

Southern Silver Exploration Corp. (TSXV:SSV)

Site Visit: Advancing the Major-sized Cerro Las Minitas Project

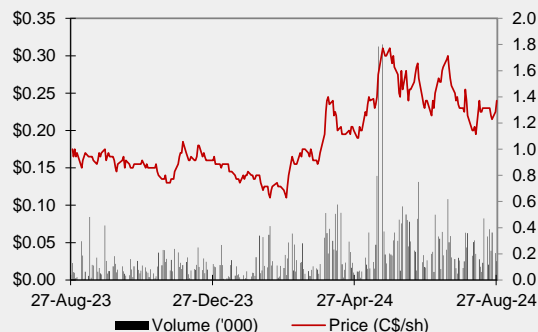
Site Visit
August 28, 2024

(Currency is CAD\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.24
Rating	BUY
Target (\$/sh)	\$1.00
Return to Target	326%
NAV (\$/sh)	\$1.33
P/NAV	0.18x
52 Week Low / High	\$0.11 / \$0.34

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	307	381
Market Capitalization (\$MM)		\$72.1
Enterprise Value (\$MM)		\$69.6
Cash (\$MM)		\$2.5
Debt (\$MM)		\$0.0

STOCK CHART



NET ASSET VALUE	(C\$M)	(C\$/sh)
Cerro Las Minitas, Mexico (100%)	\$630.10	\$1.24
Oro Project, Mexico (100%)	\$5.00	\$0.01
Corporate Adjustments	\$40.63	\$0.08
NAV	\$675.73	\$1.33

RELATIVE VALUATION	US\$EV/oz AgEq	P/NAV
Peer Group Average*	\$0.83	0.38x
Southern Silver Exploration Corp.	\$0.15	0.18x

*Capital IQ Consensus

MAJOR SHAREHOLDERS

Management (2.3%), The Electrum Group LLC (25.0%), Institutions (12.0%)

DISCLOSURE CODE:

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

Company Description

Southern Silver Exploration Corp., an exploration stage company, engages in the acquisition, exploration, and development of natural resource properties. The company explores for gold, silver, copper, lead, and zinc ores. Its flagship property is the Cerro Las Minitas project comprising twenty-five mineral concessions covering an area of approximately 27,451 hectares located in Durango State, Mexico. The company was formerly known as Newcoast Silver Mines Ltd. and changed its name to Southern Silver Exploration Corp. in July 2004. Southern Silver Exploration Corp. was incorporated in 1963 and is headquartered in Vancouver, Canada.

Red Cloud recently attended a site visit of Southern Silver's flagship 100%-owned Cerro Las Minitas (CLM) Ag-Zn-Pb-Au project in Mexico. We had previously published a report on Mexico and site visits on other companies visited ([read here](#)), and this report is in addition to the others contained therein. **We came away from our site visit impressed with the excellent infrastructure access and expansion potential of the already large resource at Cerro Las Minitas.**

- **In an established mining camp in Durango.** As discussed in our previous report, there have been challenges with mine permitting in Mexico under the current federal government, but there are signs that the incoming administration will be more moderate. CLM is located in Durango State, a mining-friendly jurisdiction, and there are numerous mines and mineral exploration and development projects in the region surrounding the project.
- **Well-located, with excellent infrastructure access.** Cerro Las Minitas is right off the highway ~70km northeast of Durango City (pop. ~650,000). Electric power lines run along the highway, with a transmission station located to the southwest of the project. While the deposit itself is around a hill, or cerro, the property also has large flat areas that could potentially host a mill, tailings and other infrastructure associated with a future mine.
- **CLM hosts a major-sized resource with a robust PEA.** CLM contains one of the largest undeveloped silver resources in the world, with a total of >300M oz AgEq in all resource categories (116M oz AgEq Indicated and 186M oz AgEq Inferred). An updated PEA from earlier this year examined a 5,300 tpd underground operation producing 14.3M oz AgEq annually over a 17-year mine life, yielding an after-tax NPV5% of US\$501M, after-tax IRR of 21.2% and payback of four years ([read more](#)).
- **Plenty of resource growth potential, primarily at depth.** The South Skarn and La Bocona-North Felsite areas are open at depth, and they may be similar in size/depth to the North Skarn/Skarn Front zones, which have been drilled +200m deeper. As well, portions of these zones have limited drill hole density, and infill drilling could help add confidence in continuity and upgrade portions of the resource.
- **Focus is on drilling to expand and infill resources.** Given the exploration potential identified by the company and the uncertainty around new mine permitting in Mexico, Southern Silver will primarily focus on exploration, rather than development, in the near term. The company is planning to complete 17,000-25,000m of drilling, including both infill and step-out holes.

