

# Gatos Silver: An Extreme Overreaction Or Warranted Drop?

Jan. 26, 2022 1:56 PM ET | **Gatos Silver, Inc. (GATO)** | 58 Comments | 15 Likes



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## Summary

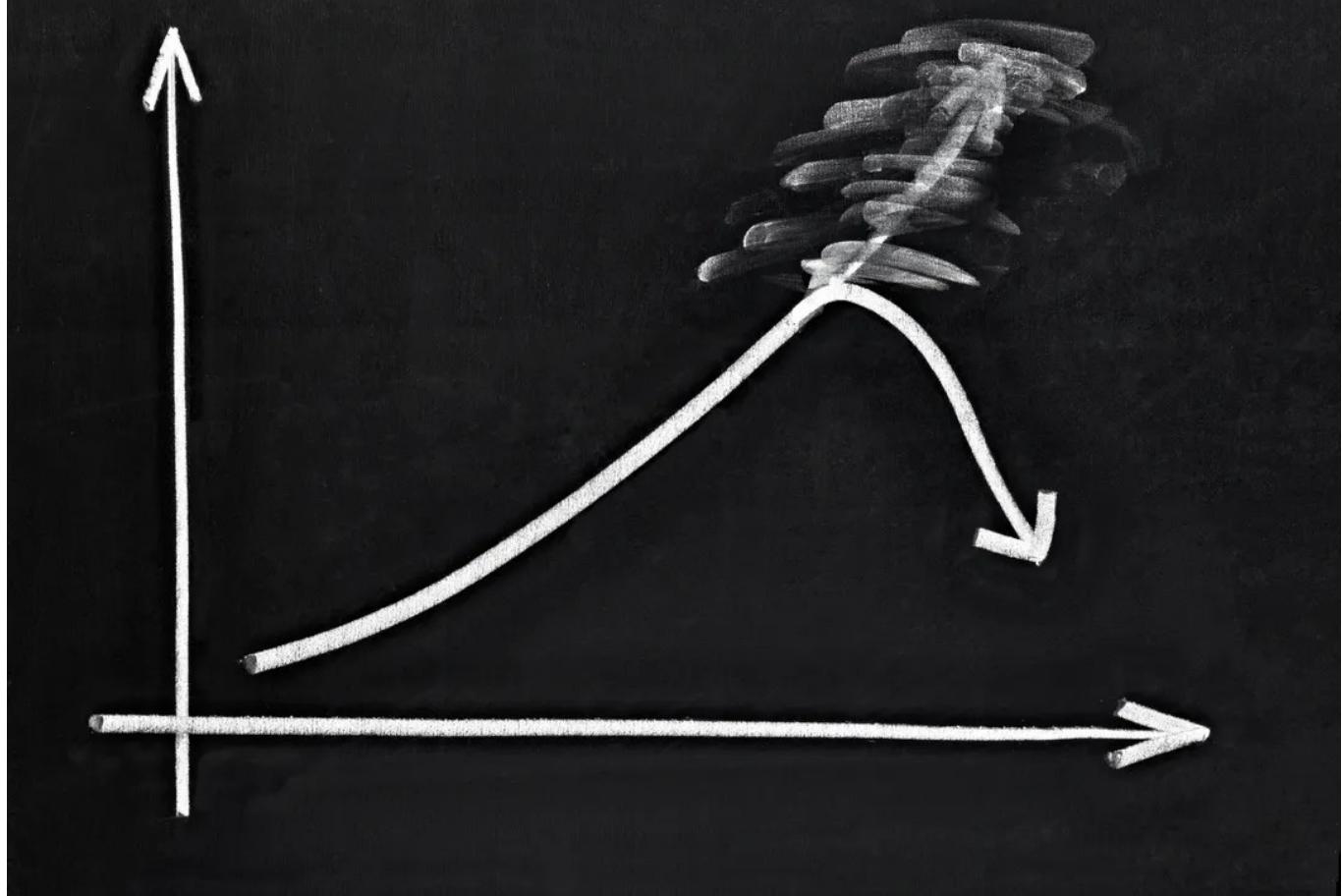
Gatos estimates a potential reduction in the metal content of CLG's mineral reserve ranging from 30% to 50% of the metal content remaining.

This could be more of an issue with zinc reserve estimate, which could be 50% overstated. Although I expect silver and lead reserves to drop as well.

This morning, the shares are down 65%. Unless the 75%+ of the reserves are gone, I believe this is an extreme overreaction.

The company must provide more details and host a conference call.

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Gatos Silver (NYSE:[GATO](#)) announced last evening that:

"During the Company's resource and reserve update process for the Los Gatos Joint Venture ("LGJV"), which included a detailed reconciliation of recent production performance, the Company concluded that there were errors in the technical report...as well as indications that there is an overestimation in the existing resource model."

The company estimates a potential reduction in the metal content of CLG's mineral reserve ranging from 30% to 50% of the metal content remaining after depletion.

Gatos said that "CLG's geological structures and mineral veins are more complex than previously modeled, with the size and orientation of the mineral veins more variable than expected."

Gatos went on to say that it's "working with independent engineering consultants to better understand the magnitude of the overestimation" and anticipates that it will complete its work in the second half of this year.

So, clearly not good news out of Gatos.

However, Gatos also stated in the press release that it's forecasting record AgEq production and even lower AISC in 2022, including a 15% increase in silver production and AISC of just \$13 - \$15 per silver ounce.

• Tonnes Per Day ("tpd") Milled	2,600 tpd in H1 rising to 2,700 tpd in H2
• Contained Metal in Concentrate	
• Silver	8.5 – 9.0 million ounces
• Zinc (in zinc conc.)	49 – 54 million pounds
• Lead (in lead conc.)	36 – 40 million pounds
• Gold (in lead conc.)	4.0 – 4.5 thousand ounces
• All-in Sustaining Cost (AISC)	
o Co-product basis	\$16.50/oz – \$18.50/oz
o By-product basis	\$13.00/oz – \$15.00/oz

It's odd to have a company talk about a 30-50% reduction in metal content of the reserves but then guide for record production and lower costs.

So what's going on here?

It's not exactly clear at this stage, but I think it could be an overestimation of the zinc reserves more than anything. Silver and lead reserves also will likely be reduced, but not to the same extent. I'm speculating, though, and this assumption could be way off base.

The reason I believe it could primarily be a problem with the zinc content is because Zn output and grade have been trailing well behind the mine plan.

Zinc grade and contained zinc in concentrate in 2021 were 3.94% and 49.6 million pounds, respectively. In 2020, grade and output were even lower. 2022 guidance calls for 49-54 million pounds of zinc.

