



HALLGARTEN & COMPANY

Coverage Update

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Golden Arrow Resources (TSX-V: GRG, FSE:GAC, OTCQB:GARWF) Strategy: LONG

Key Metrics						
Price (CAD)		\$0.66				
12-Month Target Price (CAD)		\$1.45				
Upside to Target		120%				
12 mth high-low		\$0.355-\$1.48				
Market Cap (CAD mn)		\$58.19				
Shares Outstanding (millions)		88.2				
Fully Diluted (mns)		106.6				
Float		45%				
		FY16	FY17e	FY18e	FY19e	FY20e
Consensus EPS			n/a	n/a	n/a	n/a
Hallgarten EPS			-\$0.03	\$0.06	\$0.20	\$0.19
Actual EPS		(\$0.17)				
P/E		n/a	n/a	10.3	3.4	3.5

Golden Arrow Resources

A Synergistic Pooling of Assets in Jujuy

- + The Chinchillas deposit is shaping up to be the largest silver/zinc project likely to come to production in Argentina in the near future
- + Deal confirmed with Silver Standard for the pooling of the Pirquitas mine with the Chinchillas project making a new silver major in Latin America
- + Golden Arrow will hold 25% of the NewCo with Silver Standard holding the rest
- + GRG will receive around US\$15mn in “back money” as a share of net earnings from Pirquitas since the original deal was signed in October 2015
- + Capex of Chinchillas Mine will be US\$81mn of which GRG’s share will mainly be met from the “back money”
- + Without the need to build a processing plant and with much of the Pirquitas equipment and vehicles available to be moved to Chinchillas the potential CapEx is slashed by 2/3rds
- + Changed government in late 2016 in Argentina has drastically improved investor sentiment
- ✗ Silver price is linked to sentiments on precious metals (i.e. gold) which has been less than robust lately
- ✗ Despite changes in government, investors still remain uninformed about the improvements in the local political environment

Deal with Silver Standard in the Bag

On the very eve of the deal’s final confirmation, investors started to get nervous that it would not close. This was a case of “O, ye of little faith” because the deal as concocted back in late 2015 was not only synergistic but a win-win for all concerned. As it happened the delay was merely hours in length and the transaction was confirmed with the simultaneous release of the details of the PFS, so we now have a more complete picture of how the project is likely to evolve.

Taking advantage of the way the wind was blowing it carved out a deal with Silver Standard in late 2015 with the goal of potentially combining the mature Pirquitas mine of the large company with the evolving Chinchillas deposit held by Golden Arrow. This pooling of two projects in relatively close proximity in the north-western province of Jujuy made eminent economic sense. The funds that will be received as “back money” from Pirquitas revenues since October 2015 will go substantially towards reducing the required commitment of GRG to the Chinchillas CapEx thus alleviating dilution fears that are usually associated with a minebuild.

Now that the pooling of assets is confirmed we shall look at how the combined assets might work together in light of the PFS which was announced on the same day as the definitive deal.

The Pooling of Assets

Production is over the hill at Pirquitas and its best chance of extending its own mine's life and gleaned extra value out of processing infrastructure at the mine is a combination with another up and coming project. Without an extra source of feedstock, a decision on whether to shutter it was needed imminently. The obvious solution was to cut a deal with Golden Arrow and ramp up Chinchillas with a stream of Silver (and Zinc) ore directed towards Silver Standard's processing facilities at Pirquitas.

Anticipating this risk/opportunity, in October 2015, Golden Arrow Resources 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 (subject to a minimum expenditure commitment of US\$4mn) at Chinchillas to advance the project and evaluate the feasibility of developing a combined mining business with its existing Pirquitas operation.

For the first six months of the Preliminary Period, Golden Arrow was tasked, on a cost recovery basis, to undertake initial pre-development activities at the Chinchillas project, including overseeing up to 17,000 meters of drilling, and will provide operational support for Silver Standard's exploration and technical teams.

