

Silver Mountain Resources (AGMR CN)

Initiation & site visit: New high-grade silver jr with restart option in Peru

RECOMMENDATION: **BUY**

PRICE TARGET: **C\$0.90/sh**

RISK RATING: **VENTURE**

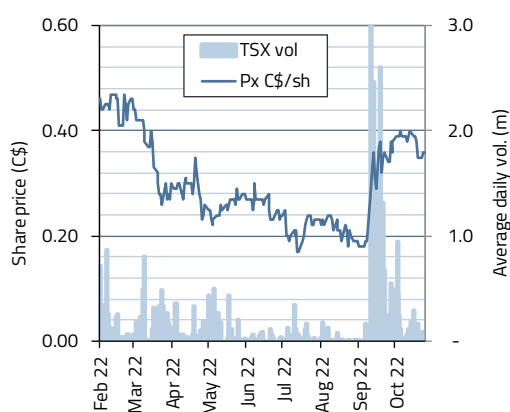
SHARE DATA

Shares (basic, FD)	186 / 222
Options @ 46c/sh strike	C\$9m
Warrants @ 89c/sh strike	C\$39m
52-week high/low	C\$0.48 / C\$0.17
Market cap (C\$m)	65
Net cash (debt) (US\$m)	17.1
1.0xNAV @ US\$20/oz (US\$m)	165
1.0xNAV FD (C\$/sh)	0.99
Average daily value (US\$000, 3M)	0.09

Jose Vizquerra	Chairman
Alfredo Bazo, PMP	President, CEO, & Director
Jean Pierre Fort, MBA	Chief Financial Officer
Richard Contreras, Mine Eng.	Chief Operating Officer
Torsten Danne, MSc	Director of Exploration
Franklin Rodriguez, Mine Eng.	Mine Superintendent

Historical MRE	Tonnes	*AgEq
Reliquias	1.5Mt	691g/t 33Moz
Caudalosa	1.5Mt	978g/t 49Moz
Total M&I+I	3.0Mt	838g/t 81Moz

*AgEq: US\$16/oz Ag, US\$1.20/lb Zn, US\$0.95/lb Pb, and US\$2.81/lb Cu



Source: Factset

Permitted high-grade mine with quick restart optionality in Peru

TSXV-listed Silver Mountain has comparable grades to Silvercrest (16x mc), ~5x ounces / grade and 3x mill of original Aya (>14x mc), and more ounces at ~4x higher grade and legacy mill size than Vizsla (4x mc). This year's focus is derisking **77Moz @ 791g/t AgEq** (50-23-17-11 / Ag-Cu-Zn-Pb at spot) across two adjacent underground mines (Reliquias + Caudalosa) in Peru. We see good opportunity on (i) existing brownfield targets, ii) low-cost restart of one of two mines already pushing ahead from 1Q22 C\$27m IPO funding and iii) exploration upside on recently consolidated, underexplored past producing region, never westernised, or publicly owned until now.

Step 1: underground drilling to validate high-grade inventory

Underground rehab enabled a +16,000m drill program in 2Q22 focused on upgrading / expanding the historic **30Moz @ 638g/t AgEq** (spot) to 43-101 at Reliquias in 1H23, for a PEA / restart decision in 2H23. Drilling is coming in quickly now (65 holes complete), with recent highlights of **5.3m @ 775g/t** and **1.3m @ 1,927g/t AgEq**—well above resource grade.

Step 2 / 3: 100Moz AgEq potential + restart upside for CY23 re-rate

Drilling directly below and along strike of historical resources could lift the MRE towards, or above 100Moz AgEq LT for low risk / high-value exploration given any new discoveries / ounce additions made in the coming 12M could see quick turnaround to inventory before moving onto Caudalosa and regional targets (past producing region along a 220Moz belt). Attractive in the short term is the low cost restart (SCPe US\$20-30m) for potential 2-3Moz AgEq pa from initial 1,000tpd, as early as YE23, and >5-10Moz AgEq pa LT on hub and spoke.

In country expertise in Peru + restart experience

Top down, management has deep roots in country. CEO Alfredo Bazo has the knowledge to build mines, with chair Jose Vizquerra having the network to grow, and new COO Richard Contreras (Ex. PAAS / Glencore Peru) has the operating experience. The plant restart team has 'done this before', with 18 years of experience designing and building in Latam (Buenaventura, Newmont, Nexa) while technical teams continue to advance resource validation / expansion drilling underground.

Initiate with BUY rating and C\$0.90/sh 1xNAV price target

Our thesis is simple: we expect high-grade ounces to grow and see quick turnaround to inventory—all the more attractive in a restart scenario. With more advanced peers ranging from US\$3-5/oz EV/in-situ, we apply a conservative US\$2.00/oz AgEq value to Reliquias and a nominal US\$0.50/oz inferred at Caudalosa, plus cash/options for C\$165m group 1xNAV. **As such, we initiate with a BUY rating and C\$0.90/sh PT.** Drilling is ongoing ahead of three technical catalysts including the (i) 43-101 resource in 1Q23, (ii) PEA in 2H23 to support a (iii) mill / mine restart decision in 2H23.

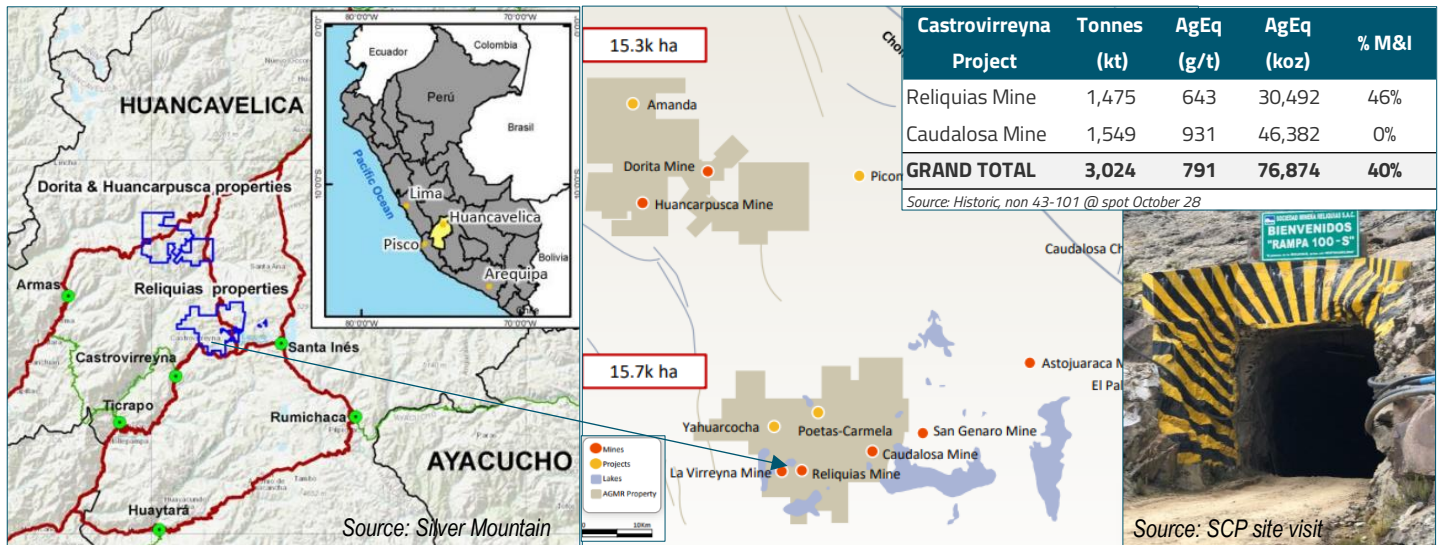
All SCPe AgEq calcs using SCP LT prices: US\$20/oz Ag, US\$1,700/oz Au, ~US\$3.60/lb Cu, US\$0.90/lb Pb, and US\$1.18/lb Zn. Indicated spot prices as of Oct 28.