CLG Production (100% Basis)			Q4 2021	Q3 2021	Q2 2021	Q1 2021	FY 2021	FY 2020
Tonnes milled (dmt - reconciled)			241,397	234,054	230,656	203,479	909,586	667,422
Tonnes milled per day (dmt)			2,624	2,544	2,535	2,261	2,492	1,829
Average Grades								
Silver grade (g/t)			331	256	322	261	295	229
Gold grade (g/t)			0.30	0.30	0.35	0.32	0.32	0.42
Lead grade (%)			2.18	2.35	2.51	2.00	2.27	2.27
Zinc grade (%)			3.90	4.10	4.41	3.24	3.94	3.64
Contained Metal								
Silver ounces (millions)			2.3	1.7	2.1	1.5	7.6	4.2
Gold ounces - in lead conc. (thousands)			1.3	1.3	1.5	1.1	5.2	4.9
Lead pounds - in lead conc. (millions)			10.2	10.8	11.2	7.6	39.8	27.4
Zinc pounds - in zinc conc. (millions)			12.9	13.5	14.5	8.7	49.6	34.2
Recoveries (combined lead and zinc conc.)								
Silver			90%	89%	89%	85%	86%	84%
Gold			63%	63%	63%	60%	61%	62%
Lead			91%	91%	90%	87%	86%	87%
Zinc			73%	74%	75%	71%	73%	73%

Gatos Silver

However, the technical report estimated 75.9 million pounds of zinc production in 2021 and 83.2 million in 2022. So zinc output has been underperforming the plan by over 30%.

Description	Qty	Unit Cost	units	Total or Avg	END PRICE<=													
					2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031		
<b>Market Prices</b>																		
Silver	-	1	5oz	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99		
Gold	-	1	5oz	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	
Zinc	-	1	5lb	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	
Lead	-	1	5lb	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	
<b>Production</b>																		
Mt Ore	-	-	kt	9,618	321	662	900	900	900	900	900	900	900	900	900	900	335	
Silver	-	-	koz	80,481	2,914	8,680	10,423	9,468	9,225	7,341	6,556	5,278	5,886	6,764	5,925	2,022	3	
Gold	-	-	koz	69	3	7	7	7	5	5	5	5	5	5	5	7	3	
Zinc	-	-	klb	877,638	22,124	75,888	83,244	85,156	97,664	89,620	82,180	78,569	87,149	83,625	65,858	26,561		
Lead	-	-	klb	498,713	13,425	43,770	50,246	45,490	48,301	48,103	51,100	50,219	46,879	47,203	40,682	13,295		

Gatos Silver

The reserve grade of zinc at the CLG mine is 5.65%. Yet the average over the last few years has been under 4%. Lead is running under plan as well, but not to the same degree (20-25%). Silver, both in terms of grade and production, is closer to the mine plan.

Category	Ore (Mt)	Grade					Contained				
		Ag (g/t)	Pb (%)	Zn (%)	Au (g/t)	Cu (%)	Ag (Moz)	Pb (Mlb)	Zn (Mlb)	Au (Koz)	Cu (Mlb)
<b>2020 CLG MINERAL RESERVE ESTIMATES</b>											
Proven	6.4	332	2.77	5.55	0.36	-	68	388	778	74	-
Probable	3.3	254	2.74	5.86	0.34	-	27	197	421	36	-
Proven & Probable	9.6	306	2.76	5.65	0.35	-	95	585	1,198	108	-

Gatos Silver

I discussed this with my subscribers in March 2021 (pay attention to the text in bold):

The likely piece of news impacting the stock since that time was the 2021 guidance, which calls for production of 7.5-7.9 million ounces of silver, 40-42 million pounds of lead, 49-52 million pounds of zinc, and 4,500-5,000 ounces of gold at an AISC of \$17.00-\$17.50 per Ag ounce (i.e., they are using by-product zinc and lead credits in the cost guidance). On a silver equivalent basis, this puts production at just under 12 million ounces.

Compare that to the 2020 technical report, which estimated 13.3 million AgEq ounces in 2021 at an AISC of \$13.97 per AgEq ounce (i.e., not using zinc, lead, and gold by-product credits).

*Actual silver production isn't too far below the mine plan; the culprit is zinc production, as the expectation was originally 75.9 million pounds. The majority of silver comes from a lead concentrate (as I highlighted in the gross revenue below), which is why silver production for this year is still close to the mine plan. Some silver production comes from the zinc concentrate, and the lower zinc output likely explains the slight shortfall in silver. The company is saying higher than expected grade variability and where they are specifically mining at the moment are the reasons for the lower zinc production, and they expect better zinc grades next year.*

