simultaneous digging-in of heels and burying of heads in the sand.

Let’s look at some of the metrics here. The plan calls for not one or two pits, but four large pits and two or three smaller ones. The average ore production rate was supposed to be 15,000 tpd (i.e. gargantuan) and the average life-of- mine strip ratio is 4.8 to 1 (i.e. this deposit is not at surface). If it was us, we would be wondering, can this be done underground? The economics of the project have surely expanded exponentially since the pricing used in the 2010 economic study.

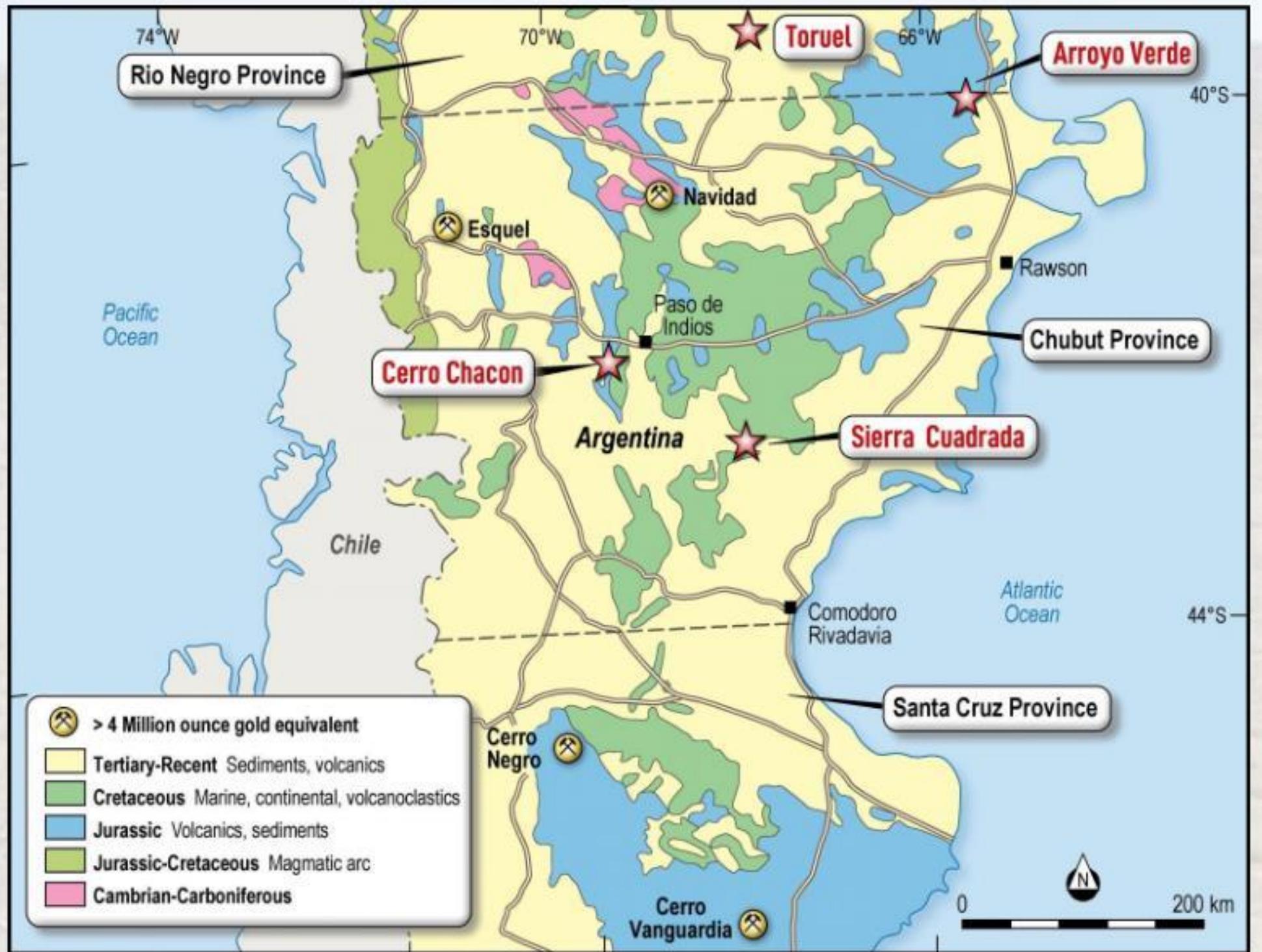
Cyanide is not employed in the mine plan formulated in 2010.

In the section on permitting in the 2010 study we note, “While the Government has publicly indicated its support for the Navidad Project as part of the economic development matrix in the Central Plateau, the modification of the existing provincial law banning open cut mining, or a rezoning under that law, would need to occur before permits for the mine can be applied for”.

The sneaking suspicion comes to us that PAAS has decided that it’s seemingly “our way or the highway”. If a shareholder of PAAS and with silver knocking on \$30 per oz, we would be angry that the company was not trying to make the best of CAD\$626mn in dead money over 15 years by doing a reset on the mine plan.

