

COMMODITIES

Mexico's silver halo shines

Geology, history and mining culture keep country out front

Paul Harris

Mexico has been synonymous with silver production for hundreds of years and it remains a key player to this day, with output far above its nearest challengers, China and Peru.

Indeed, the past decade has seen its importance continue to increase as its production has grown 48% since 2010 to 190.3 million ounces in 2019, according to the 2020 CPM Silver Year Book, while its share of global mine production has grown from 18.7% in 2010 to 25% in 2019, at a time when world output has increased 10.4% to 760.1Moz in 2019.

This importance is being felt as a result of COVID-19 containment measures the government imposed are longer than in other major producing countries, though Peru adopted similarly strict measures. Mexico was expected to continue its production growth trajectory this year to 194.6Moz, but instead now is forecast to see a decline as CPM estimates a loss of 15.9Moz from Mexico and 5.2Moz from Peru.

"We could lose 20 million ounces of production [globally] this year and we think this is an extremely conservative estimate because we really don't know how this whole thing is going to shake out and it is quite possible you'll see a lot more than that decline," CPM managing director Jeff Christian told *Mining Journal*.

Joe Mazumdar, at Exploration Insights, estimates 30Moz of lost production this year as even when mines come back on-line, many of them are underground and will not be able to operate efficiently. "Maintaining social distancing in underground mines where access is by shaft will be a challenge. A lot of silver miners are underground vein mines, so this could be an issue," he said.

The negative impact on production is not translating into higher silver prices, as spot prices have languished around the US\$15 per ounce level despite gold, its glittery big sister, experiencing significant gains since the start of the year as governments around



Fresnillo's Herradura openpit is located in Sonora state, northwest Mexico

the world create more money to support their economies.

The production loss has been offset to a certain extent by a reduction in industrial use due to the slowdown of the global economy, and because silver's monetary face has not shown up to the party yet.

"A lot of people looking at silver over the last several years have said, you know, it's really more of an industrial metal and the industrial side is being hit hard right now. Our view is that silver prices pretty much move flat this year at \$15.50/oz on the low side and maybe \$18, \$19 or \$20 on the high side. We have seen some rejuvenation of investment demand for silver in various parts, but the silver markets are well supplied right now. So, our expectation is the price kind of moves sideways for 2020," said Christian.

David Erfle, of Junior Miner Junky, believes silver's time will come. "Silver's had a really hard time getting back above its 50-day moving average because it's basically not really a precious metal anymore, but I think eventually it will start to move higher with gold once more retail investment comes in. That is what's going to move it higher," he told *Mining Journal*.

Financing

The expectation that silver's price will move higher has spurred interest in junior silver stocks in recent weeks, which have seen some impressive financing action in an otherwise lacklustre market.

The appetite for silver equities has picked up with large financings completed by MAG Silver and SilverCrest, both with projects in Mexico, with Eric Sprott making his largest ever silver investment putting C\$60 million into MAG and SilverCrest raising almost \$130 million.

The SilverCrest financing illustrates the strange times we are living through. The company announced a C\$75 million bought deal financing on March 11 backed by National Bank Financial (NBF) and Eight Capital priced at \$8.25 per share. Within two days, the company's share price plummeted to \$5.97 as the markets sold off on COVID-19 fears, prompting NBF to walk away from the deal on March 18.

About a month later, on April 13, the company's share price had recovered somewhat and it announced a non-brokered deal priced at \$7.50, which was oversubscribed and increased to \$101 million, following which SSR Mining exercised its rights to maintain its stake and invested another \$27 million. SilverCrest is currently trading around \$10 per share.

"There are some investors who are looking at silver and saying, okay, this metal has been somewhat overlooked and has been devalued relative to gold. The gold:silver ratio got up to 127x and people make the leap of faith to say that if it is undervalued then it must rise at some point to catch up," said Christian. ►



Capitan in Durango, Mexico



Endeavour's Guanacevi silver mine lies 260km northwest of Durango City in the fifth largest historic silver mining district in Mexico

Mexico silver producer First Majestic Mining highlights this in its corporate presentation, showing how of 10 companies considered silver producers, seven of them make more revenue from gold and/or base metals. The number of equities that can respond to silver are few and far between.

"Most silver companies are gold companies in that they make most of their revenue from gold. Silver is hard to find and there are not many big silver mines or big silver companies, so speculative demand goes to certain silver companies or developers, which means the supply and demand for the equity can be driven up to high multiples compared with other companies, as investors have few other choices in that space. Investors are looking for higher beta," said Mazumdar.

The market dynamic of silver, with the bulk of mined production coming as byproduct, limits the metal's ability to increase in price, which is fundamental for primary producers or developers to make a go of it.