Valuation:

We have a BUY rating and a C\$1.00/sh target price. Our target is based on 0.75x the company's corporate NAVPS8% of C\$1.34. We believe drilling results should be a share price driver in the near to mid term, as well as news pertaining to mine permitting in Mexico under the new federal gov't. **Upcoming catalysts:** 1) Drilling results from Cerro Las Minitas (H2/2024-H1/2025), and 2) News on permitting of mining projects in Mexico (ongoing).

Surrounded by operating mines in a well-established mining jurisdiction. As mentioned in our previous report, [Silver Market Update – Exploring Mexico: Site Visits and Geopolitical Update](#), Mexico is the world's premier silver mining jurisdiction, and Durango state is amongst the states with the most active mines and projects in the country.

CLM is surrounded by operating mines and mineral exploration projects, with Avino Silver and Gold Mines Ltd.'s (TSX:ASM, Not Rated) namesake Avino mine and La Preciosa development project immediately to the north and west, and Hecla Mining Company's (NYSE:HL, Not Rated) San Sebastian mine immediately to the east (Figures 1 & 2).

As also mentioned, while Mexico has a long history as a mining jurisdiction, the currently federal government in Mexico has implemented laws that are restrictive of mining, particularly the development of new mines. An open pit mining ban has been proposed and is advancing to discussion in Mexico's legislature. We note CLM is envisioned to be an underground mining project, thus this would not apply directly.

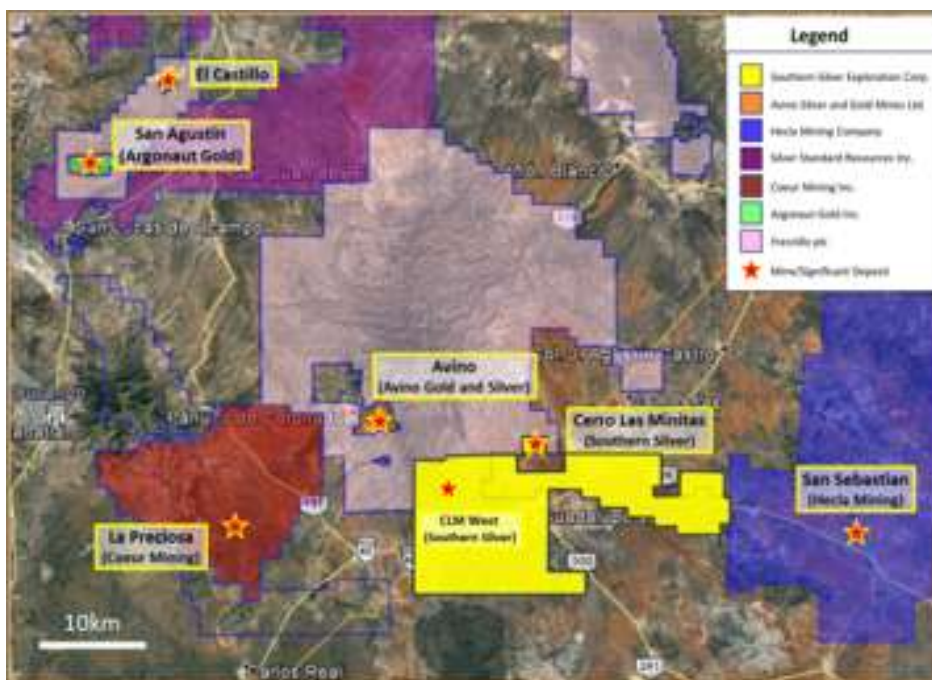
While incoming president, Claudia Scheinbaum, is also from the same leftist political party as the current government, we are cautiously optimistic that her administration will have a more moderate approach. This is backed up by her early appointments of staff members who are seen as relatively moderate and pragmatic.

Figure 1: Map showing the location of Cerro Las Minitas within Durango State and other mines in the region



Source: Company reports

Figure 2: Map showing the CLM property and surrounding claims and mines



Source: Company reports

Exceptionally well-located project with excellent infrastructure access. During our site visit, we had the chance to view the project site and surrounding infrastructure, the company's local office and drill core storage and processing facilities.

We came away impressed with the advantageous location of the project. It is located immediately off a toll highway only 70km northeast from Durango City (pop. ~650,000), with a well-maintained gravel road connecting company facilities to the highway. An electric power line runs parallel to the highway, and the company's site facilities connect to the grid power. Running parallel to the toll highway further southeast are a larger transmission line and federal highway, and a power transmission station is located to the southwest (Figures 3 & 4).