In consideration for granting Silver Standard the rights to conduct pre-development activities, it agreed to pay to Golden Arrow some \$2mn

The companies are now forming an as yet unnamed Newco, to be managed by Silver Standard, that shall be owned 75% by Silver Standard and 25% by Golden Arrow. This Newco will hold both the producing Pirquitas Mine and Chinchillas project. On formation of the joint venture, Silver Standard will make an exercise payment to Golden Arrow using a formula composed of 25% of the value of:

- Payable silver ounces sold x (average silver price minus disclosed cash costs)
- Minus capital expenditures
- Minus reclamation expenditures
- Minus Chinchillas pre-development expenditures
- Minus taxes on repatriation

This “back-money” is estimated to amount to around US\$15mn and will go a long way towards covering Golden Arrow’s share of the upfront CapEx of Chinchillas.

It’s worth noting that Silver Standard currently holds around 5% of Golden Arrow and that there is a standstill agreement that precludes the larger company from making an unwanted move on Golden Arrow.

Managing the JV

To deal with the logistics of the Joint Venture the company is establishing a production committee, which will include veteran mining engineer, Alf Hills, which will monitor progress at the two sites, compliance with the JV conditions and other budgetary, construction and production issues.

Alf Hills has over 35 years of international mine evaluation, development and operational experience. From 2006 to 2013, he was the CEO and a director of Kobex Minerals Inc. and its predecessor company, International Barytex Resources. Prior to that he spent 26 years with the Placer Dome group where amongst other management roles he was the Vice President – Evaluations and was involved with the Cortez Hills Project. He was involved in development of the CIM Best Practice Guidelines for Mineral Resource and Mineral Reserve Estimates. He is a graduate of the University of British Columbia in Mining and Mineral Process Engineering.

In the first instance, he will be an advising consultant to Golden Arrow. He will then be appointed to represent Golden Arrow on the board of the recently announced Joint Venture NewCo.

Chinchillas - Background

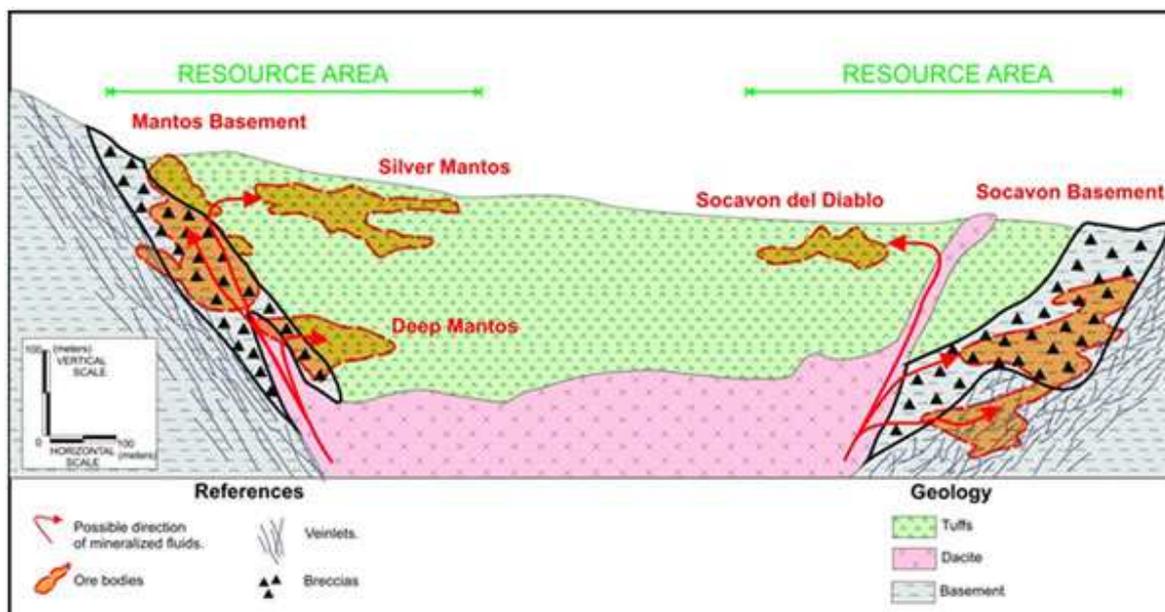
The Chinchillas property is a less-well-known quantity in comparison to Pirquitas. Chinchillas was first prospected and mined in small scale in the eighteenth century by Jesuit missionaries. Remains of ancient furnaces used to melt lead and silver can still be found at site. Activity revived in 1956 when Antonio Mercado requested a concession based on the discovery of galena veins in the basement rock. In 1968, the mine was sold to a mining engineer called Pichetti who later formed the Sociedad Pirquihuasi Company together with the Pirquitas Company, and some adits and tunnels were opened for small scale production. After that point there was sporadic explorations by various parties, amongst which were Shell's mineral exploration arm and a subsidiary of Apex Silver.