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Asset summary

TSXV listed Silver Mountain owns 100% of >30,000 ha in Peru split between two consolidated licenses: Reliquias and Dorita (Figure 1). The flagship Castrovirreyna project consists of two historic underground polymetallic mines – Reliquias and Caudalosa, with published 30Moz @ 643g/t AgEq and 46Moz @ 931g/t AgEq non 43-101 historical resources (Figure 1C) at spot, respectively. Situated only 12km apart, the mines share significant infrastructure including 370-person camp, grid power, water, fuel storage, tailings facilities and a ~2,000tpd concentrator plant. Caudalosa is higher grade, but requires dewatering, so the focus is on more accessible and permitted Reliquias mine where resource validation drilling is underway with recent 5.3m @ 775g/t and 1.3m @ 1,927g/t AgEq ahead of next year's 43-101 MRE update and restart decision.

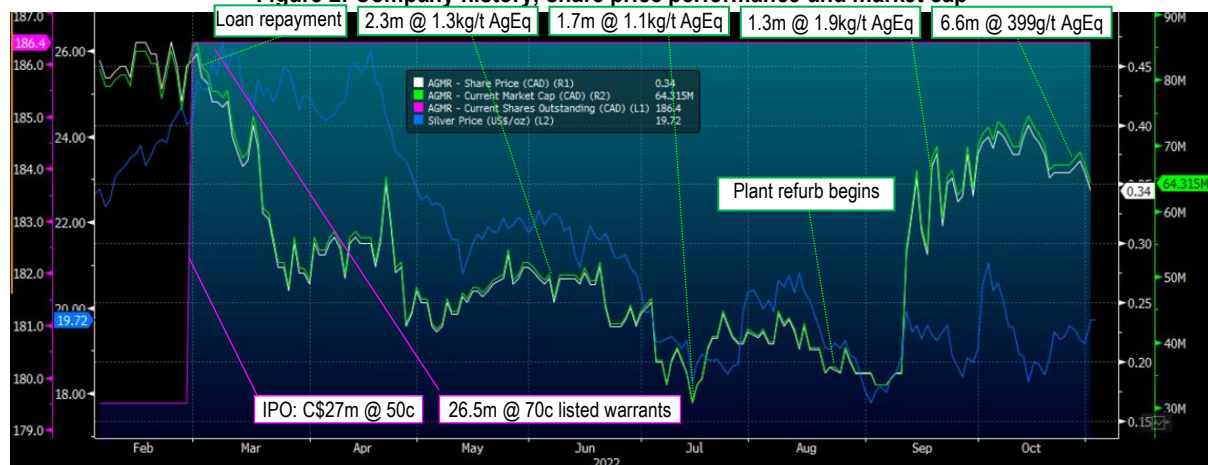
Figure 1. (A) Castrovirreyna project location map, (B) Reliquias / Dorita licenses, (C) resource table & (D) UG portal



Corporate history

Past private operations (1980s) were halted from political instability, but more recently from > 2010-2015, a family owned operator (Corporación Minera Castrovirreyna) expanded the mill to 2ktpd, and recommenced small-scale remnant mining at Reliquias, peaking at ~3.7Moz pa AgEq (spot) in 2012 ahead of foreclosure in weak markets after which Trafigura (debt holder) picked up from bankruptcy in 2016 and sold the asset to Silver Mountain in 2018 in exchange for assuming CMC's debt. The 1Q22 IPO raised C\$27m @ C\$0.50/sh pre-money to fund 40km of drilling across both assets, early-works for restart decision at an initial ~1,000tpd in 2H23, and to satisfy the Trafigura debt (US\$2.9m paid in 1Q22). As of June 30th, the company has C\$23m cash and 26.5m warrants (70c/sh strike) listed in connection with the IPO, plus an additional 16.7m warrants (~C\$1.20/sh strike), all expiring in 2024.

Figure 2: Company history, share price performance and market cap

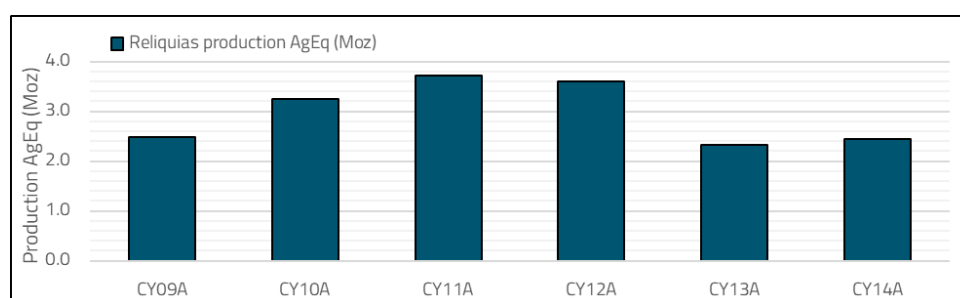


Source: Bloomberg, SCP

Right team, right approach, right price—building the next ‘Aya’

At C\$65m market cap, Silver Mountain offers investors exposure to potentially the next AYA-TSX (C\$841m mc), who started with 1/3 the silver ounces at 1/2 the grade and 1/3 size legacy mill compared to Silver Mountain before new management and exploration drilling unlocked its rapid growth to peak production of 1.7Moz Ag (today) with expansions underway towards targeted 6-8Moz Ag pa. We see similar exploration / restart opportunity for Silver Mountain’s assets in Peru given the Reliquias mine alone was only recently shut down in 2015, which saw 3Moz pa from 2010-2014 by CMC shown in Figure 3 below.

Figure 3 – Historic Production from the Castrovirreyna project



Source: Silver Mountain, AgEq calcs at spot as of October 28th.

