

Key Facts:

Ticker-Exchange	ABRA-TSXV
Closing Price	C\$0.63
Date of Report	June 14, 2021
Company Website	abrasilver.com
Analyst	Nicolas Dion

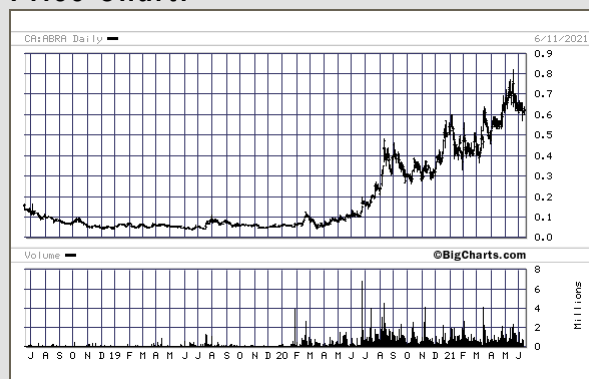
Company Statistics:

52-week High	C\$0.82
52-week Low	C\$0.10
Market Cap	C\$278 MM
Shares Outstanding	
- Basic	445 MM
- Diluted	617 MM
Cash	C\$20 MM
Debt	C\$0 MM

Major Shareholders (%):

Board & Management	3%
Eric Sprott	15%
SSR Mining	9%
Institutions	~20%
Retail	~50%

Price Chart:



Source: June 11, 2021

Our **Emerging Ideas** publication seeks to highlight firms that we come across during our travels where, while perhaps not ready for formal research coverage, we see notable developments or inflection points that we believe may be of interest to investors.

ABRA-cadabra, Drilling Reveals an Improved Silver-Gold Project

Unless otherwise denoted, all figures shown in US\$

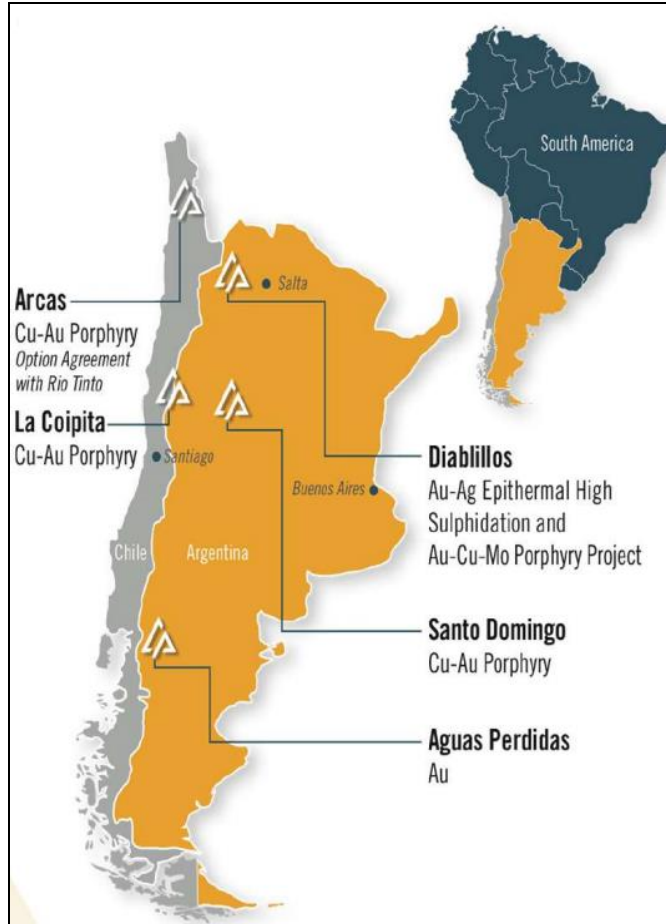
Corporate Overview:

AbraSilver is advancing its flagship silver-gold Diablillos project in Salta, Argentina. The project already ranks well vs. peers on its 2018 PEA (driven by its high open-pit grade); however, recent drilling has changed the project's fortunes with a larger and higher-grade resource expected for the update and PEA due in Q3/21. The stock looks inexpensive vs. peers even before factoring in this upgrade over the now out-of-date resource/mine plan.