Description	Qty	Unit Cost	units	Total or Avg	END PROD=4											
					2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Market Prices																
Silver	1	\$/oz	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99	18.99
Gold	1	\$/oz	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00	1,472.00
Zinc	1	\$/lb	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09
Lead	1	\$/lb	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87
Production																
Mill Ore	-	kt	9,618	321	852	900	900	900	900	900	900	900	900	900	900	335
Silver	-	koz	80,481	2,914	8,680	10,423	9,468	9,225	7,341	6,598	5,278	5,886	6,764	5,925	2,022	
Gold	-	koz	69	3	7	7	7	7	5	5	5	5	5	7	3	
Zinc	-	lb	877,638	22,124	75,888	83,244	85,156	97,664	88,620	82,180	78,569	87,149	83,625	65,858	26,561	
Lead	-	lb	498,713	13,425	43,770	50,346	45,490	48,301	48,103	51,100	50,219	46,879	47,203	40,682	13,295	
Cash Flow																
Gross Revenue																
Silver	-	USD/000s	1,528,328	55,312	164,826	107,004	179,795	175,181	139,414	124,496	100,231	111,773	128,444	112,521	38,303	
Gold	-	USD/000s	101,570	4,814	10,719	10,593	10,630	10,315	7,833	7,950	8,038	7,794	8,079	10,897	3,849	
Zinc	-	USD/000s	956,625	24,115	82,718	90,736	92,820	106,454	97,664	88,576	85,640	94,992	91,151	71,785	28,952	
Lead	-	USD/000s	433,880	11,670	38,080	43,714	39,577	42,022	41,849	44,457	43,691	40,785	41,067	35,393	11,566	
Gross Revenue	-	USD/000s	3,020,404	96,000	296,343	342,967	322,822	333,972	286,782	286,479	237,600	258,344	268,741	230,995	82,760	
Net Smelting Return																
Lead Concentrate	-	USD/000s	1,490,491	51,857	154,971	183,233	167,031	185,023	136,393	127,045	108,506	115,153	127,953	114,434	38,793	
Zinc Concentrate	-	USD/000s	568,088	15,850	52,551	59,431	58,430	63,776	56,296	51,274	47,090	52,261	52,359	42,420	16,380	
Net Smelting Return	-	USD/000s	2,058,579	67,708	297,522	342,664	225,462	228,798	192,689	178,319	155,666	167,414	180,312	156,854	55,173	
Royalties																
La Cuesta Royalty	-	USD/000s	(14,415)	(1,354)	(4,150)	(4,853)	(1,127)	(1,144)	(963)	(822)	0	0	0	0	0	0
Royalties	-	USD/000s	(14,415)	(1,354)	(4,150)	(4,853)	(1,127)	(1,144)	(963)	(822)	0	0	0	0	0	0
Net Revenue	-	USD/000s	2,044,164	66,353	203,371	237,811	224,334	227,654	191,725	177,498	155,666	167,414	180,312	156,854	55,173	
Operating Costs																
10 - Mining	-	1.0	USD/000s	(853,805)	(29,178)	(73,874)	(74,025)	(74,605)	(74,625)	(74,605)	(74,605)	(74,605)	(74,605)	(74,605)	(74,605)	(29,347)
Operating Costs	-	1.0	USD/000s	(853,835)	(29,178)	(73,874)	(74,025)	(74,605)	(74,625)	(74,605)	(74,605)	(74,605)	(74,605)	(74,605)	(74,605)	(29,347)
Operating Margin	-	1.0	USD/000s	1,240,329	37,175	129,497	163,207	149,730	153,950	117,121	102,892	91,061	92,809	105,707	82,250	25,831
Capital Costs																
10 - Mine & Surface Infrastructure	-	1.0	USD/000s	(267,330)	(28,581)	(82,705)	(38,302)	(40,720)	(29,375)	(18,645)	(13,545)	(11,280)	(9,495)	(6,130)	(5,345)	(3,207)
Capital Costs	-	1.0	USD/000s	(267,330)	(28,581)	(82,705)	(38,302)	(40,720)	(29,375)	(18,645)	(13,545)	(11,280)	(9,495)	(6,130)	(5,345)	(3,207)
Working Capital																
Beginning Balance	-	USD/000s	(149,063)	0	(14,775)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	0	
Ending Balance	-	USD/000s	(169,767)	(5,836)	(14,775)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(14,921)	(5,836)	
Change	-	USD/000s	11,704	5,836	0	0	0	0	0	0	0	0	0	0	0	5,836
Cash Available for Debt Service																
Operating Margin	-	1,090,868	USD/000s	1,240,329	37,175	129,497	163,207	149,730	153,950	117,121	102,892	81,061	92,809	105,707	82,250	25,831
Project Capital (Equity)	-	USD/000s	(267,300)	(28,581)	(82,705)	(38,302)	(40,720)	(29,375)	(18,645)	(13,545)	(11,280)	(9,495)	(6,130)	(5,345)	(3,207)	
Income Tax	-	USD/000s	(148,214)	(1,175)	(2,579)	(3,150)	(21,878)	(27,334)	(16,203)	(15,411)	(8,787)	(15,898)	(19,657)	(12,593)	(3,549)	
Working Capital	-	USD/000s	5,868	5,836	8,939	146	0	(0)	0	(0)	0	0	0	(0)	(0)	(0,050)
Pre-Tax Cash Flow	-	USD/000s	978,867	14,430	75,731	125,051	109,010	122,675	98,476	89,347	69,781	83,314	99,577	76,905	13,571	
Cumulative	-	USD/000s	-	14,430	75,731	125,051	109,010	123,675	98,476	89,347	69,781	83,314	99,577	76,905	13,571	
Present Value	5.0%	USD/000s	764,690	-	-	-	-	-	-	-	-	-	-	-	-	
Post-Tax Cash Flow	-	USD/000s	830,653	13,255	73,152	121,901	87,132	96,341	82,273	73,935	60,984	67,416	79,920	64,311	10,029	
Cumulative	-	USD/000s	-	13,255	73,152	121,901	87,132	96,341	82,273	73,935	60,984	67,416	79,920	64,311	10,029	
Present Value	5.0%	USD/000s	653,166	-	-	-	-	-	-	-	-	-	-	-	-	

The company did start to prove in Q2 2021 that Cerro Los Gatos was a low-cost mine, but on a by-product basis as zinc still trailed well behind plan, and lead production was also lower than envisioned in the technical report. Still, the mine was performing well, had healthy margins, and generating cash flow. Even at the higher AISC than estimated in the technical report, it was an exceptional asset.

The company also indicated that zinc grades would improve this year. Given the guidance released last night, clearly they won't.

Getting back to the potential issue, if we look at the block grades from the technical report, the top diagram is of the silver grade, the next is lead, and the bottom is zinc. The zinc diagram has notably higher block grades. Possibly an extreme overestimation? Given what we've seen so far and the news last night, it certainly seems plausible.