What’s different this time? First and foremost, Silver mountain is building a real company, and despite being a brownfield restart (existing ~15Moz in M&I), the company is taking a more planned approach by validating the historical resources, *not* blindly chasing remnant pillars which saw prior operators go bankrupt. Better still, Silver Mountain has been building the team to make it happen: (i) **CEO Alfredo Bazo**, ex cost controller for Yanacocha Mine / certified PMP and engineer, has the knowledge to build / manage spend having developed several mining projects in Peru for Buenaventura Ingenieros, (ii) **COO Richard Contreras** (ex-Country Manager for Pan American Silver Peru) has the relevant operating experience with (iii) **Chair Jose Vizquerra** (CEO of O3 Mining and Director at Osisko Mining) having the network to grow, as demonstrated by the competitive acquisition of Castrovirreyna. Notable mention here is **Independent Director Juan Carlos Ortiz**, current VP Ops for Buenaventura—a solid ‘stamp of approval’ in our view.

Leading the plant restart at site is (iv) **Luis Perales**, metallurgical engineer with 18+ years of experience in plant design and construction in Latam ranging from small restarts to larger builds / expansion projects (+\$300m) for the majors (Buenaventura, Newmont, Nexa) while (v) **VPX Torsten Danne**, >20 years experience in Peru (Southern Copper and Nexa) leads exploration at site. All under the site leadership of (vi) **Mine Superintendent Franklin Rodriguez**, whose background in mining engineering and prior management roles in country (Buenaventura) are key ahead of the potential restart. Big picture, the region has had many legacy privately-owned mines never drilled out properly, westernized, or subject to regional consolidation until today—here lies the opportunity.

Figure 4. Silver Mountain’s management team and credentials

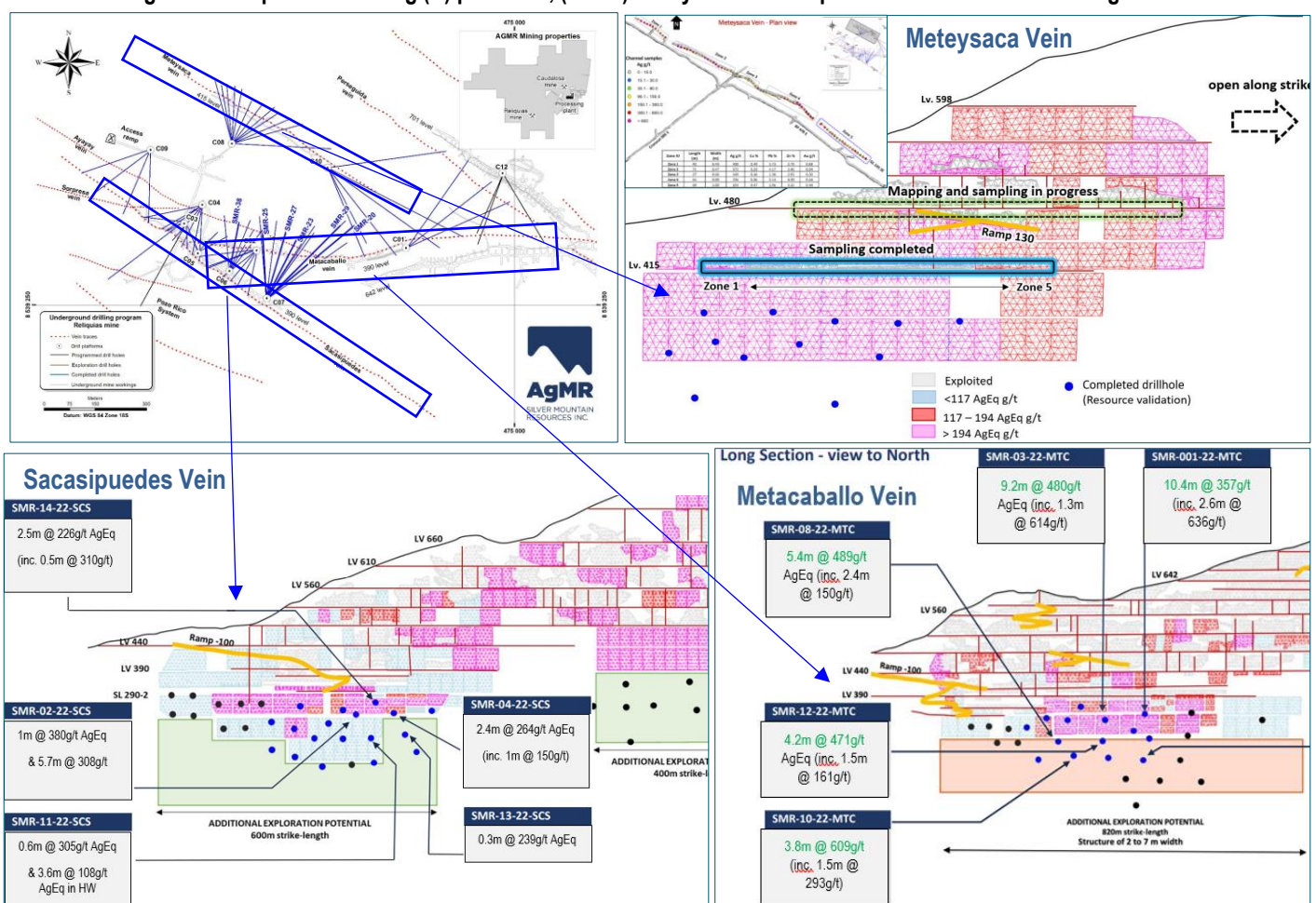
Jose Vizquerra Chairman	Alfredo Bazo President, CEO &	Jean Pierre Fort CFO	Richard Contreras COO	Torsten Danne Director of Exploration	Luis Perales Plant Superintendent	Franklin Rodriguez Mine Superintendent
President & CEO at O3 mining	Former CEO/CFO of Buenaventura Ingenieros and Master Drilling Peru	Mining & Metals Capital Markets Experience	Mining engineer, >30 years of experience in open pit and underground operations	Former exploration manager at Southern Copper (Argentina) and Nexa Resources (Peru)	Former superintendent of projects at Conscorio Minero Horizonte, Buenaventura Ingenieros, Volcan and Nexa	Former Site Manager at Compania de Minas Buenaventura, managing exploration, mine dev. / closure
Former EVP of Strategic Development for Osisko Mining and Ex-head of Business Development for Cia. De Minas Buenaventura	Civil Engineer & Certified Project Management Professional, former cost control engineer at Minera Yanacocha	+10 years supply chain, projects, investor relations, and finance at Volcan Cía Minera in Peru	Country Manager for Pan American Silver and GM for Glencore in Peru	>20 years of international experience, evaluating multiple types of deposits, special focus on precious metals	>18 years of experience constructing and developing mining plants in Latin America	BEng Mining Engineering, MBA Pontificia Universidad Catolica, Peru

Source: Silver Mountain

Step 1: Demonstrate validity of prior resources and build mining inventory with the drill bit

The historic **30Moz @ 643g/t AgEq** (spot) at Reliquias resides primarily in ~four vein zones spanning over 2,000m strike x 300m depths. A 40,000m drill program kicked off in April 2022, with 14,000m already completed from UG targeting areas of the Reliquias MRE to convert historic resources and increase the resource base along strike, down dip, and from new parallel zones. Firstly, underground rehab enabled access to old ore headings on the 415L, targeting three vein zones (i) Meteyesaca, (ii) Metacaballo and (iii) Sacasipuedes. Initial channel sampling programs confirmed **200-800+g/t grades** over mineable 0.5-1m widths, along >270m of strike along the Meteyesaca Vein development on the 415mL (Figure 5B). Second, drilling shown in Figure 5A targeted areas within the historical resource blocks and the results from the first 22 holes include **1.3m @ 1,927g/t AgEq** and **1.5m @ 1,356g/t AgEq** from Metacaballo and **1.4m @ 1,418g/t AgEq** and **5.3m @ 775g/t AgEq** from Sacasipuedes veins—well above the historical MRE grades, and should bode well for conversion in the 1Q23 43-101 MRE, which should see ~8-12Moz booked in M&I in our view.