Key Takeaways:

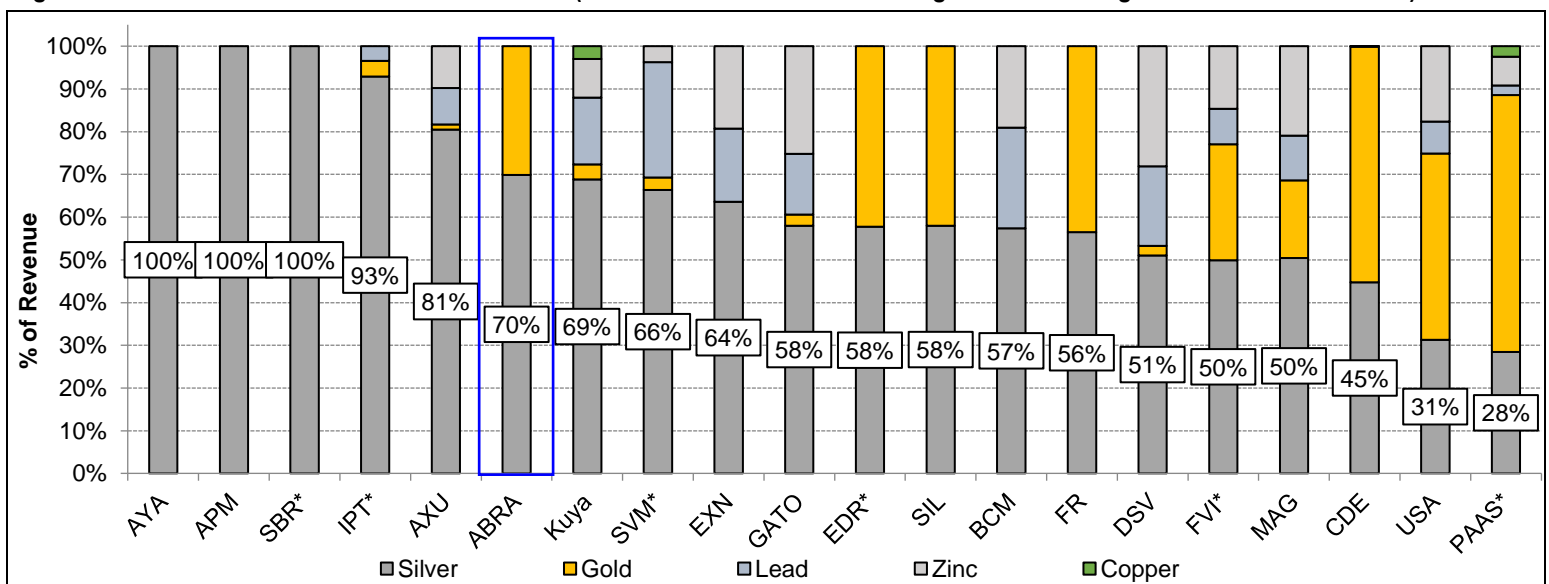
- **Existing open-pit, oxide resource with conventional processing** (1.9 MMoz AuEq at 2.1 g/t, or 136 MMoz AgEq at 150 g/t).
- **70/30 silver/gold** revenues per the 2018 PEA, gold component growing with recent drilling at depth. The Diablillos NPV5% increases by 20-30% on a 10% increase in silver prices.
- **2018 PEA outlines low-cost mine with scale**, producing 9.8 MMoz/yr AgEq at \$7.5/oz AISC (or 136,000 oz/yr AuEq at \$542/oz AISC).
- **Recent drilling includes some of the best silver intercepts globally**, e.g. 103 m @ 516 g/t AgEq (6.9 g/t AuEq).
- **Expecting larger, higher-grade resource and a lower strip ratio in the upcoming resource and PEA update (Q3/21).**
- **Phase II drill program has commenced**, with >10,000 m targeting step-outs, including expanding the pit to the northeast, and other regional targets.
- Deeper sulphide ("blue-sky") potential largely untested (only shallow drilling to date).
- **Salta is the top-ranked mining jurisdiction in Latin America.**
- **~C\$20 MM in cash** and no debt, plus ~C\$30 MM worth of ITM options/warrants.
- **Strong retail following.** Sprott owns 15% and SSRM owns 9%.
- **Trading well below NAV on Diablillos 2018 PEA alone**, upside from recent drilling and resource/PEA update to improve this further.

Figure 1: AbraSilver Asset Locations (Flagship Asset is Diablillos in Salta)



Source: AbraSilver

Figure 2: One of Few True Silver Stocks (Diablillos PEA is 70/30 Ag/Au – Drilling to Increase Gold %)



Source: Cormark Securities, Company Reports
*Most recent year, otherwise LOM estimates.