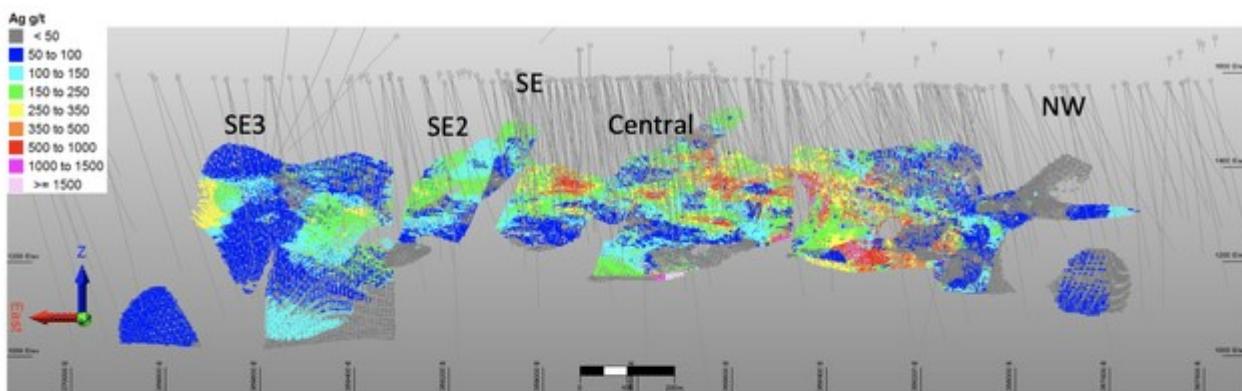


Figure 14-28: Estimated Ag Block Grades within Grade-Shell 3D View

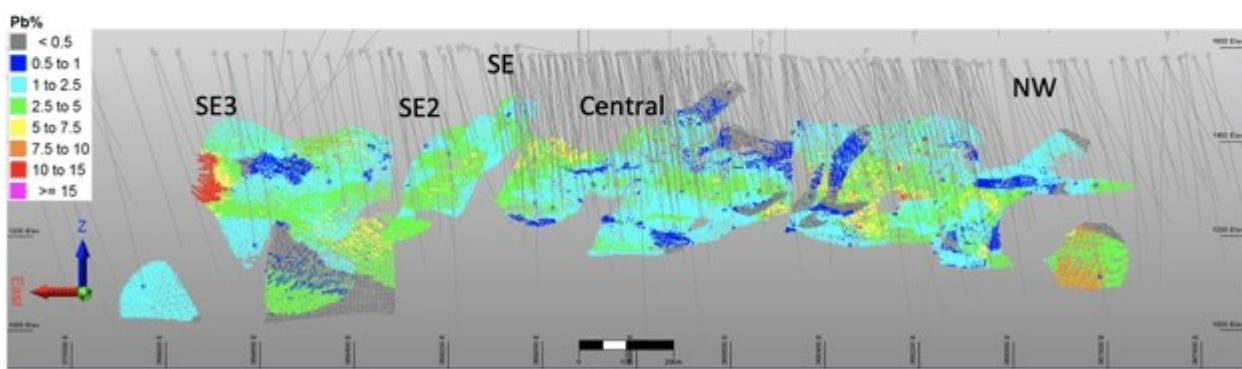


Figure 14-29: Estimated Pb Block Grades within Grade-Shell 3D View

Gatos Silver

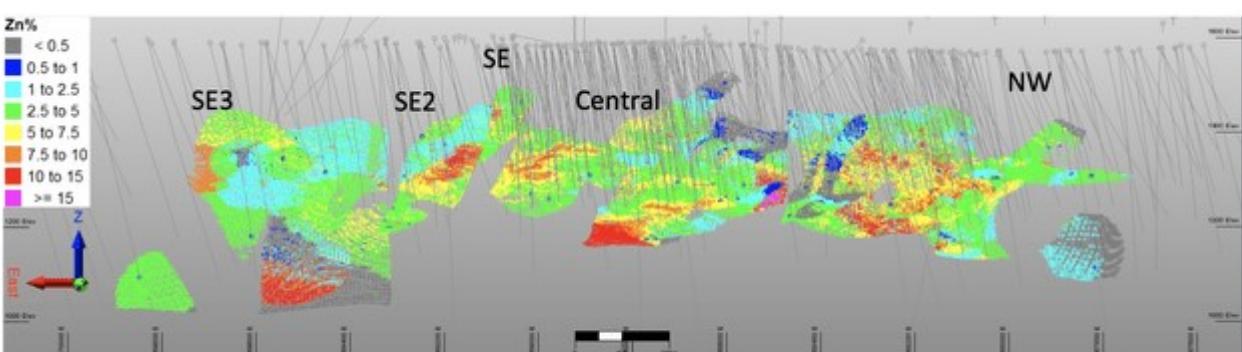


Figure 14-30: Estimated Zn Block Grades within Grade-Shell 3D View

Gatos Silver

There were almost 1.2 billion pounds of zinc reserves at CLG, according to the 2020 reserve estimate. On a silver equivalent basis, zinc makes up just over one-third of the total metal content.

I found the wording in the press release curious when I first read it, as Gatos stated it expects a potential reduction "of the metal content of CLG's mineral reserve." In other words, I interpret it as meaning it won't be a similar percentage reduction across all metals.

I believe the distinction between "metal content" and "reserves" supports my assumption about this being primarily an issue with zinc reserve estimate, which could be 50% overstated.

However, in this scenario, I would still expect a reduction in silver and lead reserves, just not to the same extent. Maybe 15% for silver and 20-25% for lead. That would result in a 30% reduction in overall metal content and within the range that Gatos issued. If that's the scenario, then silver reserves are still ~70 million ounces.

Again, I'm speculating based on the data we've seen so far, and I could be incorrect.

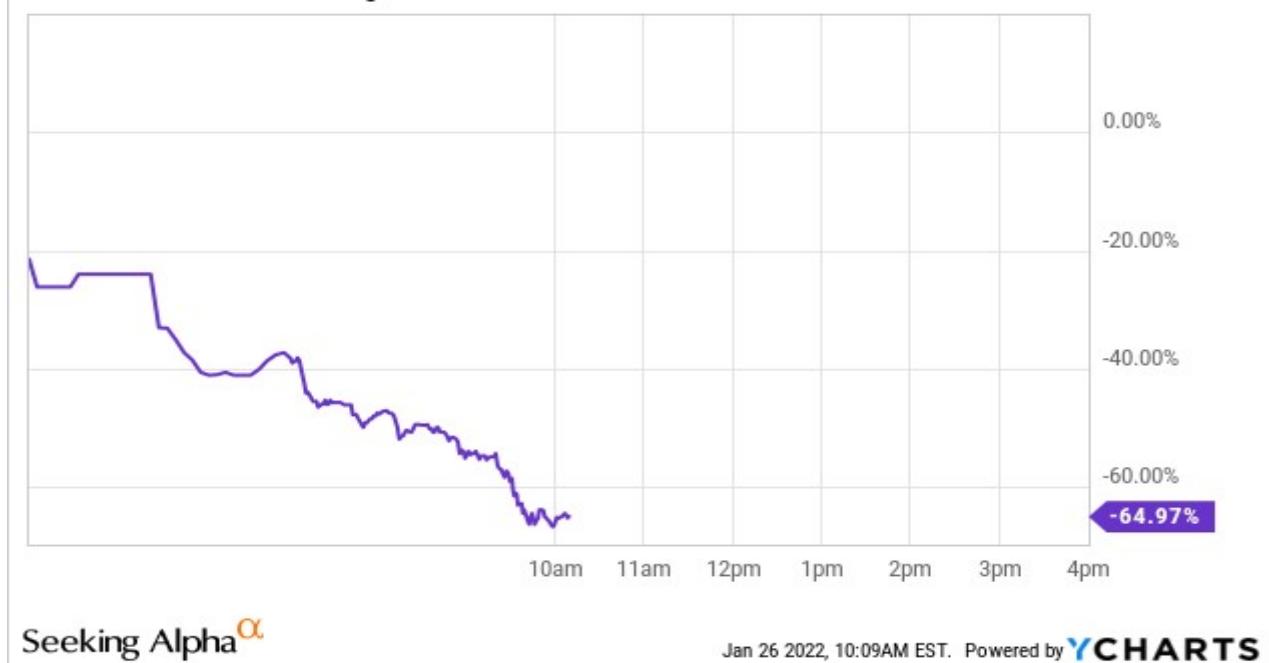
The optics of this look very bad, but if that's the outcome, it's not much different than what the mine has been producing. In other words, the CLG mine was originally expected to produce at an AISC of \$11.77 per ounce on a co-product basis or \$5.47 per ounce using by-product credits. I think GATO is just confirming that those original cost metrics and by-product reserves are overinflated and not nearly as robust as estimated in the technical report.

This also could explain why we aren't seeing any significant negative impact on 2022 silver production and AISC.

The company will still generate substantial cash flow this year (over \$100 million on a 100% basis at current metal prices), and future exploration could make up for the loss in reserves.

Of course, none of this matters today, and investors at this point aren't trusting what management says (or any guidance). This morning, the shares are down 65%, which puts the market cap at just under \$250 million. Unless the 75%-plus of the reserves are gone, I believe this is an extreme overreaction. The most important thing is for silver reserves to hold up fairly well in the new reserve model. If they do, then the shares will eventually rebound. But it will be 6-9 months before the company announces the updated reserve estimate.

## Gatos Silver Inc Price % Change



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There isn't a risk of bankruptcy as GATO only had \$12.6 million of debt on its balance sheet at the end of Q3 2021 and held \$12.4 million of cash.