Figure 5. Reliquias UG drilling (A) plan view, (B/C/D) Meteyesaca / Sacasipuedes / Metacaballo vein long sections



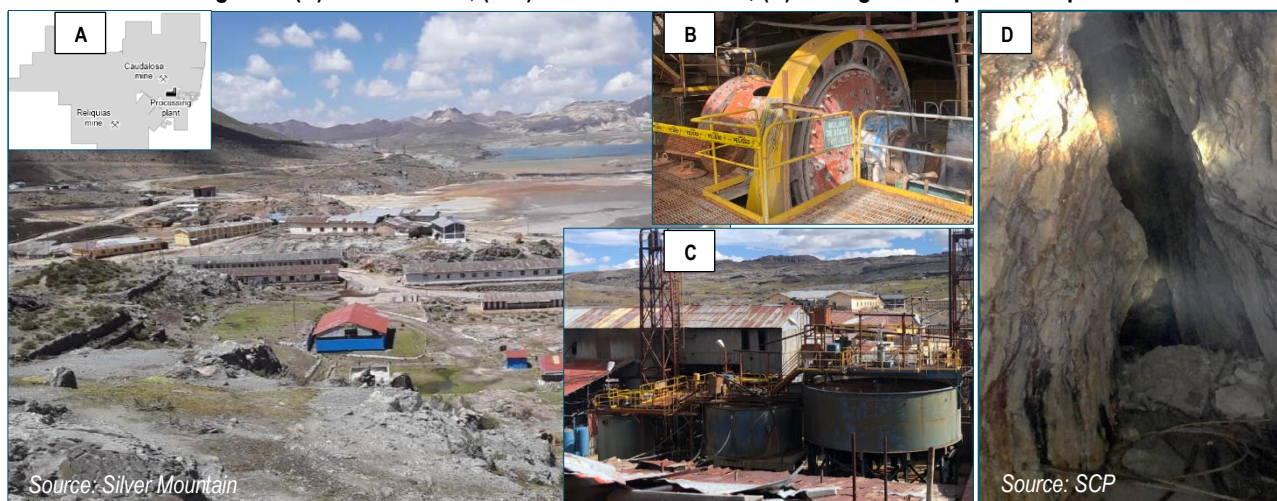
Source: Silver Mountain, modified by SCP

Step 2: Rehab & low-cost plant refurbishment unlocks restart opportunity as early as YE23

Rehab is progressing well with 1,500m of underground workings completed to date within an area spanning 4km, mainly on the 701L. The more critical path now is on the **plant refurbishment** towards an initial 1,000tpd operation in 2H23, which formally began in early September. The first phase of work is focused on the 'front end' (crushing, conveyors, chutes), before moving to the 'back end' (flotation / thickeners) as these only require minor upgrades. Final stage work will be mainly mechanical, electrical and instrumentation. On **tailings capacity**, the existing storage supports an initial 1,000-1,500tpd restart, but we expect subsequent expansions to be evaluated as resources are defined / grown.

On mining, historical mining was primarily done via Cut & Fill (70%) and Longhole (30%) methods to support the 1,800tpd throughputs. We came away impressed by the ground conditions at Reliquias (Figure 6), where old long hole stopes saw minimal failure after several years left open / unfilled. So, we expect these methods will be considered in the upcoming PEA, and with good engineering / modernizations / good management it has good potential to be a highly productive operation. Again, this is too early to quantify, but we estimate a restart would require 12-16 active faces on a purely CF mine plan to sustain 1,000tpd, which is reasonable in our view.

Figure 6. (A) Site overview, (B/C) ball mill / thickeners, (D) underground open LH stope



So what? SCPe US\$20m for 1ktpd YE23 restart, staged up to 1.8ktpd towards >5Moz pa potential

The historic ~2ktpd plant is oversized for Reliquias alone in our view, but works well on future hub-and-spoke (Caudalosa + satellite additions). For an initial 1,000-1,500tpd restart scenario, we estimate pre-production capex as low as US\$20-30m. which has been ongoing since April 2022 with C\$27m post IPO funding. Quantifying this is difficult without an FS, however based on historical grades, initial production could see ~3-5Moz pa AgEq—already in the M&A snack bracket we think. Thereafter, ramping up towards 1.5-2ktpd could support 5-10Moz pa AgEq with satellites, albeit speculative at this stage. For reference, we provide a summary of comparable mining operations in Table 1 below, noting similar throughputs, albeit at lower grades than Silver Mountain with mining costs ranging from US\$35-60/tonne and 2021 production between 3-10Moz AgEq (spot).

Table 1. Selected underground polymetallic mines in Peru

	Sierra Metals	Buenaventura	Fortuna Silver	Pan American Silver
Asset (Country)	Yauricocha (Peru)	Tambomayo (Peru)	Caylloma (Peru)	Huaron (Peru)
Commodities	Cu, Ag, Pb, Zn, Au	Au, Ag, Zn, Pb	Au, Ag, Zn, Pb	Ag, Zn, Cu, Pb
UG mining method	Sub-level caving	Cut & Fill	Cut & Fill	LH + Cut & Fill
Throughput (tpd)	4,000	2,000	1,500	2,500
UG Mining Cost (US\$/t)	36.40	59.08	38.10	38.00
Processing cost (US\$/t)	9.2	40*	14.6	4.3
Reserve / Resource AgEq (g/t)	348	523	363	419
CY2021 production (Moz AgEq)	9.7	3.0	4.9	5.6
% of company's revenue	66%	9%	17%	20%
Company market cap	US\$32m	US\$1,771m	US\$831m	US\$3,437m

Source: Company 2021 annual filings. *Buenaventura incl. 10% contingency; Sierra Metals 1Q22 43-101 resource estimate; Fortuna Silver 1Q21 MRE; PanAmerican Silver 2Q22 reserves. AgEq: Spot prices as of Oct 28, 2022.