In early 2011 Golden Arrow optioned the property from the underlying land owners.

Golden Arrow had perceived that the near-surface mineralization provided 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.

Geology

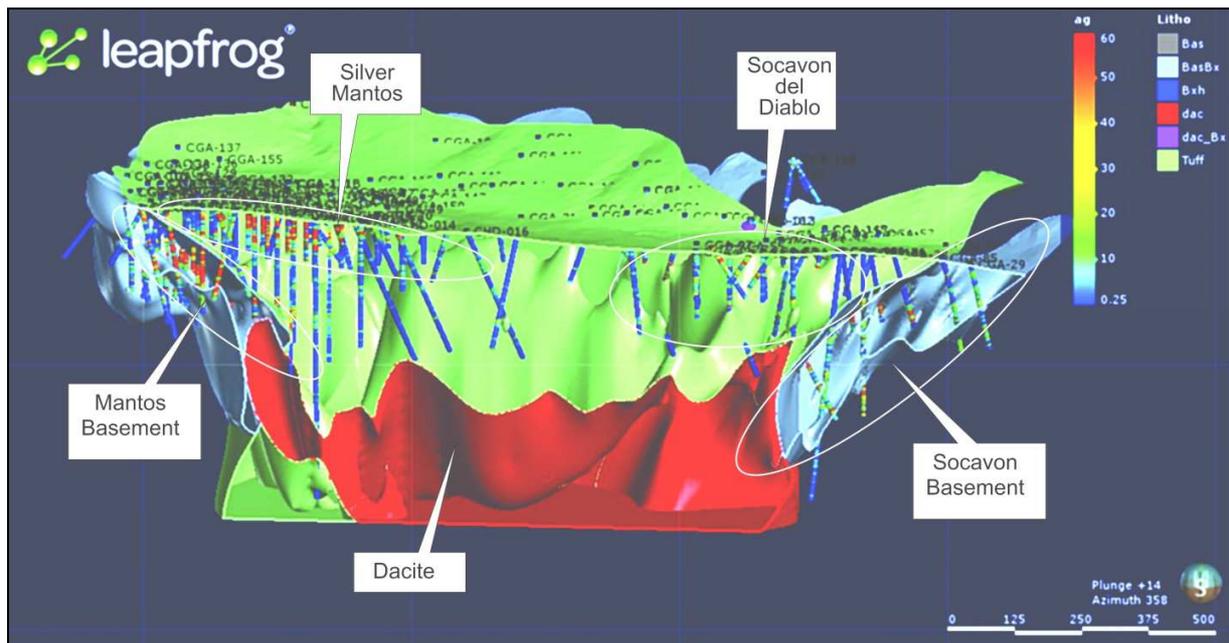
Chinchillas is a Tertiary Age diatreme volcanic complex that has erupted through the Paleozoic basement sediments. The resulting depression or basin shown in the cross-section below, filled with volcanic breccias and tuffs, is approximately 1.5 kilometres in diameter. Mineralization starts at surface within the basin, hosted in favorable volcanic tuff units, hydrothermal breccias, and along faults and structural zones, and is present in basement sediments and metasediments, as well as across the schist-volcanic contacts.



Mineralization at Chinchillas is dominated by silver, with lesser values of lead and zinc occurring as disseminated sulphides and matrix infilling within the volcanic tuffs, and as matrix and fracture filling in breccias within the basement meta-sediments. Within the basement lithologies shears and structures are more commonly mineralized. Depth of oxidation is just a few metres within the volcanics and is insignificant within the basement rocks.

The deposit is visualized in #D in the Leapfrog model on the following page. The deposit is divided into two main areas: the Silver Mantos in the western part of the basin and the Socavon Del Diablo in the east.