"There's nobody mining silver right now that is making any money. Silver needs to get to an \$18.50/oz floor before these deposits become economic. SilverCrest and MAG are high-margin deposits but others, like Bear Creek Mining and Discovery Metals, while they control huge deposits, they need \$18.50 or \$20/oz silver to the economic," said Erfle.

Silver equity investors have propelled the share prices of leading exploration and development plays like MAG Silver, SilverCrest and Great Bear Resources to relatively high levels creating appetite for new product, hence the emergence of new silver juniors.

For Christian, this is history repeating itself. "The early and mid-1990s was a similar silver market to where we are now. There were very few silver equity investment opportunities and you had a silver market where if people wanted price exposure, they had to go into bullion. We saw a spate of silver mining companies coming along to fill that vacuum. Apex Silver, Silver Standard and Pan American Silver were all created in the mid-90s expressly because investors wanted silver exposure and there weren't a lot of equity plays available," he said.

Producers

The scarcity of silver projects is evidenced by the handful of companies that produce it in Mexico: Pan American Silver, Avino Silver & Gold Mines, Sierra Metals, First Majestic Silver, Fresnillo, Endeavour Silver, Great Panther Mining, Orion Mine Finance, Americas Gold & Silver, Coeur Mining, Fortuna Silver and Excellon Resources. These will soon be joined by MAG Silver as junior partner in Juanicipio, which is due on stream later this year.

Being a silver miner over the past decade has been a tough business, specifically producing at a lower cost than you can sell the metal for. While the price spiked to about \$50/oz in 2011, it has spent much of the past six years around \$15/oz with producers fighting to rein-in costs. For high-grade, narrow-vein underground mines, like many in Mexico, that challenge is compounded by the practical and physical challenge of being able to explore and build out. To get production costs under control First Majestic Silver has put its more costly mines on care and maintenance and invested in new equipment such as high-intensity grinding mills.

Great Panther also struggled in recent years due to the difficulty of building its resource inventory at its Guanajuato mine in Guanajuato and its ability to plan cost-efficient production. The company's response was to pivot into a gold operation in Brazil through the March 2019 acquisition of Beadell Resources, and dropping silver from its name as it became Great Panther Mining

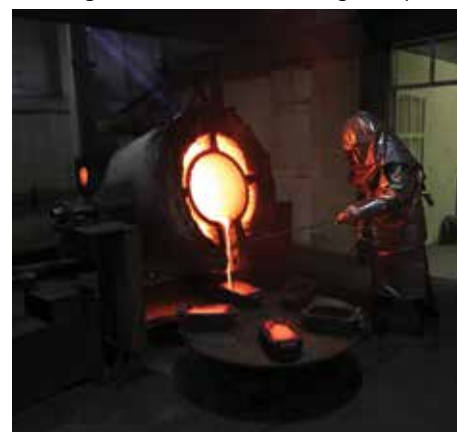
"People have been mining silver at Guanajuato for centuries, but it is under-drilled. We need at least two years of resource ahead of mining. Having more resources is better, but there is a cost-benefit trade-off because you need development headings, you need access and drilling from surface is tricky, so have to be pragmatic," Great Panther president and CEO Rob Henderson told *Mining Journal*.

Juniors

As the silver turbo appears to be starting to wind up, a new spate of junior explorers are looking to get in on the action: GR Silver has been launched; MAG Silver is planning on spinning out Reyna Silver and Riverside Resources is spinning out Capitan Mining.

"They see the gold price and know from history that silver lags gold and so they pick up these projects cheap and start companies. If a management team has access to capital, with news flow, and if the silver price does start picking-up, you could potentially have another breakout," said Erfle.

Several new juniors have projects in Mexico in districts which saw production in Spanish Colonial times from mines, which had a cut-off grade in the hundreds of grams per



A pour at Endeavours Guanacevi mine

► "There's absolutely no physical or economic or other reason to assume that. Some of the attention you're seeing in the silver equity side is coming from people with that simplistic view of the gold silver relationship. There's also some fundamentals there. The silver market is relatively tight and I think there are some good arguments to make that if you go forward five or 10 years, you could see silver prices rise sharply."

For some investors, the silver investment thesis is about how the metal and related stocks can become supercharged at certain points in the cycle.

"The majority of silver demand is industrial, but its price is set by its monetary value. If silver had no monetary value, no monetary legacy, its price would be under \$5/oz because it's largely a byproduct of other metals production," Brien Lundin, editor of Gold Newsletter and the host of The New Orleans Investment Conference, told *Mining Journal*.

"It's a prime example of how price is set by marginal demand, and when silver investment demand surges, it's still a fractional component of its total global demand, but the price can multiply five times in value.