### GATOS SILVER, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except for share and per share amounts)

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,398	\$ 150,146
Related party receivables	1,280	1,727
Other current assets	1,058	3,879
Total current assets	14,736	155,752
<b>Non-Current Assets</b>		
Investment in affiliates	393,608	109,597
Other non-current assets	41	61
<b>Total Assets</b>	<b>\$ 408,385</b>	<b>\$ 265,410</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued liabilities	\$ 4,043	\$ 4,024
<b>Non-Current Liabilities</b>		
Credit Facility, net of debt issuance costs	12,583	—
<b>Shareholders' Equity</b>		
Common Stock, \$0.001 par value; 700,000,000 shares authorized; 69,134,494 and 59,183,076 shares outstanding as of September 30, 2021 and December 31, 2020	117	108
Paid-in capital	542,193	409,728
Accumulated deficit	(150,551)	(147,423)
Treasury stock, at cost, nil and 144,589 shares as of September 30, 2021 and December 31, 2020, respectively	—	(1,027)
Total shareholders' equity	391,759	261,386
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 408,385</b>	<b>\$ 265,410</b>

Gatos Silver

The JV held \$10 million of cash and was debt-free as of September 30, 2021, and GATO stated in its latest presentation that the LGJV had over \$20 million cash on December 31, 2021.

**LOS GATOS JOINT VENTURE**  
**COMBINED BALANCE SHEETS (UNAUDITED)**  
*(in thousands)*

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,941	\$ 1,676
Receivables	6,961	3,988
Inventories	10,027	10,315
VAT receivable	47,096	50,732
Other current assets	2,543	2,891
Total current assets	<u>76,568</u>	<u>69,602</u>
<b>Non-Current Assets</b>		
Mine development, net	222,128	202,874
Property, plant and equipment, net	192,675	196,942
Total non-current assets	<u>414,803</u>	<u>399,816</u>
<b>Total Assets</b>	<b><u>\$ 491,371</u></b>	<b><u>\$ 469,418</u></b>
<b>LIABILITIES AND OWNERS' CAPITAL</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 32,951	\$ 35,767
Related party payable	1,299	1,703
Accrued interest	45	101
Unearned revenue	—	3,276
Equipment loans	6,365	7,084
Dowa Term Loan	—	31,826
Working Capital Facility	—	60,000
Total current liabilities	<u>40,660</u>	<u>139,757</u>
<b>Non-Current Liabilities</b>		
Dowa Term Loan	—	187,767
Equipment loans	1,224	6,120
Reclamation obligations	12,846	12,162
Total non-current liabilities	<u>14,070</u>	<u>206,049</u>
<b>Owners' Capital</b>		
Capital contributions	540,638	271,368
Paid-in capital	18,405	16,366
Accumulated deficit	(122,402)	(164,122)
Total owners' capital	<u>436,641</u>	<u>123,612</u>
<b>Total Liabilities and Owners' Capital</b>	<b><u>\$ 491,371</u></b>	<b><u>\$ 469,418</u></b>

Gatos Silver

Gatos and its partner Dowa spent \$316 million constructing the mine; it's all top-shelf infrastructure. The value of the PP&E likely equals the current market cap of the company.



Gatos Silver

To reiterate, it's not exactly clear what happened with the technical report and how much each metal is overstated. I'm speculating as to the cause and ultimate ramifications based on the data we have so far. We must remain open to the possibility that silver reserves drop substantially (30-50%). Either way, the company must be more transparent and provide more detail than what they stated in the press release last evening. Why aren't they hosting a conference call today? This is also a must because as of now, investors are pricing the stock as if there are hardly any reserves at CLG. I don't think that is the case, which is why I'm holding.

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The opportunity in this sector is here, but to succeed, you need a deep knowledge of gold and the miners. The Gold Edge is my premium, research-intensive service that provides that knowledge as I'm sharing all of my thoughts, ideas, and research on the gold sector. If you would like access to all of my analyses, including my top gold and silver mining picks, subscribe to The Gold Edge. Click [here](#) for details.

### Undiscovered Diamond in a Sea of Market Noise

★★★★★ [jrtrader21](#) • Dec. 17, 2020 8:16 PM

Probably the best subscription service I have been a member of. His analysis, thorough explanation of the markets, stock recommendations, and non emotional/technical perspective is what makes this newsletter a diamond in the rough sea of investment advice out there. If you are looking for someone ...

[See more](#)

### The Best Sector Analyst

★★★★★ [thunnus](#) • Dec. 17, 2020 8:00 PM

SomaBull is the best sector analyst I have encountered in my 40-years of equity investing. His individual stock picks beat the sector ETFs by a large margin. You will earn your annual subscription dues back many times over.

### A clairvoyant for the gold market?

★★★★★ [Snowball007](#) • Dec. 17, 2020 6:44 PM

I have been investing in the stock market and the precious metals sector for almost three decades, and have followed many of the so-called "gurus". But I can honestly say that I have never seen anyone read the rhythm of a market like SomaBull does with the gold market. He has guided me and his subscribers through the ups and downs of this market in 2020, and not only have we all made a lot money, we have kept through the downturn of the last six months thanks to SomaBull's guidance. I am so impressed - or more like blown away. I feel sorry for those who try to navigate such a volatile sector without the expertise and level-headed approach that SomaBull takes. THANK-YOU

★★★★★ [55 Reviews](#)

This article was written by

 **SomaBull**  
9.71K Followers

Author of [The Gold Edge](#)  
In-depth coverage and analysis of the gold and gold mining sector.

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Follow



**Disclosure:** I/we have a beneficial long position in the shares of GATO either through stock ownership, options, or other derivatives. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no

15 Likes

58 Comments

## Comments (58)

Sort by Newest ▾



**fazsha**

Today, 10:11 AM

Comments (1.91K) | + Follow

**@SomaBull** I bought a week ago, foolishly thinking I needed to diversify my silver holdings, and thought GATO was priced right. It blew up like a Vegas meth house, and I bailed at 9:35am, managing to lose "only" \$33,000.

Reasons I am staying away: 1)unlike FSM, this is not a resolvable dispute, this is bad data. GATO is going to be sued, GATO will sue others, and the company will be distracted by this for a long time; 2) incentive stock options, if any, are now worthless, but if you reprice them, the cost of repricing flows through the income statement, but if you don't reprice them, you have disincentivized current key employees, who might leave.

[Reply](#) [Like \(1\)](#)



**Prezzo giusto**

Today, 10:21 AM

Comments (1.93K) | + Follow

**@fazsha** Boy, am i glad i am only very modestly exposed to this sector and went full-in on energy at the right time. Spectacular returns, the highest free cash flow yields and fat dividends on top of that. Precious metals will have their day again, i am convinced, but what a gigantic opportunity cost! And the numerous flops like this one.

[Reply](#) [Like](#)

D

**Denzerini**

Today, 11:27 AM

Premium Comments (123) | + Follow

**@fazsha** I made the exact same move, at the same time, and for the same reason — to diversify my silver investments. Except I bought a lot more shares and decided to hold based on 2022 productivity projections and since the value of their infrastructure is worth way more than their market cap. What an unmitigated disaster.