Mineralization in the Silver Mantos basin is disseminated in multiple flat lying layers, or mantos, composed of strongly clay-altered volcanic tuffs and breccias. Within the Ordovician basement pelites and sandstones schists mineralization is more steeply dipping and hosted in breccias, minor small veinlets, fracture filling and mineralized structures. Mineralization is more silver and lead-rich in this zone.



On the eastern side of the basin, mineralization in the Socavon del Diablo is dominated by *manto*-style disseminated sulphides within favorable shallow dipping volcanic tuff horizons but also includes crosscutting structures, hydrothermal breccias, and some mineralized structures and breccias within the basement. Generally, mineralization is more zinc-rich in this area.

Resource

At the end of March (concurrent with the PFS announcement) the company revealed an updated resource estimate as the result of the Chinchillas Project pre-development activities, funded by Silver

Standard.

The project hosts a resource of 96mn ounces of silver (140mn ounces in AgEq) in the Measured & Indicated categories and 34mn ounces of silver (63mn ounces AgEq) in the Inferred category. The silver in the M&I category grades at over 3 ozs per tonne.

However, it's vital to note in light of the storming Zinc price that this resource dates from April 2016 and the metals prices used for the AgEq calculation were: silver \$19/oz, lead \$1/lb, zinc \$1/lb. Zinc is nearly 30% higher now while silver is around 15% lower. \$18.00/oz silver, \$0.90/lb lead and \$1.00/lb zinc

This project has a Measured and Indicated Zinc component of 386mn lbs with a further 374mn lbs Zn in the Inferred category. This is the type of stuff that gets our pulse racing.

The combined Mineral Reserves consist of 11.7 million tonnes containing 58 million ounces of silver at a grade 154 g/t, 310 million pounds of lead at a grade of 1.20% and 127 million pounds of zinc at a grade of 0.49%.

Chinchillas									
Resource Statement									
	Tonnes	AqEq	Ag	Pb	Zn	AgEq	Ag	Pb	Zn
	mn	g/t	g/t	%	%	mn oz	mn oz	mn lbs	mn lbs
Measured	3.1	160	128	0.6	0.41	16	13	41	28
Indicated	26.2	148	98	0.94	0.62	124	83	540	358
Total (M+I)	29.3	149	101	0.9	0.6	140	96	581	386
Inferred	20.9	94	50	0.54	0.81	63	34	250	374
Reserve Statement									
	Tonnes	Ag	Pb	Zn	Ag	Pb	Zn		
	mn	g/t	%	%	mn oz	mn lbs	mn lbs		
Proven	1.6	180	0.75	0.42	9	27	15		
Probable	10.1	150	1.27	0.5	48	282	111		
Total	11.7	154	1.2	0.49	58	310	127		

The Pre-Feasibility Study

The confirmation of the joint venture with Silver Standard coincided with the announcement of the result of the pre-feasibility study. This study evaluated the development and construction of an open-pit mine and supporting infrastructure, which will supply ore to the Pirquitas processing facilities at 4,000 tonnes per day over an eight-year active mining period. A tailings storage facility will be located on the Pirquitas property and is included in the capital cost estimate.

The ore will be transported approximately 42 kilometers to the Pirquitas processing facilities. Haul trucks, loading equipment and drills at the Pirquitas mine will be transferred to Chinchillas providing substantial costs savings on equipment and infrastructure and providing a shorter timescale to production.

The Pirquitas processing facility will process ore from the Chinchillas project using standard crush, grind and flotation at a rate of 4,000 tonnes per day. Minor modifications to the Pirquitas plant are expected. The plant is expected to produce a silver/lead concentrate and a zinc concentrate. The two concentrates will be shipped internationally to smelters for processing.

Thus the metrics for the proposed operation are very attractive with:

- Average annual Silver equivalent production of 8.4 million ounces over an eight-year mine life
- Within the Silver equivalent production there is Lead production of 35mn lbs per annum and Zinc production of 12.3mn lbs per annum
- Operating margins based on cash costs of \$7.40 per payable ounce of silver sold over the life of mine
- Post-tax net present value of \$178 million using a 5% discount rate (using metal prices of \$19.50 per ounce silver, \$0.95 per pound lead and \$1.00 per pound zinc)
- Attractive post-tax internal rate of return of 29%
- Low capital intensity based on initial capital expenditures, including owner's costs and contingency, estimated to be \$81 million

The path to near-term production at Chinchillas is expected to be relatively short with construction planned to begin in the third quarter of 2017, subject to permitting, followed by ore delivery to the Pirquitas mill in the second half of 2018.