Diablillos Gold/Silver Project:

- Diablillos is a **100%-owned project located in Salta province (Argentina)**, 160 km SW of Salta City. **Salta is known to be the best mining jurisdiction in Argentina** (detail below).
- The deposit is high-sulphidation epithermal, with oxides in the top 200-250 m from surface.

History – Acquired from SSRM in 2016, Resource 2017, PEA 2018, New Mgmt. 2019

- AbraSilver acquired Diablillos from SSR Mining in 2016, updated the resource in 2017 (see below), and published a PEA in 2018 (RPA). SSRM owns 9% of ABRA.
- In mid-2019, ABRA announced a merger with Aethon Minerals, bringing in that company's Management team and ~C\$4 MM in cash. The transaction closed December 2019 and an initial 3,000 m drill program was launched.

2018 PEA Outlines Robust Open-Pit (Conventional, Low Cost, Has Scale, Silver-Gold)

- The PEA envisions a **contractor mined open-pit with conventional silver/gold processing** (crushing, grinding, leaching, cyanide – no concentrates) at 6,000 tpd for high-grade and 25% higher for low-grade (less grind time). Recoveries are estimated at 86% for gold and 82% for silver, which Management believes are conservative based on testwork that has subsequently been completed.
- The **permitting risk of the project is considered relatively low**, given the location in Salta.
- **~70/30 silver/gold revenues in the PEA**; however, recent drilling (see below) suggests the deposit's gold component will increase.
- The PEA is based on the **2017 resource (oxide, open-pit) with 132 MMoz AgEq at 152 g/t (or 1.9 MMoz AuEq at 2.2 g/t) in M&I**.
- With the high-grade open-pit resource (and 4.6:1 total strip), **the project compares well against other open-pit gold and silver projects globally**, including (per the PEA):
 - Scale: 9.8 MMoz AgEq per year (or 136,000 oz AuEq per year) for 8 years.
 - Low-Cost: **Peer-low LOM AISC of \$7.52/oz AgEq (or \$542/oz AuEq)**.
 - Manageable Capex: \$293 MM initial.
- At \$28/oz Ag and \$1,900/oz Au, the PEA outlines a \$565 mm NPV5% and a 54% after-tax IRR. **This (and all the above) is before factoring in the exceptional drill results from 2020/2021.**

Exceptional Phase I Drill Program Prompts Resource/PEA Update (Q3/21) – Expecting Larger, Higher-Grade Project With Lower Strip-Ratio

- Prior to 2020, the majority of drilling (>450 holes and ~88,000 m) was focused on the silver zone within the oxides. Less drilling was completed on the gold zones near surface and towards the bottom of the pit, and even less on the sulphides within the basement rock. The majority of ABRA's drilling just prior to the merger with Aethon (and new Management team) focused on the smaller Fantasma deposit, with little success.
- With cash following the Aethon merger, the new Management team targeted historic intercepts which hit high-grade gold towards the bottom of the resource. Drilling from the Phase I program in 2020/2021 (~15,000 m) identified:
 - **A larger gold zone at the bottom of the pit, plus higher grades and continuity in the "Tesoro" zone (where two breccia zones intersect):**
 - 15 m @ 10.4 g/t Au and 286 g/t Ag (14.2 g/t AuEq)
 - 14 m @ 6.4 g/t Au, 197 g/t Ag, and 2.5% Cu (12.5 g/t AuEq)
 - 103 m @ 516 g/t AgEq including:
 - 63 m @ 95 g/t Ag and 2.6 g/t Au (3.8 g/t AuEq)

- 104 m @ at 382 g/t AgEq including:
 - 47 m @ 280 g/t Ag and 4.3 g/t Au (8.0 g/t AuEq)
- **Expansion of the gold zone to the NE into the basement rock, including:**
 - 12.5 m @ 33 g/t Ag and 4.7 g/t Au (5.1 g/t AuEq)
 - 15.5 m @ 14 g/t Ag and 1.9 g/t Au (2.0 g/t AuEq)
- **Near-surface gold zone in what the 2018 PEA considered waste, including:**
 - 21 m @ 132 g/t Ag and 2.9 g/t Au (4.7 g/t AuEq)
 - 61 m @ 105 g/t Ag and 1.1 g/t Au (2.5 g/t AuEq)
 - 17 m @ 21 g/t Ag and 2.3 g/t Au (2.6 g/t AuEq)
- **Sulphide mineralization at depth, including:**
 - 15 m @ 5.1% Cu, 658 g/t Ag, and 2.4 g/t Au (18.2 g/t AuEq)
- **As a result of the above drilling, the updated resource in Q3/21 is expected to be significantly higher in both tonnes and grade, in particular adding to the gold resource.** The newly delineated gold zone near surface has the potential to reduce pre-stripping waste, while the expanded gold zones at depth and to the northeast have the potential to enlarge the planned pit. In addition, the Tesoso zone (while already in the 2017 resource) appears to be much higher grade and more continuous than previously estimated. We note that overburden to the northeast limits pit expansion in that direction somewhat; however, there may be a future underground scenario.
- **As a base case, we would estimate a >20% larger resource (driven by grade and tonnes) based on the drilling to date,** in particular from the gold zones which have the most potential for expansion at depth and to the northeast.