As well, surrounding the cerro the property has sizeable areas of flat land that could host a mill site, tailings, and other infrastructure needed for a mine.

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Source: Company reports



Source: RCS Analyst Photos

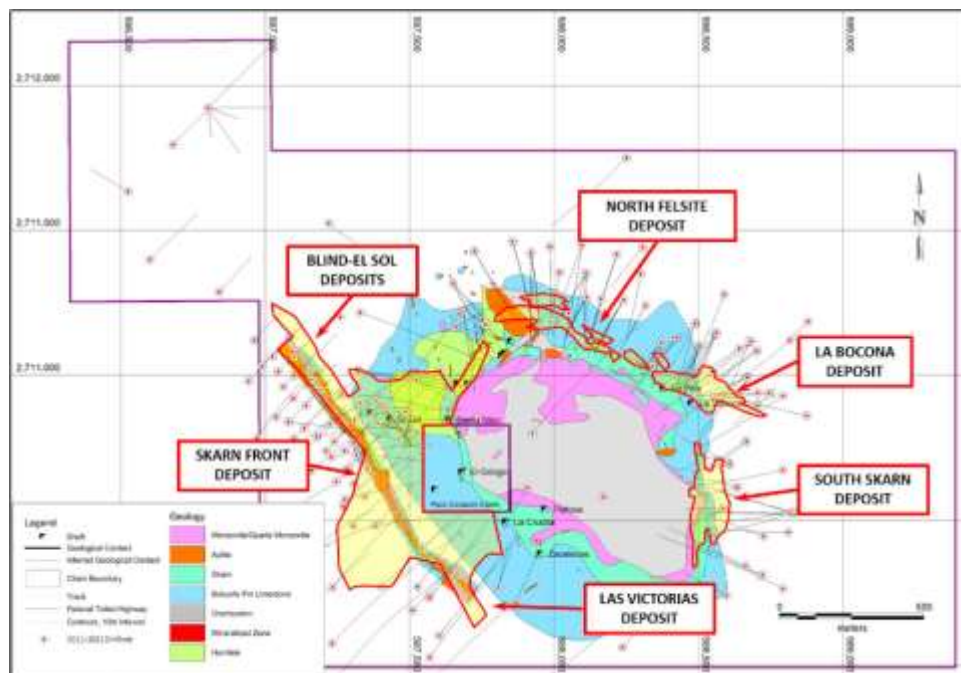
CLM hosts one of the world's largest undeveloped silver deposits. The cerro, or hill, represents a monzonite intrusion, and there are additional aplite-monzonite dykes immediately to the west. The company has identified six zones of silver-polymetallic mineralization, with three (Skarn Front, South Skarn and Bocona) found at or near the boundary between the skarn and marble alteration facies in the halo of the central monzonite intrusion and three (Blind, El Sol and Las Victorias) consisting of dyke-replacement style deposits associated with the aplite-monzonite dykes (Figure 5).

A total of >300M oz AgEq in all resource categories (116M oz AgEq Indicated and 186M oz AgEq Inferred) (Figure 6). Of this, a bit under half

of the value is in silver, followed by zinc, then lead, with relatively minor copper and gold.

An updated PEA released in June 2024 contemplated a 5,300 tpd underground operation producing 14.3M oz AgEq annually over a 17-year mine life, yielding an after-tax NPV5% of US\$501M and after-tax IRR of 21.2%, using \$1,850/oz Au, \$23.00/oz Ag, 4.00/lb Cu, \$1.00/lb Pb and \$1.25/lb Zn ([read more](#)). The project has an initial capex of US\$388M and a payback of four years.

Figure 5: Map view of CLM with the deposits surrounding the cerro and drill hole locations



Source: Company reports

Figure 6: Mineral resource estimate for CLM (2024)