Silver Standard & Pirquitas

Silver Standard is one of the companies that occupies the much reduced middle tier of the Canadian mining equities market. With a \$1.5bn market it rates neither as a major nor as a junior. Moreover it has three producing mines, Pirquitas (the subject of interest here) and the Seabee gold mine in Canada and the Marigold gold mine in Nevada.

Capital Costs	Value (\$mn)
Site Infrastructure	\$10
Mining Equipment	\$12
Pre-stripping Capital	\$11
Plant and Tailings	\$16
Owner's Costs	\$10
Other	\$5
Contingency	\$16
Total	\$81

At the time that we last focused on this company 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 in 2009 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.

The Pirquitas property 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.

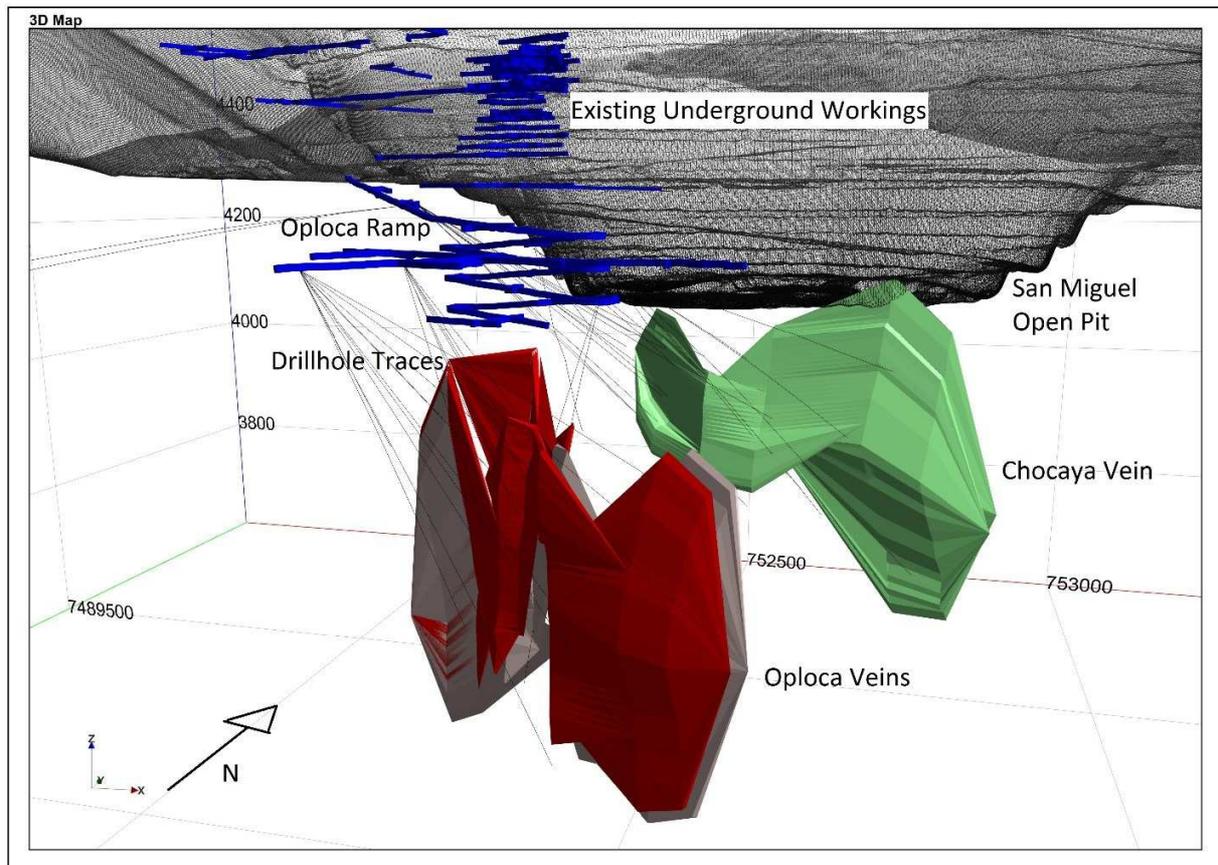
Below can be seen the San Miguel open-pit at Pirquitas.