2021 Phase II Program (>10,000 m) Targeting Step-Outs and Regional Prospects

- The 2021 program will target the following:
 - **Diablillos Northeast Extension:** Drilling will follow up the lower gold zone in the proposed Oculito pit which continues to the northeast (see above, incl. 12.5 m @ 5.1 g/t AuEq). This expanding zone may support a larger pit to the northeast and/or a future underground scenario. Overburden (stripping) increases in this direction, limiting the pit.
 - **Laderas Zone:** This prospect lies 500 m north of Oculito with past drilling intercepting structurally controlled, shallow mineralization, including 33 m @ 1.06 g/t Au (from 43 m) and 14 m @ 1.08 g/t (from 14 m). This could be a satellite pit.
 - **Northern Arc:** This is a cluster of prospects 3-4 km north of Diablillos, with past drilling intercepting near surface gold mineralization of a similar style to Oculito. Past drilling includes:
 - 14 m @ 14.5 g/t, including 1 m @ 186 g/t (from 57 m) – Pedernales
 - 9.8 m @ 51.2 g/t from 2.7 m, including 2 m @ 200 g/t - Corderos
 - 26.9 m @ 1.34 g/t from 1.2 m – Corderos
- **All drilling to date is relatively shallow, and therefore the longer-term “blue-sky” potential at depth in the sulphides is largely untested** (see the copper containing intercept highlighted above).

Figure 3: Diablillos 2017 Resource (Pre-Phase 1 Drilling, \$23/oz Ag and \$1,500/oz Au)

	Tonnes	Ag Grade (g/t)	Au Grade (g/t)	AgEq Grade (g/t)	AuEq Grade (g/t)	Contained Ag (Koz)	Contained Au (Koz)	Contained AgEq (Koz)	Contained AuEq (Koz)
Oculto	26,850	93.0	0.85	152.5	2.18	80,300	732	131,540	1,879
Fantasma	200	98.3	0.00	98.3	1.40	650	0	650	9
Indicated	27,100	93.1	0.84	151.9	2.17	80,940	732	132,180	1,888
Oculto	1,000	46.8	0.89	109.1	1.56	1,510	29	3,540	51
Fantasma	80	75.3	0.00	75.3	1.08	190	0	190	3
Inferred	1,100	48.8	0.83	106.9	1.53	1,690	29	3,720	53
Total	28,200	91.1	0.84	149.9	2.14	82,630	761	135,900	1,941