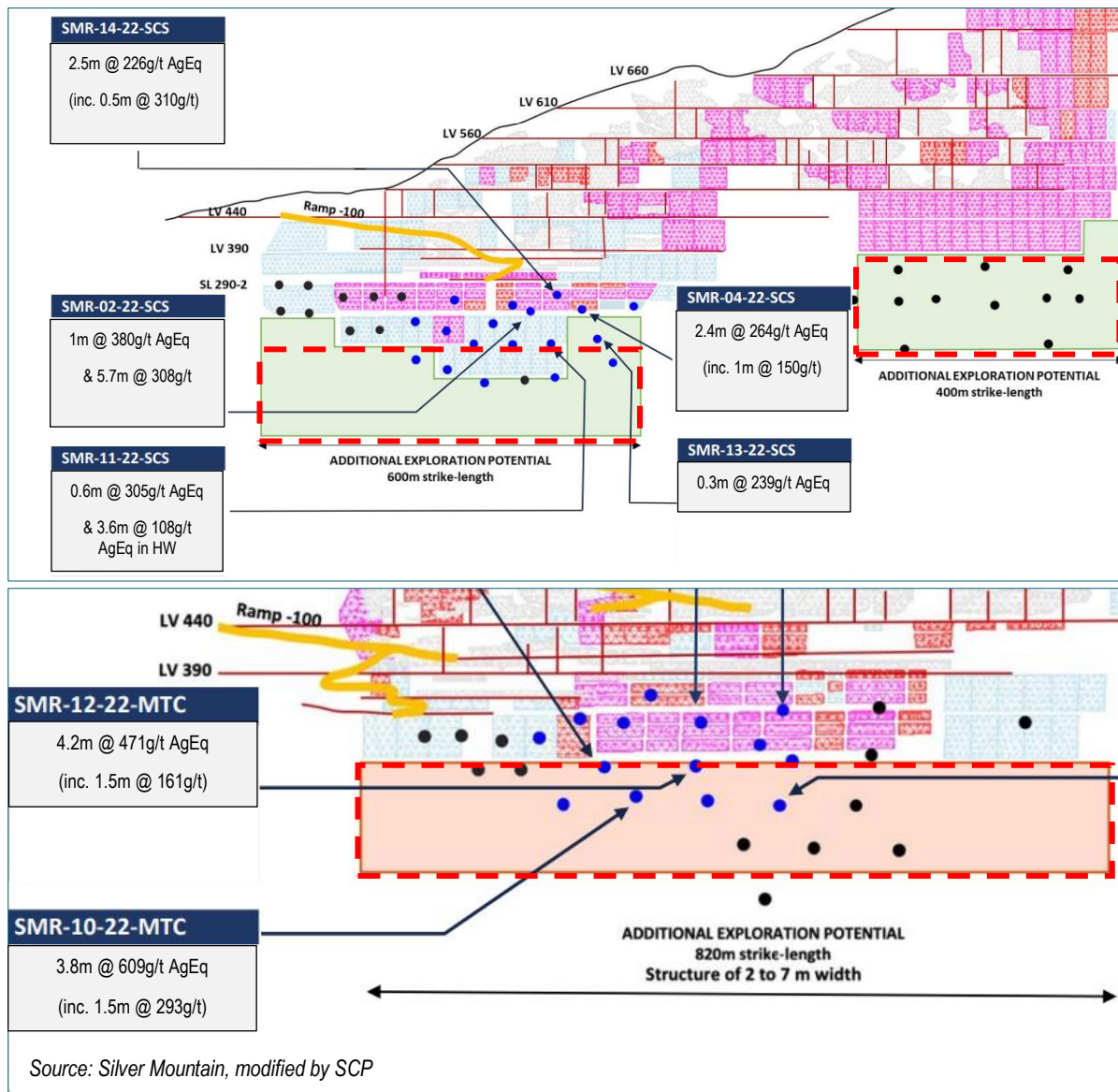
Step 3: Resource extensions for SCPe 20Moz+ AgEq at Reliquias alone

The beauty about high-grade is that it doesn't take a lot of strike/plunge to build ounces. In our view, assuming similar widths / tenor of historical resources, drilling could see a further 15-20Moz+ in resource additions from potential targets including the three zones shown in red in Figure 7, both laterally along strike (>1.5km) and below existing development (100-150m). Of course, not all would fall into a mine plan, but we think near mine targets are a great starting point for quick ounce additions and expect to see continued resource growth once more areas of the mine are opened up via rehab / development. Most attractive here, we think any ounce additions could see

quick turnaround from MRE to mine inventory in a future restart scenario given proximity to existing workings—a key advantage over peers in our view. Whilst more ‘base metal rich’ with depth, we toured the deepest levels at Reliquias and were encouraged by the continuity of high-grade silver rich veins within broader disseminations, reaffirmed by drilling to date, averaging **2m @ 453g/t AgEq** (69 pierce points / 25 holes) to date. More relevant is the **1.8m @ >660g/t AgEq** from 25 pierce points above our 75g/t Ag cut-off, which suggests higher-grade silver ‘shoots’ could be delineated further beyond the deepest parts of the mine with the next phase of planned drilling.

Surface silver a real flyer: Near surface / shallow veins were historically the richest, silver dominant mineralization (proustite–pyrargyrite), so we are excited to see surface drilling planned to test the unmined portion of the Metacaballo Vein, where veins have already been traced to surface. Permits are pending.

Figure 7. SCPe exploration targets below / along strike historical mine workings at Reliquias