After the original mine build and start-up some further tweaking to capacity was undertaken. In early 2011, the tertiary crushing capacity at Pirquitas was upgraded with the installation of a Nordberg HP 500 cone crusher. Shortly afterwards, the ball mill was upgraded to enable it to operate at maximum capacity. As a result of those improvements the plant produced an average of 4,200 tonnes per day for an effective annual silver production capacity of 10 million ounces at average reserve grades. The flotation process at Pirquitas was pushing through 5,000 tpd in the last quarter of 2016.

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. Pirquitas though is past its peak with the open pit closing in the first quarter of 2017 after which the main focus will be stockpile processing. This make the need for a decision on Chinchillas more pressing as a production decision at the new mine will make the underground at Pirquitas more viable.

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.



There is underground potential at Pirquitas for small-scale, high-grade ore feed from the Chocaya, Oploca and Cortaderas veins. This would augment the flow of material from Chinchillas.

Amongst the positive drill results from 2015 drill program on the underground potential were:

- ✓ 3.16 meters at 1,436 g/t silver and 0.5% Zinc at Chocaya
- ✓ 1.93 meters at 1,890 g/t silver and 7.5% Zinc at Oploca North
- ✓ 0.83 meters at 2,670 g/t silver and 1.3% Zinc at Oploca South

The Chocaya vein is exposed in the San Miguel open pit while the Oploca North and Oploca South veins occur directly to the south of the pit. The underground drilling on these three veins was performed from the existing underground workings. All veins remain open laterally and at depth.

The Look of the Combined Entity

The guidance for FY17 from Silver Standard talks of 4.5-5.5mn ozs of silver and a cash cost of \$13.50-16 per oz. Silver Standard reports cash costs on a per payable ounce sold basis, 2017 expected cash costs, include stockpile inventory costs of approximately \$3.50 per ounce of silver that were previously

incurred. The chart below shows historic cash costs and 2016 guidance, which is \$9.00 to \$9.50 per payable ounce of silver sold.



This implies revenues from the mine of between \$80-100mn in the full year depending on the silver price staying in the \$17-19 range.

Earnings Outlook

Rather than estimating likely earnings for Golden Arrow, which would be muddled by considerations such as Golden Arrow's other exploration efforts in Argentina (and its own GS&A), we have resolved to produce a model for the NewCo, of which 25% of the net result will retain to Golden Arrow.

This model is shown on the following page. It does NOT include potential revenues from the stockpile heaps at Pirquitas nor any of the revenues from the development of the Pirquitas Underground. These two factors (presuming Pirquitas underground does not expand its resource) would only really impact revenues in the FY17 and FY18 estimates in any case.

The model utilises the production volumes, and ore and minerals therefrom, as per the PFS but employs Hallgarten's estimation of likely reigning prices for those metals at the time of production. As our Zinc price is substantially higher than that used in the PFS and our silver price is lower, the end result is substantially different to the PFS (to the better).