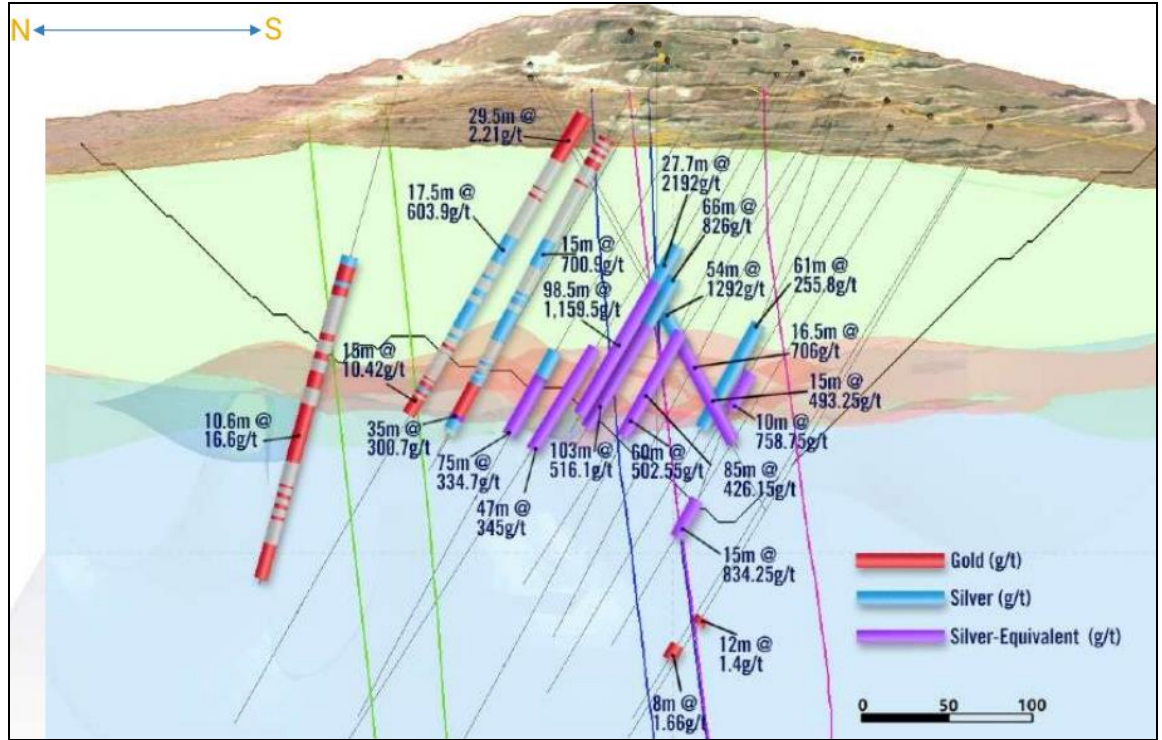
Source: Cormark Securities, AbraSilver

Figure 4: Top Primary Silver Intercepts Globally in Last 12 Months (Note that Diablillos is an Open-Pit Project, Unlike Most Others Below)

	Company (Project)	Hole ID	Reported Date	Interval (m)	Grade (g/t AgEq)	Grade-Thickness (g/t AgEq x m)
1.	ELO (ISKA ISKA)	_CS1_	4/13/2021	165.9	394	65,278
2.	ABRA (Diablillos)	DDH-20-027	3/8/2021	103.0	523	53,892
3.	DSV (Cordero)	C20-343	9/15/2020	401.7	114	45,689
4.	AYA (Zgounder)	T28-20-1975-71	2/22/2021	14.4	3,043	43,819
5.	ABRA (Diablillos)	DDH-21-012	5/17/2021	104.0	391	40,683
6.	AYA (Zgounder)	ZG-20-06	12/15/2020	4.0	9,346	37,384
7.	AXU (Keno Hill)	K-20-0769	1/19/2021	8.8	4,069	35,641
8.	AYA (Zgounder)	T28-20-1975-25	2/22/2021	7.2	4,944	35,597
9.	GOG (San Diego)	SD-12-50A	7/21/2020	257.0	137	35,234
10.	SIL (Las Chispas)	GR21-28	4/15/2021	0.4	87,898	35,159
11.	SIL (Las Chispas)	BV20-221	4/15/2021	3.7	9,290	33,908
12.	SKE (Eskay Creek)	SK-20-292	9/9/2020	39.7	849	33,665
13.	ABRA (Diablillos)	DDH-20-009	1/12/2021	83.0	404	33,549
14.	PERU (Soledad)	SDH20-164	2/9/2021	93.0	341	31,751
15.	GOG (San Diego)	SD-12-49	7/21/2020	238.0	133	31,590
16.	PERU (Soledad)	SDH21-189	5/25/2021	134.3	229	30,729
17.	NUAG (Silver Sand)	DSS525021T	7/13/2020	282.0	104	29,329
18.	CCW (Castle)	CS-20-39	1/29/2021	0.3	89,853	26,956
19.	SIL (Las Chispas)	BV20-203	11/16/2020	3.3	8,084	26,676
20.	AYA (Zgounder)	T28-20-1975-67	2/22/2021	7.2	3,674	26,453