Step 4: Potential ‘same again’ at Caudalosa for potential dual mine restart

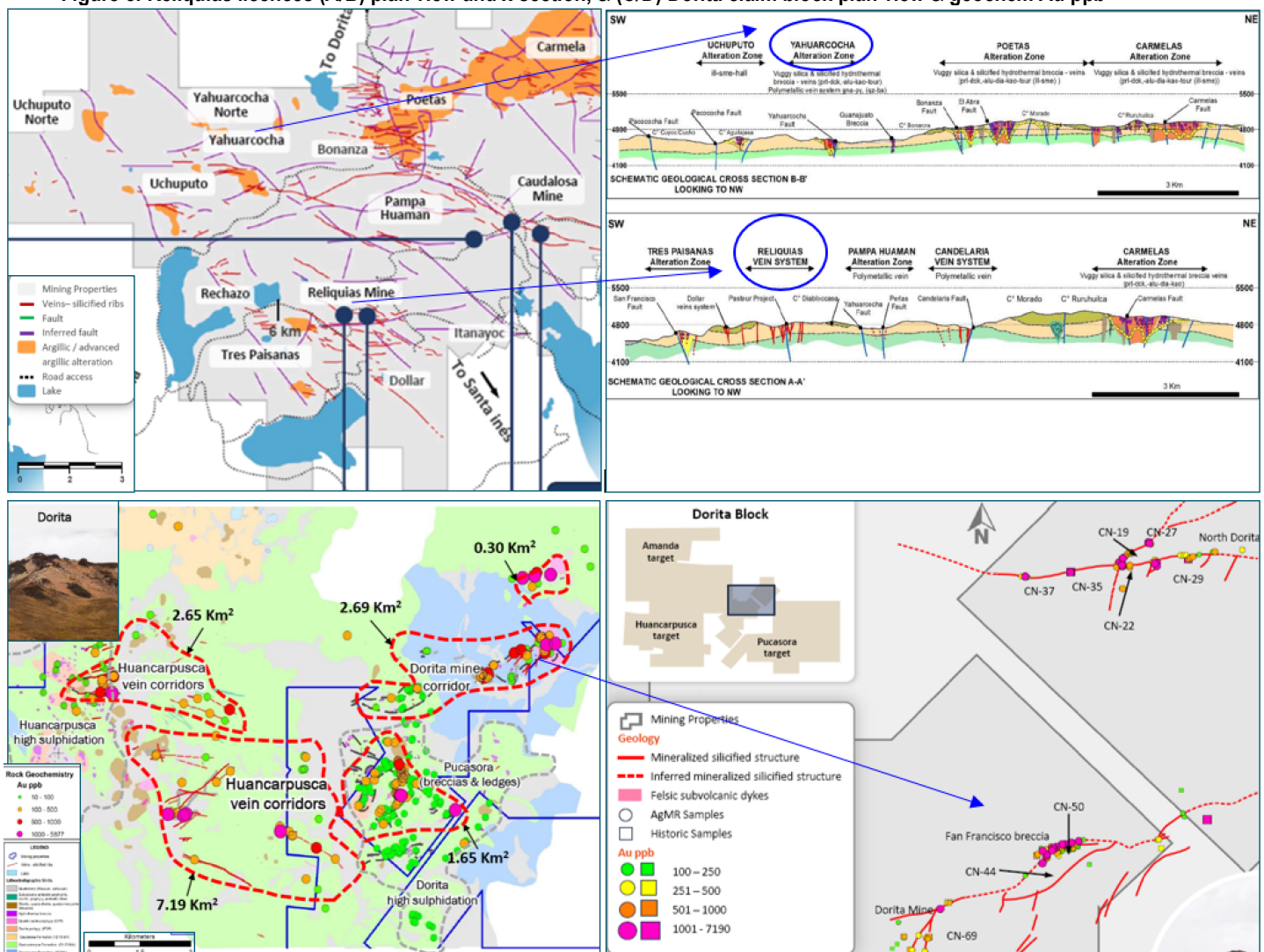
Caudalosa UG is larger and higher grade at **46Moz @ 932g/t AgEq** (spot) across 6 veins, located closer to the plant but requires dewatering to begin rehab / exploration compared to Reliquias. Historically mined together on similar dimensions and only 12km apart, the geology / metallurgy is the same i.e high to intermediate sulfidation vein systems that come to surface (historical pits) so we think this is the logical next step for inventory expansions for potential two mine restart >1ktpd post Reliquias restart.

Blue sky >100Moz potential from untouched regional exploration targets consolidated for first time

The Castrovirreyna mining district was discovered in 1591 and had many periods of intermittent operation (mainly separate and private / family owned), and has recorded production of >100Moz of silver since 1948, plus lead, zinc, copper and gold. Geologically, the district consists of polymetallic, typically silver-rich, veins that are hosted in the Tertiary volcanic belt rocks, but also interesting is the porphyry potential at depth being explored by peers in the region. **Big picture**, Reliquias / Caudalosa are brownfield assets in 220Moz-produced belt that was mainly in private hands, so regionally has seen very little focus, with the key advantage here today being consolidated ground on infrastructure for low cost brownfield and greenfield exploration. Post restart of the first two mines could see regional exploration self-funded—not dissimilar to GoGold (GGD-TSX), making this a ‘stand out’ opportunity among peers. Given the scale of the belt and prospectivity between historic mines (discussed further in Appendix I), we see the potential runway for resource growth beyond 100Moz AgEq longer term. **Targets include:**

- **More regionally around Reliquias (>15,700ha)** pending permits, (a) Poetas / Carmela, (b) Bonanza (Caudalosa HG corridor), (c) Yahuarcocha, (d) Pamo Huaman 4-10km from plant are top greenfield targets in our view.
- At the **Dorita block** (>15,200ha) ~3km to the north, untested vein targets include (a) Pucasora – high-sulphidation Ag-Au (2.1m @ 1.5g/t Au + 70.1g/t Ag at surface), (b) Dorita mine, (c) San Francisco, (d) Yanajara veins, and (e) Huancarpusca / Amanda high-sulphidation veins. Whilst early, mapping / targeting is underway for 2023 maiden drilling.

Figure 8. Reliquias licences (A/B) plan view and x-section, & (C/D) Dorita claim block plan view & geochem Au ppb



Source: Silver Mountain

Silver Mountain is trading multiples below peers - attractive re-rate potential in <12M

Several subtleties within this group need highlighting: many of the 'silver' juniors in fact have silver as a minority, with high gold and/or base metals. Similarly, all polymetallic deposits will variably see very material haircuts on recovery and payability when compared to cyanide leachable gold-silver pure plays. That said, effective grade / scale + good metallurgy are key qualities to see an asset through to 'will be a mine' status and attractive to M&A. As such we think **EV / in-situ payable recoverable ounce** is the most useful metric here, putting **Silver Mountain critically low at US\$0.48/oz** vs the peer group, which we discuss below.

Silver Mountain is trading a steep discount relative to the peer group: The silver market has shown it is more than willing to pay up for 'world class' silver development potential with Silvercrest and MAG Silver both trading at ~US\$3-5/oz in-situ which we show in Table 2 below. Digging in here, Aya's producing mine has seen transformative exploration success over the last 12-15M, combined with proven management team with excellent operating capabilities, a Tier-I mine plan, and early mover advantage in Morocco—warranting the premium rating in our view. Also, Aya's success is a testament to quality asset / team superseding perceived jurisdiction risk. Interestingly, Aya started with 1/5 ounces at 1/3 grade and 1/4 size legacy mill compared to Silver Mountain; and grew to peak 1.65Moz pa (now) and 6-8Moz production target ~Silver Mountain's potential, both have excellent upside. On resource stage companies, we note speculative explore-cos of last year, now post maiden resource this year, still trade around ~US\$1.40/oz without mine plans or functioning mill, hence we think the quality – near production assets warrant a premium and are prime take-out targets as noted most recently by Hecla's acquisition of Alexco earlier this year for roughly ~US\$2.00/oz. Put simply, we think if Silver Mountain can expand resources to >100Moz AgEq in 43-101, peer multiples suggest US\$200-300m EV is achievable, but the added restart option could take this further in our view, given M&I ounces look much more attractive with an operating mill.