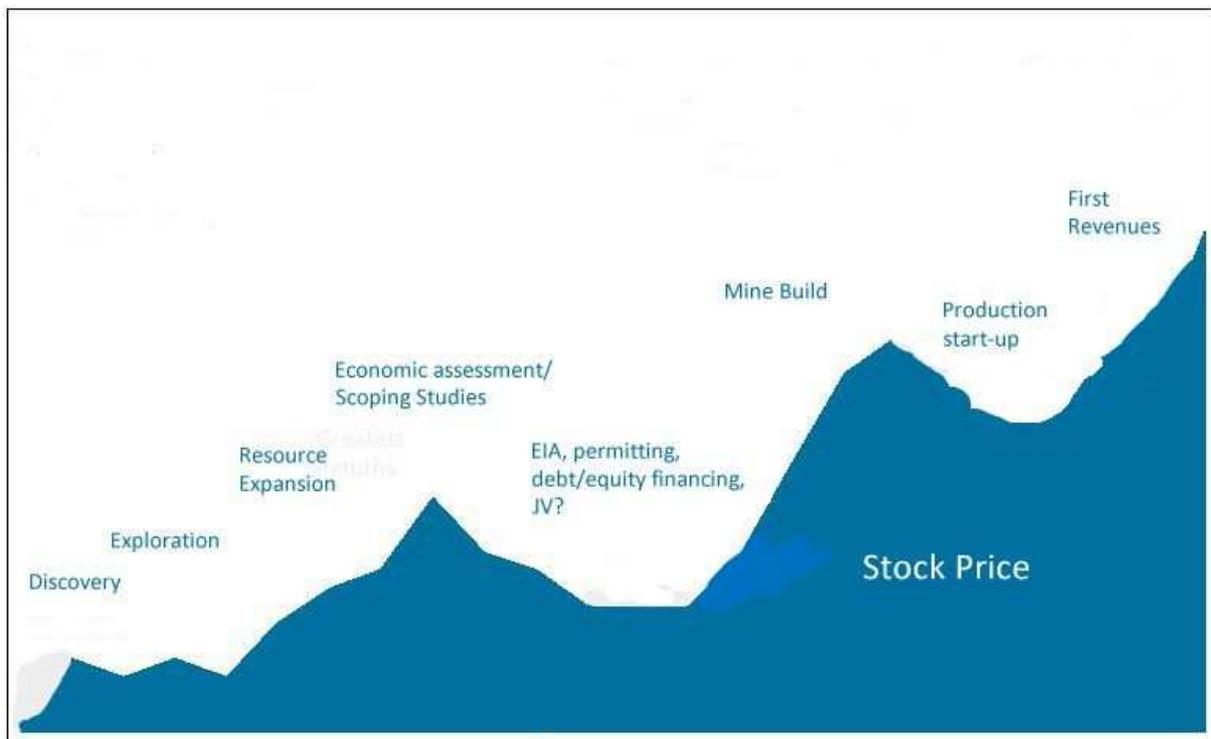
The sustaining CapEx is included as the depreciation/amortization number in the model. Effectively the 25% of net cashflows could thus, in its entirety, be distributed to Golden Arrow as a dividend.

This is based upon the PFS's LoM assumption when in fact there is substantial potential at Chinchillas to expand exploration and thus the resource and potential mineable area and life of mine. This could extent the peak mining years off into the late 2020s.

NewCo										
FY ending Dec (USD mns)										
	FY26e	FY25e	FY24e	FY23e	FY22e	FY21e	FY20e	FY19e	FY18e	FY17e
Mine Revenue	69.86	157.80	169.43	173.88	182.21	173.47	183.46	184.81	97.60	0.00
Cost of Mine Revenue	34.35	53.68	53.68	53.68	53.68	53.68	53.68	55.21	37.76	0.00
Gross Profit	35.50	104.13	115.76	120.20	128.53	119.79	129.78	129.60	59.84	0.00
Selling/General/Admin. Expenses	6.27	9.80	9.80	9.80	9.80	9.80	9.80	10.08	6.90	
Depreciation/Amortisation	13.89	13.89	13.89	13.89	13.89	13.89	13.89	13.89	13.89	
Interest Expense (Income)										
Royalties	2.38	5.37	5.76	5.91	6.20	5.90	6.24	6.28	3.32	
Other Taxes	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	
Reclamation	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89	
Total Operating Expense	45.11	70.95	71.35	71.50	71.78	71.49	71.82	73.68	50.09	0.00
Operating Income	24.74	86.85	98.09	102.38	110.42	101.99	111.64	111.13	47.51	0.00
Gain (Loss) on Sale of Assets	0	0	0	0	0	0	0	0	0	0
Income Before Tax	24.74	86.85	98.09	102.38	110.42	101.99	111.64	111.13	47.51	0.00
Tax	5.94	20.84	23.54	24.57	26.50	24.48	26.79	26.67	11.40	0.00
Post- Tax Income	18.81	66.01	74.54	77.81	83.92	77.51	84.84	84.46	36.11	0.00
Golden Arrow Share (25%)	4.70	16.50	18.64	19.45	20.98	19.38	21.21	21.11	9.03	0.00
Estimated Av. Ag Price	\$18.30	\$18.30	\$18.30	\$18.30	\$18.30	\$18.30	\$18.30	\$18.00	\$17.50	\$17.00
Estimated Av. Zn Price	\$1.55	\$1.55	\$1.55	\$1.55	\$1.55	\$1.55	\$1.55	\$1.50	\$1.45	\$1.33
Estimated Av. Pb Price	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.02	\$1.15	\$1.10
Ag Ounces produced (mns)	2.221	5.359	6.317	6.641	6.553	6.194	6.763	7.599	3.386	
Zinc lbs produced	8.844	16.689	6.967	6.758	13.573	15.168	13.968	12.888	12.567	
Lead lbs produced	15.503	33.865	43.033	41.872	41.249	36.610	38.047	28.137	17.501	