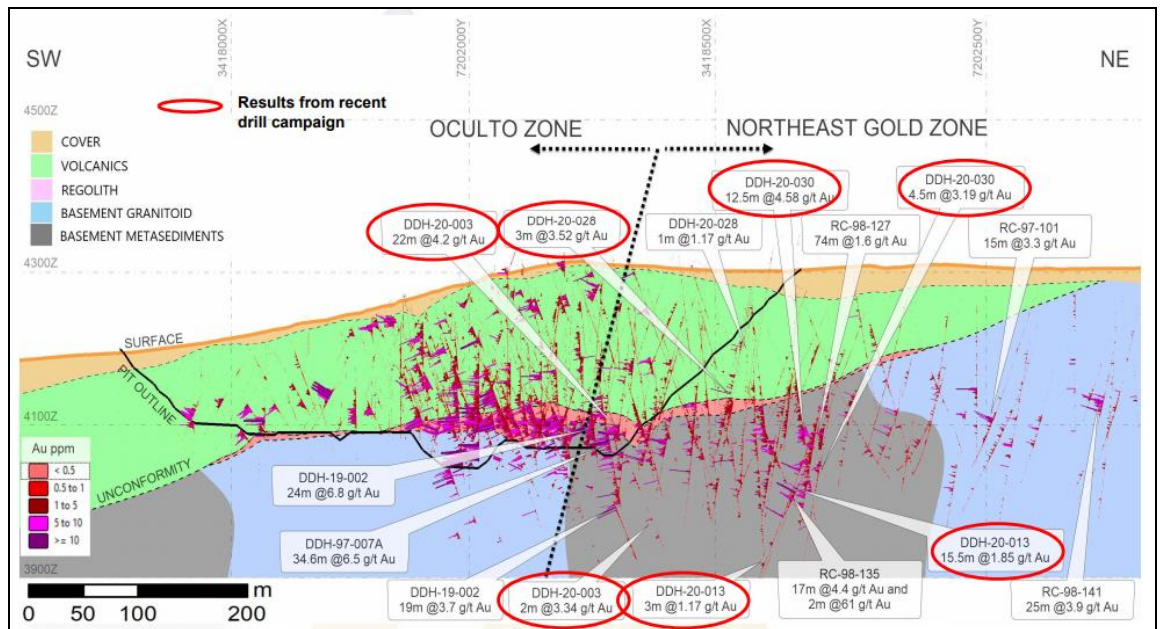
Source: Cormark Securities, S&P Global

Figure 5: High-Grade Tesoro Zone (~200 m Strike, ~50 m Wide, ~150 m Vertical)



Source: AbraSilver

Figure 6: Gold Zone Trending North-East – Potential to Expand Pit



Source: AbraSilver

Figure 7: Diablillos (2018 PEA) vs. Open-Pit Gold Projects

Company	Project	Initial Capex (\$MM)	AISC (\$/oz)	Grade (g/t AuEq)	Strip Ratio (waste:ore)	Avg. Prod. (000oz)	LOM Prod. (MMoz)
Rio2	Fenix	111	997	0.5	0.8	93	1.4
Montage	Kone	490	975	0.7	0.9	205	3.0
Cardinal	Namdini	390	895	1.1	1.9	287	4.2
KORE	Imperial	142	852	0.6	2.8	146	1.2
Marathon	Valentine Lake	238	833	1.3	7.2	146	1.9
Roxgold	Seguela	142	832	2.8	13.9	120	1.0
Orca	Block 14	321	751	1.1	1.5	167	2.8
Integra	DeLamar	161	742	0.7	1.1	124	1.2
Orezone	Bombore	153	730	0.8	2.3	118	1.6
Gold Standard	Railroad-Pinion	133	707	0.8	3.1	115	0.9
TriStar	CDS	184	687	1.4	1.9	120	1.1
Artemis	Blackwater	592	649	0.8	2.0	324	7.5
First Mining	Springpole	718	645	1.0	2.4	287	3.2
Bluestone	Cerro Blanco	548	642	1.7	2.4	231	2.4
Perpetua	Stibnite	1,292	625	1.6	2.5	301	4.3
Orla	Camino Rojo	134	543	0.7	0.9	94	1.0
Average		359	757	1.1	3.0	180	2.4
Median		211	736	0.9	2.2	146	1.8
AbraSilver	Diablillos	293	542	2.4	3.2	136	1.1

Source: Cormark Securities, S&P Global, Company Reports

Figure 8: Diablillos (2018 PEA) vs. Silver Projects

Company	Project	Type	Size (tpd)	Initial Capex (\$ MM)	Co-Prod. AISC (\$/oz AgEq)	By-Prod. AISC (\$/oz Ag)	LOM Prod. (MMoz AgEq)	LOM Prod. (MMoz Ag)	Avg. Prod. (MMoz AgEq)	Avg. Prod. (MMoz Ag)
Discovery	Cordero	O/P	40,000	570	12.7	3.4	462	203	15.9	7.0
MAG Silver	Juanicipio	U/G	-	360	-	5.0	352	183	18.5	16.5
Bear Creek	Corani	O/P	27,000	579	10.4	4.6	285	144	19.0	9.6
Almaden	Ixtaca	O/P	7,650	174	11.3	-	142	68	12.9	6.1
Silvercrest	Las Chispas	U/G	-	138	7.1	-	90	47	10.0	5.2
Average				364	10.4	4.3	266	129	15.3	8.9
Median				360	10.9	4.6	285	144	15.9	7.0
AbraSilver	Diablillos	O/P	6,000-7,500	293	7.5	-	78	55	9.8	6.8

Note: Ixtaca expands to 15,300 tpd in year 5.