Our other suspicion is that the (supposed) lassitude in the silver price over the last decade (except for touching \$50 and being over the base case number for most of that time), combined with the difficulties of dealing with the Kirchnerite exchange rate regime, made it easier to blame the provincial and Federal governments for a certain mule-like resistance by PAAS management to rethinking their production scenario.

The silver price is now over \$30, and a free-market regime is installed at the national level, so we find little reason to keep blaming the province for the company’s inability to move forward on a deposit that meshes with the Zeitgeist in not only Silver, but also Copper.



Conclusion

Those in the know about Argentine mining matters can clearly discriminate between what is a Chubut matter and what is a national matter... and indeed what relates to other provinces of relevance in mining matters. The relevance of the national government is almost nil since a legal change in the 1990s devolved power over mining matters to the provinces and let loose a mining boom that has been somewhat stop/start but nevertheless has seen Argentina become a major precious metals miner in Latin America, the rising super-power in Lithium and arguably an easier place to develop copper projects than Chile.

The major fly in the ointment has been Chubut province, but steadily it has faded in relevance, due to its ban on open-pit mining and the use of cyanide leaching. Certain parties outside Argentina have ignorantly, or willfully, painted this as an "Argentine problem" when in fact it is, like mining jurisdiction in Australia or Canada, a provincial matter, and dare we say, a parochial issue. That certain wannabe producers have not even sharpened their pencils (Pan American Silver, we are looking at you) to come up with a way around the bans is as willful on their part as the ban was on the part of the provincial government.

However, a double opportunity presents itself. A provincial government, cut not from the Peronist cloth, has assumed power while the national government (powered by Milei's free market libertarianism) has signed up a Coalition of the Willing to the Pacto de Mayo which requires the provincial governments to do all they can to expedite revenue sources from their own mineral and energy resources that they can before they can sup at the national trough. This gives the new administration of Chubut a perfect opportunity to claim "they made us do it" in raising some of the more egregious aspects of the ban.

As always, time will tell but a moment is producing itself for a weather change in attitudes in Chubut and the unleashing of a mining boom in a province that has hitherto been scorched earth.

The first swallow of Spring may be the listing of Piche Resources on the ASX which seeks to exploit uranium and gold in the province and has found nothing but cooperation so far. Now it is up to the likes Pan American Silver to show that it "takes two to tango".

Appendix I:

The Legal Context

During the Golden Years of the Menem regime of economic liberalization in the 1990s the administration created a major shift away from the ossified historical legacy that had choked off most mining since the Second World War. Most importantly Carlos Menem, originating from the long forgotten and ignored Andean provinces, swung the pendulum of control of bureaucrats in the capital, Buenos Aires, towards provincial control of their own mining destinies.

Between 1993 and 1995, the Federal government implemented a new Mining Investment Law, a Mining Reorganization Law, a Mining Modernization Law, a Mining Federal Agreement, and Financing and Refund of IVA. Decree 456/97 implemented a unified text of the Mining Code with all amendments made by the aforementioned legislation. These amendments offered attractive incentives for exploration and mining to foreigners, and include both financial and tax guarantees, such as import duty exemptions, unrestricted repatriation of capital and profits and a 3% cap on Provincial royalties. This group of laws also created the basis for federal-provincial harmonization of the procedural regulations.

In 2001, Law 25.429 “Update of the Mining Investment Law” was passed, and in March 2004 approval was reached for a key provision of the Law allowing refund of the IVA (Value added tax) for exploration related expenses incurred by companies registered under the Mining Investment Law.

The Mining Secretariats of the provinces are commissioned to foster mining investment, participate in cooperation between international and inter-jurisdictional departments, and to oversee environmental, labor and hygiene issues related to mining. Importantly, they respond to and govern initiatives of the National Mining Commission (which supervises the country’s mining policy) and oversee the National Geological Service Board (SEGEMAR, which functions as a national Geological Survey).

Despite perennial concerns about the Argentina political direction, the metaphorical road to the Argentine salares opportunity has become more like a Los Angeles expressway in peak hour, of late.

Argentina has been in the Lithium game for decades, so is no newbie, but was always perceived as playing second fiddle to Chile.

Chile is merely focused on expansion of existing facilities these days. Chile’s attachment to an ancient Pinochet regulatory system, that required nuclear regulators (CCHEN) to clear Lithium projects, just showed that Chile could not get out of its own way. This reinforces the view that Chile is not the mining paradise that many would have us believe. Its arcane regulations make it look like they are trying to keep new kids out of the game, and that is just resulting in Argentina making all the running.

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

© 2024 Hallgarten & Company Ltd. All rights reserved.

Reprints of Hallgarten reports are prohibited without permission.

Web access at:

Research: www.hallgartenco.com

60 Madison Ave, 6th Floor, New York, NY, 10010