[Reply](#) [Like \(1\)](#)

**Dean Grossmith**

Today, 9:46 AM

[Premium](#) [Comments \(327\)](#) | [+ Follow](#)

Just added to my holding at \$2.84. Anyone got a view on whether this could be a takeover candidate? *(edited)*

[Reply](#) [Like](#)**Sorgenfrei**

Today, 6:08 AM

[Comments \(1.08K\)](#) | [+ Follow](#)

Gatos Silver \$GATO is in the Dog house now.

I bought Gatos last summer and sold it about a month later for a small profit.

Who developed the 2020 Technical Report that estimated R/R, Tetra Tech?

[Reply](#) [Like](#)

F

**fr72**

Today, 1:26 AM

[Comments \(116\)](#) | [+ Follow](#)

Thanks for the analysis! Given how severe the reaction has been, I am actually tempted to double down on this...

[Reply](#) [Like](#)

D

**Deeply Concerned**

Today, 12:55 AM

[Comments \(140\)](#) | [+ Follow](#)

Many valid comments to the effect of: Do you think GATO is worth keeping (or making a new investment in)?

I think it depends on your time frame. The short-term response is unpredictable. If you plan to hold it for a year or more, however, I think Gato will do as well as most other silver miners. And with the big drop in valuation, I think Gato will probably do better than most miners.

I plan to hold my investment in Gato today for at least two years and probably a lot longer. From a long-term perspective, assuming that the problem is errors in the 2020 Technical Report in measuring and modeling mineralization, reserves and resources - and not a much larger problem - then Gato should return to a "normal" valuation in good time.

GATO's market cap is \$219 million right now. The all-time high share price was \$24 not too many months ago. If the recent 2022 guidance is anywhere close to being accurate, then GATO is currently a steal. *(edited)*

[Reply](#) [Like \(1\)](#)

F

**fr72**

Today, 1:27 AM

[Comments \(116\)](#) | [+ Follow](#)

**@Deeply Concerned** I am tempted to double down on this. I could walk away from current prices as my current holding is technically a "free ride" (I had taken profits off them during the silver squeeze), but for a mid tier silver producer to be worth less than its assets....too tempting to turn away

[Reply](#) [Like](#)

**LivingOffTheMarket.com**

Yesterday, 10:43 PM

Comments (172) | + Follow

Agree that this is an over reaction because we don't know at this time nor will we know well into the second half of 2022. Has everyone factored in the impact of margin liquidation on the share price? likely see more selling Thursday morning related to margin selling. eTrade went to 100% margin requirement today. I doubled the "share" position today at about \$3.25. Looking to extending buying up to double the original " \$\$ " investment (prior to 2/26/22) tomorrow on weakness. Will hold for a period of time and sell the shares above \$3.50 for a tax loss before year-end. Operations are fine at this point. Reserves under the ground are not ever a completely known factor. It seems to me the probabilities are that Gato's can rebound above a doubling down of \$\$ invested prior todays investment. A doubling down on the \$\$ mount invested prior to today would bring my cost to the roughly \$5.00 area. If the stock jumps above five dollars I will sell the share bought prior to 1/26/22. For me its a numbers game in the management of the stock. I don't see Gato's going out of business. Operations (Revenue) seems stable and perhaps there is a shortening of mine life. Maybe - but do we know. Play it the way you feel comfortable. Just the way I look at things. See it more as an opportunity than disaster. Set back on timing...Opportunity to build share position. Don't believe they are going out of business.

[Reply](#) [Like \(4\)](#)**Randywhitewasabada&s**

Today, 12:07 AM

[Premium](#) [Marketplace](#) [Comments \(11\)](#) | + Follow

@[LivingOffTheMarket.com](#) well said and I'm in same exact boat and honestly I stay up on silver stocks and I will buy this all the way down whatever down may be. (edited)

[Reply](#) [Like \(2\)](#)**Nadalavic**

Today, 12:28 AM

[Premium](#) [Marketplace](#) [Comments \(216\)](#) | + Follow

@[LivingOffTheMarket.com](#) are you joining the class action?

[Reply](#) [Like \(1\)](#)



**LivingOffTheMarket.com**

Today, 7:48 AM

Comments (172) | + Follow

[@Nadalavic](#)

no get real. When has anyone gotten an significant money back from a class action suit. Class actions are how lawyers make money - not shareholders. waste of time.

[Reply](#)

[Like \(5\)](#)

---

**6228371**

Today, 7:57 AM

Comments (26.9K) | + Follow

[@LivingOffTheMarket.com](#)

It depends on how many shares you have and how much the settlement is for. In a few instances I did get thousands of dollars, however in many other instances I was entitled to under \$200 and didn't feel it was worth my time filling out the paperwork to collect it.

[Reply](#)

[Like](#)

---

S

**seekir**

Today, 10:34 AM

Comments (917) | + Follow

[@LivingOffTheMarket.com](#)

The bad thing is: They didn't explain who made the mistake, and why. It is not quite normal that reserves and resources are restated.

[Reply](#)

[Like](#)

---

**Ike Sheppard**

Yesterday, 9:29 PM

Premium Comments (4) | + Follow

[@SomaBull](#) Do you really think this is worth holding, even if this is an overreaction with such a massive hit to trust GATO and management? If Silver takes off, I fear this one getting left behind while the majority of the sector makes some substantial gains. Even if they revise their grades and reserves, can it be taken seriously now? And that update might not be for months?

I appreciate your timely post to shed some color on the subject. This was a sour pill to take this morning.

[Reply](#)

[Like \(2\)](#)

D Denzerini

Yesterday, 11:21 PM

Premium Comments (123) | + Follow

@Ike Sheppard Yes, a very, very sour pill to swallow. However, I think this has the potential to recover fairly well by year-end (maybe to \$7) IF the board at least replaces the CEO with someone who has a proven past record of success that is considered credible to institutional investors. (edited)

Reply Like

D denoverenes7

Yesterday, 6:31 PM

Marketplace Comments (1.45K) | + Follow

I bought GATO last summer and sold it about a month later for a small profit when I exited all pm miners. I almost purchased it again last month when I decided to try pm miners again. I purchased PAAS and SILV for silver exposure instead. Today's crash could be the opportunity of a lifetime. Or GATO could be dead money for awhile. Could be a coin toss as to which. Personally, I will just stay with the two I have, as one gives me a great way to play the sector for growth and income, while the other gives me great way to focus on the growth angle. Good luck to all.

Reply Like (2)



pat45

Yesterday, 5:36 PM

Comments (7.16K) | + Follow

my question...how could they miss by so much??