Source: Cormark Securities, S&P Global, Company Reports

Key Shareholders:

- **Eric Sprott (15%):** On the back of the initial Phase I drill results, Sprott made his first investment in June 2020 and added to his position in a second financing in August 2020.
- **SSR Mining (9%):** SSRM maintains an equity interest following the acquisition of Diablillos by AbraPlata from SSRM in 2016.
- **Altius Minerals:** Altius recently sold the majority of its interest which was held by multiple entities in Chile. Altius was a key shareholder of Aethon prior to the merger with AbraPlata.
- **Management & Board (3%)**

Salta, Argentina Overview:

- **Salta is the top-ranked mining jurisdiction in Latin America** per the Fraser Institutes 2020 Investment Attractiveness Index (based on an annual survey of mining companies).
- **Removing Money:** Currently AbraSilver benefits by bringing USD into the country via the informal (blue) rate, instead of at the official government rate. Currently there is a 35-40% spread between the two. Once a Feasibility Study is completed, ABRA expects to enter into a stability agreement with the Argentinean Government which will lock-in the tax and royalty rates for a period of 30 years, and will also establish the basis for moving money in and out of the country upon operation. It is expected that funds will continue to be brought into the country at the more favourable blue rate for initial capex, and that profits can be withdrawn at the official government rate until that is repaid. Afterwards, funds must be either kept in country or withdrawn at the less favourable blue rate.
- **Incentive for In-Country M&A?** Due to the cost of removing USD from Argentina, companies are incentivized to keep it there, potentially encouraging M&A in country. ABRA may be an attractive target for Fortuna Silver as its Lindero mine in Salta is now producing.
- **Reasonable Taxes:** Taxes in Argentina (post Jan 2021) include a corporate income tax of 25% (reduced from 35%), 13% withholding tax, and a provincial production tax (equivalent to a ~1.8% NSR for ABRA). Argentina also has accelerated depreciation for mining companies.
- **Other Large Projects in Salta Include:**
 - Fortuna Silver’s Lindero (Au), \$320 MM construction completed in 2020.
 - First Quantum’s Taca (Cu-Au-Mo), acquired for \$470 MM in 2014.
 - Posco’s Sal de Oro (Li), \$450 MM investment, production imminent.
- **Other Large Projects and Successful Companies in Argentina Include:**
 - Newmont’s Cerro Negro (Santa Cruz)
 - Yamana’s Cerro Moro (Santa Cruz)
 - AngloGold’s Cerro Vanguardia (Santa Cruz)
 - Lithium Americas (Jujuy)
 - Filo Mining (San Juan)

Figure 9: Mining Friendliness in Argentina by State



Source: AbraSilver

Balance Sheet:

- ~C\$20 MM cash position as of May 2021.
- No debt; however, ABRA must pay SSR Mining \$7 MM on the earlier of commercial production or July 2025.
- ~\$30 MM worth of ITM warrants and options expiring over 2021-2025.

Management:

- **John Miniotis – CEO:** John has over 17 years of experience in the mining industry including interim CEO of Aethon Minerals prior to the merger with AbraPlata, VP Corporate Development, of AuRico Metals prior to the acquisition by Centerra in 2018, and Senior Manager of Corporate Development and IR at Lundin Mining.
- **David O'Connor – Chief Geologist:** David has over 40 years of experience in the mining industry including a number of ventures in South America, including Explorator Resources (sold to Chilean copper miner Pucobre). He was also responsible for early exploration at Olympic Dam with Western Mining Corp.
- **Carlos Pinglo – CFO:** Carlos has over 20 years experience in corporate finance including roles as CFO as numerous other mining companies (public and private).
- **Eugenio Ponte – Country Manager:** Over 25 years experience primarily focused on environment and CSR in various projects throughout Argentina.

