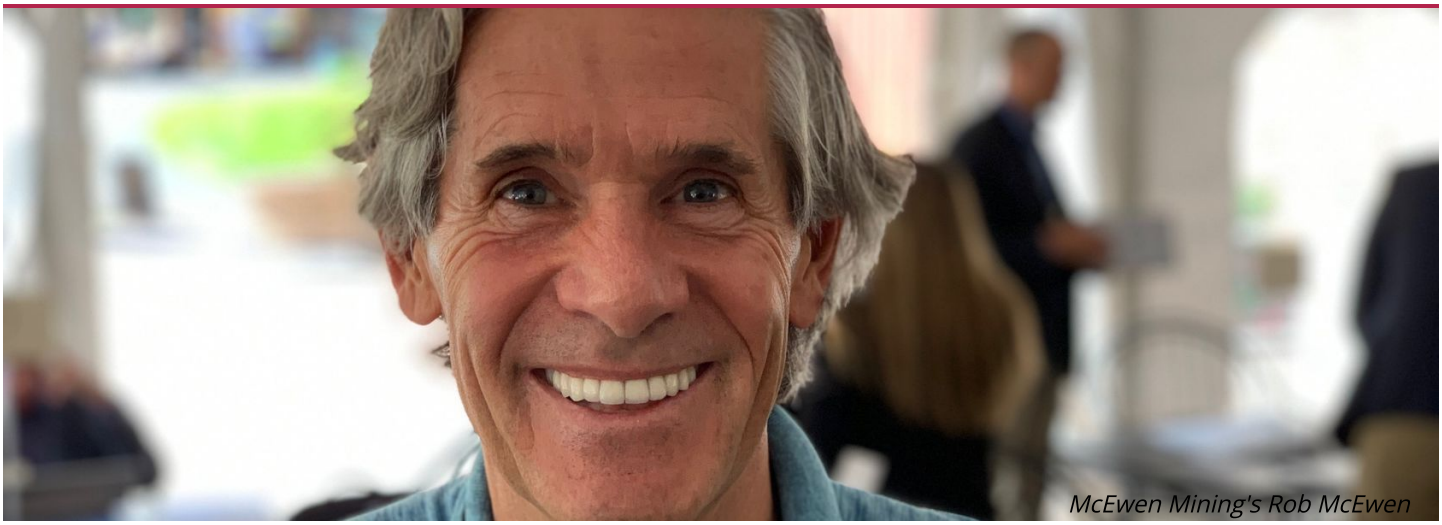
Edition

McEwen ramping up exploration

McEwen Mining has been a gold producer struggling with poor mine performance and high costs in recent years. With its performance starting to improve, the company is ramping up exploration while also resuming work at its Los Azules copper project in San Juan, Argentina in a new vehicle called McEwen Copper. Mining Journal spoke with executive chair and chief owner Rob McEwen to find out more.



McEwen Mining's Rob McEwen

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MJ Let's start with Argentina. You've just come back from a visit to San Juan where you met with some of the local authorities. Who did you meet and what sense did you get from them about the recent surge in exploration activity?

RM We met with the governor and the mines minister of San Juan. They are quite excited about the development that's being slated in the province: Pachon appears to be moving forward, Jose Maria is the same case. We've seen some of the majors looking over the border [from where they operate in Chile]. I emphasized to the government that with the politics in Chile and Peru leaning very much to the left and looking at the mining industry in a way that might be considered adverse to them, Argentina is looking more attractive and that it really should be rolling-out the welcome mat, to take advantage of this moment in time.

MJ San Juan looks like it is about to have its day in the sun as it has the copper deposits the world needs and perhaps less political instability that other countries in Latin America now.

RM Yes. An Juan looks like it's going to experience a mining boom. If you move forward on Pachon and Jose Maria, you're talking US$8 billion dollars of investment, but I don't think it's quite ready for it. As we've seen in North America, there's a real shortage of miners and the skills associated with mining, so there's a need to bolster that. We put some money into a local technical school in anticipation of our needs for training. Mining [in San Juan] went quiet for quite a while and now everybody's starting to come in, you need all these skills to go forward and they are in short supply.

MJ McEwen Copper has five drill rigs turning and two more on the way. What do you want to achieve with that drilling?

RM This year, we want to achieve 53,000m of drilling, of which 44,000m would be definition drilling and the other 9,000m dealing with metallurgy, hydrology and geotechnical.

MJ In your meetings with the government officials, did you talk about fiscal issues such as taxation and repatriation of profits to potentially make things more attractive for miners?