Table 2. EV / in-situ (payable, recoverable, attributed) valuations for selected silver peer group

	Mag Silver	Aya	Silvercrest	Gatos	Hecla	New Pacific	Vizsla	Blackrock	Adriatic	GoGold	Dolly Varden	Silver Mountain	Discovery
Asset	Juanicipio	Zgounder	Las Chispas	CLG Mine	Keno Hill	Silver Sand	Panuco	Tonopah W.	Vares	Los Ricos	Kitsault	Reliquias	Cordero
Resource date	1Q18 PEA	4Q21 43-101	1Q21 FS	4Q22 43-101	2Q21 43-101	2Q20 43-101	2Q22 43-101	2Q22 43-101	3Q21 DFS	4Q21 43-101	2Q22 43-101	*3Q21 MRE	4Q21 PEA
Global resource / inventory (kt)A	24,960	10,307	4,064	6,070	5,546	45,230	9,100	2,975	7,294	74,520	10,248	3,024	198,602
Ounces (Moz AgEq)	612	102	136	104	152	191	110	40	188	253	200	76	553
Grade (AgEq)B	762	309	1044	533	853	132	375	421	801	105	608	777	87
Recovery (%)C	91%	88%	96%	80%	92%	90%	92%	91%	84%	90%	89%	72%	86%
Payability (%)G	82%	100%	100%	90%	92%	100%	66%	66%	80%	100%	65%	78%	100%
Ownership (%)	44%	100%	100%	70%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Royalty (%)	0.5%	3.0%	0.5%	2.0%	19%	6.0%	3.0%	3.0%	0.8%	0.5%	2.0%	0.0%	0.5%
Ounces - payable recoverable (Moz AgEq)	200	87	130	51	104	162	64	23	126	226	114	43	472
Grade - payable recoverable (AgEq)B	546	271	999	372	712	118	225	251	512	95	351	564	72
Payable recoverable on in-situ (%)	72%	88%	96%	70%	83%	90%	60%	60%	64%	90%	58%	73%	83%
Portion of payable that is silver (%)	50%	100%	52%	53%	69%	100%	53%	49%	31%	69%	33%	57%	38%
Net cash (US\$m)E	33	85	123	31	-	31	45	10	85	98	15	12	50
FD EV (US\$m)F	920	380	405	127	209	223	88	32	103	147	63	20	147
EV/in-situ (US\$/oz AgEq)	3.42	3.71	2.97	1.75	1.37	1.17	0.80	0.79	0.55	0.58	0.32	0.27	0.27
EV/payable recoverable (US\$/oz AgEq)	4.59	4.36	3.11	2.48	2.01	1.38	1.37	1.36	0.82	0.65	0.56	0.48	0.31

(A) Silver Mountain 3Q21 historic non 43-101 report; Silvercrest Metals 1Q21FS; Gatos 4Q22 inv; GoGold: LRN 4Q21, LRS 3Q20, Parral and Esmeralda 3Q20 resources; New Pacific note pit constrained at 45g/t cut off requires layback outside of licence; Discovery Silver 2021 PEA inventory end oxides; Aya 43-101 1Q21; Hecla valuation based on total acquisition cost of US\$69m stock+US\$135m stream payout+US\$5m net debt; Vizsla 1Q22 43-101; Blackrock Silver diluted 2Q22 43-101 (B) AgEq spot using US\$1,700/oz Au and US\$20.00/oz Ag (C) Mag Silver from PEA, New Pacific and GoGold based on pit and pit+UG constrained resources; Adriatic from DFS; Discovery from 2021 PEA and a combination of payability and recovery - payability set at 100% here; Vizla, Blackrock, Dolly Varden resource estimates; Silver Mountain SCPE estimates (D) Diluted for ITM options + warrants and post period end equity; (E) cash as last reported plus net cash from post period equity. (F) Keno Hill royalty includes Wheaton Precious Stream, SCPE estimate.

Valuation / recommendation: initiate coverage with BUY rating and C0.90/sh price target

It is too early to model Silver Mountain on a DCF basis, or even estimate the potential reserves / production with any reliability, as the goal here is to minimise dilution during restart. By that, we would expect 7-12Moz AgEq initial mining inventory to allow a restart, rather than diluting in a weak capital market to take the entire 20, 30, 60Moz mining potential into reserve up front. Why? Because they don't need big capex / big debt for restart, thus don't need big reserves from the get go. However, we see enough information to value the stock on the basis of three pillars: existing high-grade UG resources, unmined depth extensions of the old mine, and near-surface untested extensions of the high-grade veins—but with the added benefit of existing infrastructure and 2ktpd refurbished plant in 12M, positioning them well for potential re-rate on technical de-risking including 43-101 MRE and PEA in

our view. With more advanced peers ranging from US\$3-5/oz, we apply a conservative US\$2.00/oz AgEq value to Reliquias' 30Moz historical resources based on the peer average and a nominal US\$0.50/sh for inferred ounces at Caudalosa for C\$87m and C\$32m 1xNAV respectively. **As such, we initiate with a BUY rating and C\$0.90/sh PT.** Very approximately, the US\$2/oz equates to ~15% of in-situ at spot, itself equivalent to ~0.4xNAV (at 50% margin, 30% tax), or ~0.1xNAV for the 50c applied to Caudalosa. With peer silver miners trading well over NAV through the cycle, we see our PT as offering plenty of upside from here, but with no glass ceiling above it either.

Table 3. SOTP Silver Mountain valuation

Ticker: AGMR CN		Price/mkt cap: C\$0.35/sh, C\$65m		Group P/NAV today: 0.35x		Asset: Reliquias / Dorita					
Author: B. Gaspar / E. Magd. Rec / 1xNAV PT:		BUY, C\$0.9/sh				Country: Peru					
Non 43-101 resources	Tonnes	*AgEq	M&I (%)	Ag (%)	Commodity	Price	Recov.	Payab.	NSR*	% totl.	
Reliquias	1.5Mt	691g/t	33Moz	46%	46%	Silver (Ag)	20	88%	95%	84%	50%
Caudalosa	1.5Mt	978g/t	49Moz	0%	46%	Copper (Cu)	3.63	54%	95%	51%	23%
Total M&I + Inf resource	3.0Mt	838g/t	81Moz	40%	46%	Zinc (Zn)	1.18	80%	85%	68%	17%
*AgEq calcs using US\$ 16/oz Ag, US\$ 1.20/lb Zn, US\$0.95/lb Pb, and US\$2.81/lb Cu											
Asset based SOTP valuation^											
	C\$m	O/ship	NAVx	C\$/sh*							
Reliquias NAV @ US\$2.00/oz AgEq	87	100%	1.0x	0.53	*SCPe Payable recoverable / in-situ, *Gold not historically assayed						
Caudalosa insitu (US\$0.50/oz AgEq)	32	100%	1.0x	0.20	Share data		Basic	FD			
Net cash @ 2Q22	22.7	-	1.0x	0.14	Shares (m)		186.4	221.7			
Cash from options+warrants	22.6	-	1.0x	0.14							
SCPe 1xNAV	165		1.0x	0.99							
*Asset only, ex G&A and fin costs											
		Market P/NAV:		0.35x							

*Asset only, ex G&A and fin. costs

Market P/NAV: 0.35x

The catalyst here is simple: drilling, and lots of it, alongside getting the right team, then executing restart plans. The big picture thematic we see creating the most value for investors in the exploration sector is to stick to well-funded, geologically strong companies, but most critically, in prolific terranes. For us that means Andean Ag-Au-Cu, Archean Au or Mexican silver. Silver Mountain fits squarely into this category. Better still, while investors will have to speculate on the ultimate inventory size / restart potential, they don't have to speculate about whether (i) unmined high-grade resources exist at Reliquias because drilling has already shown this, (ii) metallurgy risk as this was processed here before and (iii) restart risk at this price, as this is all 'upside' and in our view, 'in for free' at the company's current market cap.