Reply Like

V valtr

Yesterday, 9:16 PM

Comments (646) | + Follow

@pat45 it looks like a fraud to me, not an error. One way or another , it is a huge damage to the company stocks and imidge of management.  
I sold the entire position. (edited)

Reply Like

D

**Deeply Concerned**

Yesterday, 5:11 PM

[Comments \(140\)](#) | [+ Follow](#)

I've been following GATO since the IPO in late 2020. No shares purchased until today - basically just watching the decline in the gold and silver miners from the major high in August 2020. I thought I'd submit some limit orders in December but then decided to wait to see if there was going to be a significant capitulation and huge reversal to mark the end of the long downtrend. Boy, am I glad I waited. I really feel bad for the existing shareholders - believe me, I've been on the other side of this type of event. Anyway, woke up this morning and went to SA to check on any news on the miners on my watchlist and couldn't believe my eyes when I saw the price of Gato. I thought maybe a terrorist attack had taken out their mine. After a couple hours of reflection, I decided now was the time to put in a kind of "stink bid" at 3.01 (and back the truck up). Just got home and checked Schwab - between 3:10 and 3:35 there were about 15 partial fills at the 3.01 limit to close the order. I noticed the low for the day was 3.00. Right now, I'm not sure if I should feel good or very anxious. Before today I would have been happy to buy GATO at 9. I guess I tend to agree with SomaBull that today's drop was an overreaction but that doesn't mean the decline is over by any means. I know that over the next month or two, GATO might get down to 2 or even lower. Time will tell.

[Reply](#)[Like \(3\)](#)

Y Yousha Ahmad

Yesterday, 4:32 PM

Premium Comments (8) | + Follow

I have a small Gatos position I opened April 2021, which funny enough was about the same price I bought it, until today. Last week I was doing an in depth look to see whether to add to it.

In short, Gatos at 10.27USD/ share:

Not as good a value investment as Fresnillo

Not as good a trend investment as First Majestic

Not as good a growth investment as Aurcana

Plus, I am not keen on lack of environmental information from Gatos

I don't know whether Gatos is better value at 3.17USD or just a mess with a potential trade opportunity. The silver opportunity is too exciting to spend time looking at Gatos, both before today, and now in my opinion.

Sometimes we investors get burnt; sometimes there are dodgy things going on; sometimes we don't see the full picture and sometimes markets don't make sense. Soma, you have skills that are better focused on other companies in my opinion.

I wasn't planning on selling, definitely not selling here, but I am going to focus elsewhere and hope to sell Gatos for a half decent profit in two or three years. All the best everyone.

 [Reply](#)  [Like \(1\)](#)



SomaBull

Yesterday, 4:59 PM

Marketplace Contributor Premium Comments (1.69K) | Following

**Author's Reply** [@Yousha Ahmad](#) thank you. And I hear what you are saying.

SomaBull

 [Reply](#)  [Like \(1\)](#)

Y

Yousha Ahmad

Today, 5:53 AM

Premium Comments (8) | + Follow

[@SomaBull](#) You're welcome. Thank you, keep up the good work!

 [Reply](#)  [Like](#)

**HaroldRamus**

Comments (7.09K) | + Follow

Yesterday, 4:29 PM

Lots of charts, graphs, pictures

nice

[Reply](#)[Like](#)**James Early**

Marketplace Comments (114) | + Follow

Yesterday, 4:10 PM

Darn near added to GATO after reading your 1/23 article. Glad I did not! I agree the sell off seems a bit overdone

[Reply](#)[Like](#)**DRAKE01775**

Comments (22) | + Follow

Yesterday, 4:03 PM

Thank you for the article! I agree with your comments. While I took a serious hit as this was one of my core silver holdings, I believe the silver production will not be as serious as the market has priced it. This will take awhile to sort out. On down days, I remind myself that the core principle of investing in silver miners is intact. Averaged down some today, but the bulk of new money still goes to better miners in that part of my portfolio.

[Reply](#)[Like \(1\)](#)

F

**fr72**

Today, 1:31 AM

Comments (116) | + Follow

[@DRAKE01775](#) so you're not planning to add? I bought GATO straight from IPO and have recovered my costs....really tempting to jump back in again...still pondering...

[Reply](#)[Like](#)**TraderTech**

Comments (1.11K) | + Follow

Yesterday, 4:01 PM

Talk about catching the falling knife!

[Reply](#)[Like \(1\)](#)

**Nadalavic**

Premium Marketplace Comments (216) | + Follow

Yesterday, 4:01 PM

Thank you for a great article. It is a pretty shocking event as this mine has respected management and investors. I note that you are not buying more.

[Reply](#) [Like](#)**Don Durrett**

Yesterday, 3:50 PM

Contributor Comments (1.28K) | Following

How did you write such an in-depth article overnight? Impressive. Well done. 5 stars. And thanks!

[Reply](#) [Like \(8\)](#)**SomaBull**

Yesterday, 5:00 PM

Marketplace Contributor Premium Comments (1.69K) | Following

**Author's Reply** Thanks @Don Durrett

SomaBull

[Reply](#) [Like \(2\)](#)

J

**j2kpn**

Yesterday, 3:46 PM

Comments (79) | + Follow

GARBAGE!!

[Reply](#) [Like](#)**PM's Rock**

Yesterday, 3:46 PM

Comments (382) | + Follow

SomaBull.....you should be just as upset as some of us here who got buried by this. You just recommended this stock less than a week ago. I am not blaming you for my investment, but I don't think you should be defending a company that clearly is misleading their shareholders or grossly incompetent.

[Reply](#) [Like \(2\)](#)

**SomaBull**

Yesterday, 5:03 PM

Marketplace Contributor   Premium   Comments (1.69K) | Following

**Author's Reply** @PM's Rock , I hear you, but I'm not defending the company or management. I'm simply trying to figure out what could be going on and whether this is an overreaction in the stock. If I got emotional about the situation, that wouldn't be helpful.

SomaBull

[Reply](#)   [Like \(6\)](#)

H

**happydew**

Yesterday, 3:37 PM

Comments (669) | + Follow

That's the reason I am staying with more established silver company like PAAS. if silver goes up, not much difference, but you don't get a haircut like this. (edited)

[Reply](#)   [Like \(1\)](#)

H

**happydew**

Yesterday, 3:41 PM

Comments (669) | + Follow

@[happydew](#) GATO did hurt my SILJ today. It's 3.44% of the holdings, so SILJ lost 2.5% because of GATO. (edited)

[Reply](#)   [Like](#)

J

**jamerson**

Yesterday, 10:34 PM

Comments (1.49K) | + Follow

@[happydew](#) Unfortunately, PAAS has a PE near 40, as I see is way too high. Most often mining companies pre-sell a given amount of their supply at a given price, / or an expected delivery of supply at that price. So, PE is lately speculative, and most important is M&A for patented real estate. Specs will be controlled by governments of their jurisdiction/demand. Many great companies could fail without a price run. GL.

[Reply](#)   [Like](#)

**6228371**

Today, 12:17 AM

Comments (26.9K) | + Follow

[@jamerson](#)

"Unfortunately, PAAS has a PE near 40, as I see is way too high."