Short-circuiting the Mining Lifecycle

We repeat here one of the industry's favorite charts. Conventional wisdom has it that the mine building phase is when a stock goes into a slump after the euphoria of discoveries and resource building. In the case of Golden Arrow it has gone straight from being a junior with an "oven-ready" PFS, to being a producer as 25% owner of Pirquitas. Nit-pickers would claim the PFS is on a different property to the producing one but that is sophistry indeed as Chinchillas has been the "possibility that has triggered the reality" in spurring Silver Standard to undertake this pooling of interests.



The mine build period is usually a downtime for developers because risks become higher and dilution sets in at potentially crippling levels. In the case of Golden Arrow the risks are massively reduced by all the processing infrastructure being in place already and tried and tested and the team at Silver Standard being veteran minebuilders in Argentina, and most particularly Jujuy. Figuratively speaking "they wrote the book" when it comes to mining in these parts. There is little need for dilution either as Golden Arrow comes out of the gate with the "back-money" from October 2015 and a significant share of the Pirquitas cashflow immediately to self-finance the Chinchillas mine build.

These two factors alone are sufficient to totally negate fears of a "construction phase" slump because the potential rationales therefore do not exist at Golden Arrow.

Other Prospects

On the exploration side, Brian McEwen will continue his role as the VP of Exploration and Development with his focus being the portfolio of exploration properties, that remain the 100%-owned property of Golden Arrow including:

- Antofalla in Catamarca province (silver/lead/zinc)
- Porterillo in San Juan province (gold)
- Mogote in San Juan province (gold/copper)
- Pescado in San Juan province (gold)

Their specifics were outlined in the initiation of coverage note.

Risks

Quite a number of the risks mooted in our initiation of coverage have miraculously disappeared with the formalization of the JV with Silver Standard.

- ✘ Silver or Zinc price weakness
- ✘ Local difficulties with permitting or development

Price is always an issue for metals miners. Silver can be dragged up and down to varying degrees with sentiment towards gold. However Zinc has a very strong tailwind from over a decade of underinvestment that will not be willed away by sentiment but only by fresh supply and that is evidently not imminent. We see Zinc potentially rising to \$1.50 per lb over coming years which would substantially juice up the returns as laid out in the recent PFS.

The government of Jujuy is getting behind the Chinchillas project because frankly if it does not it risks seeing the high-paid and skilled jobs at Pirquitas disappear with that mine's ultimate closure with nothing to replace it. Chinchillas is needed more by the provincial government than by anyone else.

Conclusion

The combination of the assets of Golden Arrow and Silver Standard is a classic "win-win" situation with the synergies accruing to both sides from substantially extending the life of Pirquitas and maximizing the value of its infrastructure by adding Chinchillas to the mix and shortcutting the timeframe to production while massively reducing the CapEx involved.

In one transaction Golden Arrow has leapfrogged into producer status overnight and secured itself a substantial part of the residual production value (and immediate share of the revenues) at Pirquitas and brought much closer the pipeline value of Chinchillas, which would otherwise have been a long and expensive slog to production.

Monday, May 1, 2017

With this transaction confirmed Golden Arrow will become THE upcoming silver major in Argentina. The market seems to have not grasped the revenue potential of the transaction over and beyond the estimates of the PFS (particularly in light of much stronger Zinc prices) and neither have investors factored in the possibilities inherent in the significant unexplored extent of the Chinchillas deposit and the array of other potential projects that Golden Arrow has in its quiver. In light of these “hidden” aspects of Golden Arrow, we are maintaining our **Long** position in the Model Mining Portfolio and reiterate our 12-month target price of CAD\$1.45.



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