Indicated Resources		Average Grade						Contained Metal					
Zone	Tonnes (Kt)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Cu (%)	AgEq (g/t)	Ag TrOz (000's)	Au TrOz (000's)	Pb (Mlbs)	Zn (Mlbs)	Cu Lbs (Mlbs)	AgEq (000's)
Blind Zone	2,614	92	0.04	1.8	2	0.1	227	7,751	4	106	116	6	19,094
El Sol Zone	1,252	77	0.04	2.1	1.9	0.08	214	3,102	2	57	54	2	8,592
Skarn Front Zone	7,626	104	0.06	0.8	4.1	0.19	298	25,557	15	128	692	32	73,100
La Bocona/North Felsite Zone	1,807	121	0.19	2.1	1.5	0.23	262	7,039	11	82	59	9	15,236
Total	13,299	102	0.07	1.3	3.1	0.17	272	43,449	32	374	921	49	116,023
Inferred Resources		Average Grade						Contained Metal					
Zone	Tonnes (Kt)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Cu (%)	AgEq (g/t)	Ag TrOz (000's)	Au TrOz (000's)	Pb (Mlbs)	Zn (Mlbs)	Cu Lbs (Mlbs)	AgEq (000's)
Blind Zone	1,697	74	0.2	1.2	1.8	0.08	192	4,029	11	46	66	3	10,448
Las Victorias Zone	1,417	124	0.65	1.9	2.2	0.12	307	5,629	30	58	69	4	13,993
El Sol Zone	1,168	57	0.03	1.7	2.1	0.06	185	2,150	1	43	53	1	6,956
Skarn Front Zone	12,444	110	0.05	0.7	2.6	0.32	254	43,834	20	180	711	88	101,537
La Bocona/North Felsite Zone	2,666	120	0.22	1.4	1.6	0.13	243	10,327	19	85	95	7	21,040
South Skarn Zone	4,036	134	0.19	1.9	1.3	0.08	250	17,393	24	170	112	7	32,468
Total	23,428	111	0.14	1.1	2.1	0.21	247	83,362	104	582	1,106	111	186,442

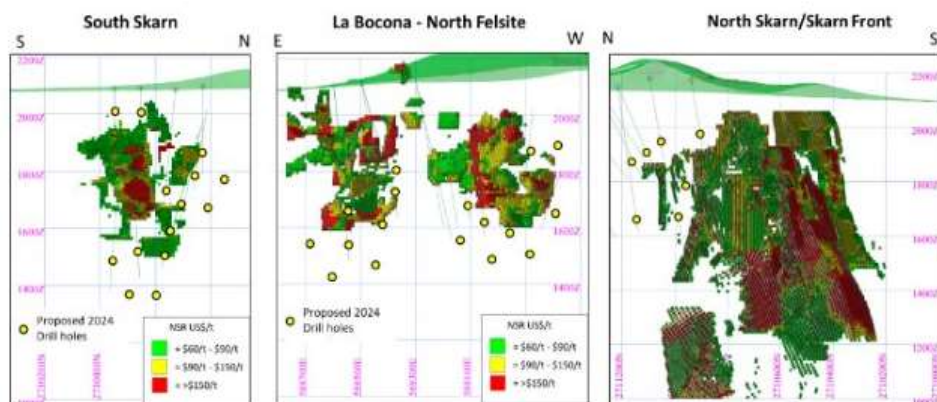
Source: Company reports

Plenty of exploration upside potential, including near-resource growth potential. The zones around the cerro are open at depth, and the South Skarn and La Bocona-North Felsite areas have not been drilled as deep as the North Skarn/Skarn Front zones. This presents a clear target, as drilling could target the depth extensions of these zones.

Property-wide, there are also exploration targets to the west and northwest of the cerro area that have seen limited or no drilling, including the CLM West claims that host what appears to be an epithermal target identified through surface sampling.

Southern Silver is planning to complete up to 25,000m of drilling, with the primary focus on delineating the South Skarn and La Bocona-North Felsite zones at depth and infilling portions of the resource areas.

Figure 7: Sections of various deposits at CLM, showing the exploration potential at depth at South Skarn and La Bocona-North Felsite



Source: Company reports



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Disclosure Statement

Updated August 28, 2024

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Date	Rating	Target	Status	%
2021-03-08	Under Review	Under Review	BUY	70%
2021-04-15	BUY	0.65	BUY (S)	26%
2021-04-28	BUY	0.65	HOLD	0%
2021-07-07	BUY	0.65	TENDER/ SELL	3%
2021-07-22	BUY	0.65	NA	2%
2021-08-12	BUY	0.65	UNDER REVIEW	0%
2021-10-13	BUY	0.80		
2021-10-28	BUY	0.80		
2022-02-15	BUY	0.80		
2022-03-07	BUY	0.80		
2022-05-05	BUY	0.80		
2022-07-26	BUY	0.80		
2022-08-11	BUY	0.80		
2022-11-14	BUY	0.85		
2023-03-23	BUY	0.90		
2023-06-28	BUY	0.90		
2023-11-10	BUY	0.90		
2023-11-15	BUY	0.90		
2024-06-12	BUY	1.00		
2024-07-25	BUY	1.00		
2024-08-28	BUY	1.00		

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Company Name	Ticker Symbol	Disclosures
Southern Silver Exploration Corp.	TSXV:SSV	1,2,3

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