RM We had some more immediate concerns and we didn't broach that subject, but certainly it's in the press and Jose Maria said it is not going to go ahead if it cannot get these. That would be a very typical response of most miners down there as they say they need assurances today to raise capital tomorrow. Although there are a lot of words [from local officials] saying they can see the benefits of mining and they want mining in San Juan, you need to get the federal and provincial governments working together to say that when someone brings money into the country, they don't want to convert it into pesos at the official rate when the official rate is only half of the black market. Everyone's investing with an expectation of making a profit and you have to be able to take that profit offshore and out of the country. That freedom of movement of capital is not quite perfected yet.

MJ McEwen Mining recently reported its 2021 annual results. How do you see the evolution of the company going forward? What more Where do you need to get to before the company can sort of return to profitability?

RM We were a heavy spender on exploration in 2021 believing that both in Nevada and in Timmins, there's an opportunity waiting for us downhole. Timmins has a short life. We did a preliminary economic assessment that suggested a nine or 10 year life at Timmins at attractive costs and increased production. But it had a payback period of just under six years and that's

unacceptable. So the money we raised from flow through funding is to try to expand the resource we see closer to surface and thereby getting into a pay zone faster and shortening that payback period to a three-year period. As McEwen Copper is currently a subsidiary of McEwen Mining and we are spending up to $80 million to get to a pre-feasibility study (PFS), that is going to be considered an expense so it will frustrate the move towards getting an income statement that has a profit at the bottom. You need to look at the cash flow from the operations because the McEwen Copper is going to obscure that profit number for a while.

MJ The plan ultimately is for McEwen Copper to be an independent company under its own listing which will happen when you get to PFS. IS that still the plan?

RM It may occur before that, the PFS is about 18 months away. We are looking at doing a updated PEA as the existing PEA was done at a $3 per pound copper price assumption. It showed a robust project at $3/lb copper so at $4.50/lb it is looking much more attractive. The drilling we are doing is to further define the orebody and give more knowledge about the structural controls. All of the holes drilled on the property in the past were vertical holes and you would like to have more angled holes to get a better structural picture. That is going on. We are also utilising the services of Whittle Consulting out of Australia and looking at various scenarios for optimising the mine plan. They have come up with some interesting variations to what was in the PEA, suggesting there's a larger mine there. We would like to incorporate that and some of the drill results and the other studies we are doing right now to update the PEA by the end of this year.

MJ Gold prices are very high at the moment, over $1,900/oz yet there is a disconnect with equity valuation which have not tracked the growth in the gold price. What is your view on that and what will it take for equities to close that gap and more truly reflect the gold price?

RM It's probably much like 1987, in a way. The stock market fell and the gold market started taking off and the gold stocks followed for two days and then stopped and followed the broad market down. It wasn't until about six months later that investors looked at the gold stocks and said they are benefiting from higher metal prices and performing better than expected. We need to see that price running through the income statements. We are seeing more companies is paying dividends, the royalty companies are paying, some of the diversified miners have paid some rather healthy dividends lately, and it is just going to take time for people to realise there's a positive effect of higher metal prices on the earnings of most of the precious metal stocks. The low-cost precious metal producers have lots of money coming in. The high-cost producers will suddenly move from negative territory into positive and get the enthusiasm. The market was preoccupied with tech and biotech and other areas that seemed to have

these gigantic markets and people were paying very little attention to the precious metals. When you see gold move $100/oz in the space of about a week, up and then back down it unnerves some people.

MJ Why do you think people in the industry are not taking advantage of this disconnect to engage in M&A at discount prices?

RM There has been some M&A but not a lot. Maybe there's an element of caution amongst the executive suite, reflecting on the last time the M&A boom took off and the consequences of that.

MJ Is there a danger that capital discipline will become a hindrance for the sector?

RM Certainly, people stopped exploring, and then they're waiting and thinking it's cheaper to buy an income stream then trying try to build a mine and going to the Glencore model. But now you have Glencore thinking that maybe it wants to build up the chart whereas before they just wanted to buy income producing operations.

MJ To close, Rob, what are you most looking forward to this year?

RM The biggest asset in our portfolio is McEwen Copper and the Los Azules property. It dwarfs anything we have in terms of size and potential growth in value, so I would like to see us getting our PFS or PEA updated. In Timmins, we are exploring and hoping to define a larger ore body close to surface which would allow us to put the pin in and say, let's go forward on that PEA. The first quarter is going to be bumpy due to COVID-19, some weather and some mechanical problems and we are looking good for the balance of the year.

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