"That's the really interesting thing about silver and what really gets the juices flowing for speculators. Silver offers leverage to gold, and silver mining companies offer leverage to silver so you have an exponential play on a rising gold market. Silver is gold on steroids."

That leverage is due to a scarcity of silver equities. "The silver market is extremely small in terms of mining equities. 80% of the silver comes from byproduct producers," said Christian.

"The silver primary producers and the companies with silver exposure in their earnings are relatively small, and the market cap of the silver primary silver mining industry is relatively small. If you are interested in silver and you're an equity investor, you're always looking for attractive silver properties because it's a relatively small space."

"There's nobody mining silver right now that is making any money"



Fresnillo's Saucito mine

tonne. Their waste dumps have become modern deposits in their own right, such as the dumps from the Peñoles area, which contained so much silver they were trucked over 200km to be reprocessed.

"Mexico has been a world leader for silver production for five centuries and it continues to have robust big deposits, so it makes a lot of sense to start a new silver exploration company there," John-Mark Staude, president and CEO of project generator Riverside Resources, told *Mining Journal*.

"So much of it is high-grade narrow vein with great continuity. Historically, Mexican silver miners did not drill-off resources; they just know they're there. Production has proven veins are typically very consistent and go on forever. That's the legacy of Mexican silver production," said Lundin.

"It is easier for explorers to start with an old mine as there is already a story there, which is one reason why we never find anything new. They go back and look for something that was not economic in the past or that was missed because a former operator did not have the technology to find it," said Mazumdar.

The prize though is discovering something which was not known in the past.

"Working in an old district is not just about finding the stuff on the margins of what someone else exploited, rather the discovery of a new pod of stuff they mined previously, which in Colonial times would have been at ridiculously high grade. This is what SilverCrest has done: Las Chispas was a new discovery next to something that has been mined before," said Mazumdar.

This is essentially the strategy of Riverside Resources as it seeks to spin out former mines in the Penoles district in Durango into Capitan Mining.

"The Jesus Maria, San Raphael and Capitan mines were operated by Peñoles before it got into bigger things. The former miners did not go below the water table and we are finding extensions along strike and at depth with new mineralisation at a depth of only 150m. We are not looking to restart the old mine, we are looking at a much bigger scale," said Staude.

For Staude, Mexico is not just about good geology and history, but the reasons why the country has increased its production and share of global production over the past decade. "Mexico works because you can get projects and the country is quick to develop them. I have been working in Mexico for more than thirty years and did my PhD on the Mulatos discovery, which is now being mined by Alamos Gold. Exploration projects become operating mines in Mexico. The Capitan Mining team is led by former members of the Argonaut Gold Mexico team, which built and operated mines including the mine planner, permitting specialist, engineer and metallurgist," he said.

Like many former mining districts, the fragmented ownership of small concessions provides opportunity for juniors willing to consolidate them. This is what Marcio Fonseca, president and CEO of GR Silver, has done in the Rosario district of Sinaloa. "The idea was not to be an explorer, rather the acquirer of assets with data, and consolidate the Rosario district, which had a lot of people controlling small concessions and not talking," he told *Mining Journal*.

The company did its first deal with SSR Mining for a three-year option to obtain the San Marcial project. Within months of securing the option, it had increased the mineral resource from 23Moz to 40Moz, and it is tar-

getting 120Moz by expanding resources down dip. "Our overall cost for defined ounces, including the payment, is about 13c/oz," he said.

GR Silver then acquired Plomosos in March 2019, which is 5km from San Marcial. It hosts low-sulphidation epithermal vein systems with more than 30km of mineralised vein structures, more than 500 drill holes, 16 drill-ready targets and six areas progressing towards resource definition. Recent drilling results include 1.8m grading 30.6 grams per tonne gold and 118g/t silver. "This is an acquisition to transform the company. Some US\$18 million has been spent on exploration there by First Majestic and Grupo Mexico, and there is \$30 million of infrastructure there," Fonseca said.

Fonseca's strategy has resonated with investors, as evidenced by an upsized \$8.1 million financing he completed in early May. "It is a tough market for the natural resource sector, but people see a disconnection between the silver and gold prices. There is demand for companies with high-quality assets that are not really exploration, but close to production. When big resource funds write \$1.5 million checks, they see opportunity," he said.

With more than \$10 million in the bank, GR Silver is funded for about two years, which will see it work through the historical data it has on Plomosos and continuing exploration at San Marcial, with the aim of rolling all the areas into one economic study in 2022. "We need to integrate all the areas as there will be a lot of synergies combining San Marcial and Plomosos. We will be in a very advantageous position with a smaller capex than other projects," Fonseca said.

Mexico seems set to continue leading the silver pack for many years to come. ■