Board of Directors:

- **Robert Bruggeman – Chairman:** Former sell-side analyst (incl. TD), current CEO of Canstar Resources.
- **Jens Mayer:** Principal at INFOR Financial, was head/co-head of the Investment Banking and the Resource Group at Canaccord.
- **Hernan Zaballa:** Senior partner at a law firm in Buenos Aires. Formerly a director of the Argentinian subsidiaries of Barrick, Newcrest, Yamana, and others as well as VP of Pan American Silver's Argentinian subsidiaries.
- **Sam Leung:** VP, Corporate Development, at Adventus Mining and formerly Director of Corporate Development at Lundin Mining.
- **Nicolas Teasdale:** VP Mining Evaluations at Wheaton Precious Metals. Previously had senior roles focused on South America at Lundin Gold and Barrick.
- **Flora Wood:** Director of Investor Relations at Altius Minerals, previously held positions at Sherritt, Inmet, and others.

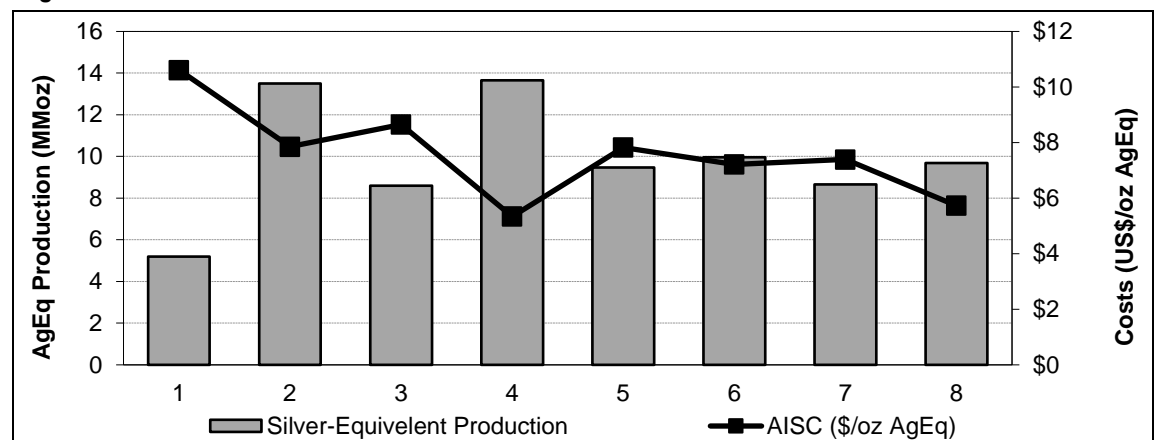
Key Secondary Assets:

- **La Coipita (San Juan, Argentina):** ABRA entered into an earn-in with a private vendor to acquire 100% of La Coipita in March 2020, for total payments of \$4.265 MM, while the vendor will retain a 1.1% NSR (which Altius Minerals may acquire). The project is located within a prolific copper-gold belt in Chile, 16 km north of McEwan Mining's Los Azules deposit and 90 km from Antofagasta's Pelambres deposit. Historic drilling includes 127 m @ 0.7% CuEq (Cu-Au-Ag). Drilling is expected to commence in Q4/2021.
- **Arcas Project (Antofagasta, Chile):** In September 2019, Rio Tinto entered into an agreement where it may earn up to a 75% interest in the project by funding \$25 MM in expenditures over an 8-year period. Initial drilling is expected to commence in Q3/2021.

Figure 10: Diablillos 2018 PEA Highlights

		2018 PEA
Gold Price	\$/oz	1,300
Silver Price	\$/oz	20
Silver Grade	g/t	125.1
Gold Grade	g/t	<u>0.7</u>
AgEq Grade	g/t	174.1
AuEq Grade	g/t	2.6
Silver Recovery Rate	%	79
Gold Recovery Rate	%	85
Mine Life	years	8
Ore Throughput	tpd	6,000-7,500
Avg. Silver Production	MMoz	6.8
Avg. Gold Production	000oz	<u>42</u>
Avg. AgEq Production	MMoz	9.8
Avg. AuEq Production	000oz	136
Mining Cost	\$/t ore	3.6
Strip Ratio (ex. pre-stripping)	w:o	3.2
Processing Cost	\$/t	14.1
G&A Cost	\$/t	<u>2.8</u>
Operating Cost	\$/t	30.3
AISC (co-product) - AgEq	\$/oz	7.5
AISC (co-product) - AuEq	\$/oz	542
Pre-Production Capex	\$MM	293
LOM Sustaining & Closure Capex	\$MM	18
At \$27.5/oz Ag & \$1,950/oz Au		
NPV (5% discount)	\$MM	\$565
IRR	%	54

Source: AbraSilver, Cormark Securities

Figure 11: 2018 PEA Production and Cost Profile


Source: AbraSilver, Cormark Securities

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