PAAS needs to be evaluated based on the value of their assets, not just their current earnings. Some might try to figure out a value for their currently producing mines(based on earnings estimates) and add to that the values of Escobal, Navidad, and other currently non producing assets. When Escobal reopens, could it be worth \$3 billion or more? What is Navidad and their other projects worth? I own plenty of PAASF rights, which convert to PAAS shares (497 shares per 10,000 rights) soon after Escobal reopens(if it happens before Feb 2029). I have also bought some PAAS shares recently. As I said, PAAS is an asset play, not a play on current earnings. I figure PAAS might rally to the \$35 to \$42 range soon after Escobal reopens. If you buy PAASF rights at 75 cents, after Escobal reopens(I expect it to reopen perhaps later this year or in the first half of next year) you have PAAS shares with a \$15.09 cost per share. Imo the chances that the rights expire worthless in 7 years is under 10%. So if PAAS then rallies to \$38 soon after Escobal reopens, buying the rights at 75 cents gives around a 152% return. Of course since there is a chance(however slight) that the rights expire worthless in 7 years, one shouldn't invest too much in the rights.

The mean analyst price target for PAAS is \$32.93

[www.marketwatch.com/...](http://www.marketwatch.com/)[Reply](#) [Like](#)**PM's Rock**

Yesterday, 3:16 PM

Comments (382) | + Follow

The thing I will be looking at now is the names and faces of Gatos management and Board of Directors. That way I will know where not to invest in the future. This is something that should have been caught much earlier and any sell trades by management should be severely scrutinized. I see class action lawsuits being priced in here, but wouldn't touch this stock even at the discounted valuation. Very sad. This is what kills investment sentiment in precious metals miners in general.

[Reply](#) [Like \(4\)](#)

S

seekir

Yesterday, 3:06 PM

Comments (917) | + Follow

SomaBull, you write: Why aren't they hosting a conference call today? I absolutely agree with you. But still worse: Gatos Silver was scheduled to an online silver conference today, organized bei Bloor Street Capital, New York, one of the better IR companies I know. Know what? They canceled their participation, quite obviously fearing questions they didn't like. THIS IS A REALLY BAD BAHAVIOR. Can I trust such a management? I feel so pissed that I want to sell my shares even for this low price.

 Reply

 Like (3)



SomaBull

Yesterday, 5:07 PM

Marketplace Contributor   Premium   Comments (1.69K) | Following

**Author's Reply** @seekir , management needs to provide more details on the situation tomorrow. If they don't have a conference call, or put out another press release, that will be extremely disappointing.

SomaBull

 Reply

 Like (2)

S

seekir

Today, 10:36 AM

Comments (917) | + Follow

@SomaBull

Well said.

 Reply

 Like



Einherjar

Yesterday, 3:03 PM

Comments (736) | + Follow

Management sold out over the last months before. The chief geologist was one of the first 

Class action lawsuits will be all over the place, anybody will sue this company and rightfully so. F... off fraudster management!

 Reply

 Like (2)

**PM's Rock**

Comments (382) | + Follow

Yesterday, 3:09 PM

[@Einhajar](#) I think you are spot on. This is fraud or incompetence and GATO is not to be trusted going forward.

[Reply](#) [Like](#)**Christopher Wallace**

Yesterday, 2:39 PM

Marketplace Comments (1.38K) | + Follow

Over reaction? Possibly. But that is how markets work. Gatos' management is now in the penalty box and will be for months. You don't recover from this type of event quickly.

[Reply](#) [Like \(5\)](#)

S

**seekir**

Today, 10:31 AM

Comments (917) | + Follow

[@Christopher Wallace](#)

My opinion: Kick them out! IMO the best solution would be that Calibre Mining takes over Gatos Silver and Southern Silver (both the same controlling shareholder) and starts a hub and spoke production in Mexico, like in Nicaragua before. Gatos seems to have built a nice mine with a lot of modern equipment but also seems to have a lousy management.

[Reply](#) [Like \(1\)](#)**Dean Grossmith**

Yesterday, 2:31 PM

Premium Comments (327) | + Follow

Many thanks for this update and given what you have noted in your report I am surprised you have this as a hold. \$100m of cash flow for \$250m market cap seems cheap on the face of it. I added to my holding at \$3.55 today, so I am surprised its fallen further. That said, I think the management have done an appalling job on communicating this to investors and this raises some serious questions.

[Reply](#) [Like \(4\)](#)

J

**Jan Blanckaert**

Yesterday, 2:24 PM

Premium Comments (1.84K) | + Follow

Holding but not buying !

[Reply](#) [Like \(1\)](#)

A alexmills66

Yesterday, 2:07 PM

Comments (42) | + Follow

Ok, bad news, probably an overreaction, time will tell. Just opened a small, highly speculative position. It could be a long wait, but one gets used to waiting in the silver game!

[Reply](#) [Like \(4\)](#)

J jeffrey07102013

Yesterday, 1:58 PM

Premium Comments (20) | + Follow

You were desperately wrong on GATO. And it will take years to recover back to \$10

[Reply](#) [Like \(1\)](#)



SomaBull

Yesterday, 2:32 PM

Marketplace Contributor Premium Comments (1.69K) | Following

**Author's Reply @jeffrey07102013**, whether GATO fully recovers and how long it takes will depend on the new reserve estimate. If it does recover, I don't expect it to take years. Also, while this news warrants a decline in the shares, the current sell-off is not pricing in a 30-50% drop in metal content, but rather a 75%+ drop.

SomaBull

[Reply](#) [Like \(2\)](#)

D dkc1777

Yesterday, 2:39 PM

Comments (129) | + Follow

[@jeffrey07102013](#)

You're being too hard on Soma. I assume that he has relied upon R/R reports performed and certified by "Qualified" and "Competent" Persons, as defined by the various stock exchanges. The fault lies with the people/firms who signed the 2020 R/R Report, not Soma.

[Reply](#) [Like \(5\)](#)

J jeffrey07102013

Yesterday, 2:44 PM

Premium Comments (20) | + Follow

[@SomaBull](#) a potential 30-50% decrease in reserves. You know What it means right? It wasn't error. It was more likely fraud.

[Reply](#) [Like \(3\)](#)

J **jeffrey07102013**

Yesterday, 2:45 PM

Premium Comments (20) | + Follow

@dkc1777 I am being too hard on him? Really. 70% down in one day come on. It has to be a 200%+ to go back \$10

Reply Like

---

D **dkc1777**

Yesterday, 2:59 PM

Comments (129) | + Follow

@jeffrey07102013

You're mis-placing your discontent; you should be pissed at the person/firm who developed the 2020 Technical Report that estimated R/R!

Reply Like (2)



**Vivat Aurum**

Yesterday, 3:59 PM

Marketplace Comments (124) | + Follow

@SomaBull @jeffrey07102013 In March 2021 they increased their working interest, so that implies that management was not aware at that time of the discrepancy in the 2020 report. See link below. [www.businesswire.com/...](http://www.businesswire.com/)

Reply Like

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D **Denzerini**

Today, 12:16 AM

Premium Comments (123) | + Follow

@Vivat Aurum What about back-door events that may have occurred between April 2021 and today?? Hard to believe exec management didn't have numerous suspicions during that time.

Reply Like



**Nadalavic**

Today, 12:36 AM

Premium Marketplace Comments (216) | + Follow

@Denzerini yes, I wonder if the CEO's September 2021 modest buy was a defensive move!

Reply Like