Risks

- Resource risk** is moderate to low given our valuation is based on a \$/oz 1xNAV using historical non 43-101 estimates vs DCF mine plan, but this risk is slightly lowered given both deposits have been mined historically. A 43-101 compliant resource is planned for 1Q23.
- Mining risk** whilst this was a past producing mine, we still expect moderate-high risk in any restart scenario without the appropriate project de-risking engineering studies.
- Permitting / political:** We view this risk as low to moderate. Peru has a long, established mining history which has not seen the same anti-mining policies as Columbia and Chile to date, (Congress is still mostly right leaning). The main social considerations in our view are i) labour negotiations, which can be more contentious in South America than the US, Canada, Australia or West Africa, and ii) sensitivities around indigenous and local communities. However, we feel that these risks are mitigated by the asset's long operating history in the area.
- Dilution / financing** is always a risk for junior exploration / development as drilling and mine build funding is capital market dependent. We estimate US\$20-30m pre-production capital, whereby capital spend has been ongoing since 2Q22, with last reported cash of US\$17m at June 30th.

Catalysts

- 2H22 / 1Q23: ongoing drill programme + UG Sampling
- 1H23: MRE update
- Mid-2023: PEA
- 2H23: plant refurbishment completion & restart decision

APPENDIX I: GEOLOGY + EXPLORATION POTENTIAL

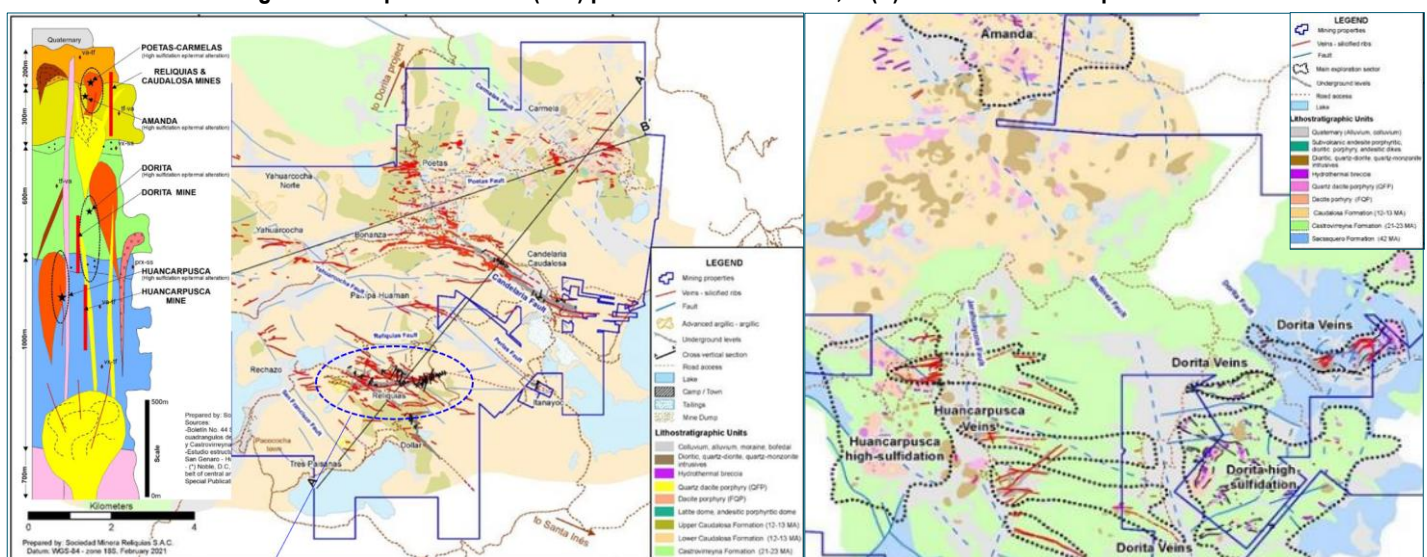
The Castrovirreyna mining district consists of polymetallic, typically silver-rich, veins that are hosted in the Tertiary volcanic belt rocks. The Tertiary volcanic belt of central-southern Peru forms a northwest-southeast-trending syncline that is as wide as 30 km east-west. A major regional fault, the northwest-southeast-trending Chonta fault, divides the syncline into two areas. To the southwest is Oligocene-Miocene (10-30Ma) volcanoclastic and underlying Jurassic-Cretaceous (60-200Ma) coastal batholith. This was thrust over older Triassic-Jurassic (~150-240Ma) sediments and volcanics along main N-S lineament. Dome complexes and related high-sulfidation mineralisation form Ag-rich polymetallic veins in Tertiary (12-23Ma) volcanics, but also interesting is the porphyry potential at depth being explored by peers in the region.

Project Geology: The Project is divided into two separate geographical blocks, **Reliquias** and **Dorita**. Primary lithologies in the Reliquias and Dorita blocks are volcanic and intrusive rocks. At the Reliquias, the main rock types include andesite lavas and tuffs, and andesitic and dacitic domes, overlain by alluvial deposits and wetlands, whereas at Dorita, andesites and tuffs, felsic, intermediate and flow dome complexes are the most prevalent rock types, overlain by alluvial and colluvial deposits and wetlands.

At the **Reliquias block**, the historic Reliquias mine – a silver-rich polymetallic intermediate sulfidation system, comprised of a 2km vein extending to 300m depth. Greenfield targets include (i) **Poetas/Carmelas**, a high-sulfidation epithermal zone where elevated Au-Ag geochemical values associated with hydrothermal breccias and vein systems were identified, (ii) **Yahuarcocha** a high-to-intermediate silver rich sulfidation NW trending vein system while (iii) **Bonanza** – a historic mine with multiple silver-rich waste dumps, provides another exploration target as elevated Au-Ag geochemical anomalies have been identified and associated with silicified structures. (iv) **Pampa Huaman**, a polymetallic vein along a NW-SE trending fault system. Veins there host quartz-galena-pyrite with oxides, as it has been intercepted by open-space infill. Sampling from this target returned high Ag-Pb geochemical values.

To the north on **Dorita** licenses, several vein systems and epithermal alteration zones have been identified. Exposures in underground historical mine levels, show that the veins are host to silver-rich galena and high-to-intermediate sulphide mineralization. Silver Mountain has outlined several targets including (i) **Pucasora** – a high sulfidation epithermal system related to porphyry intrusions, where elevated Ag, Au, and Pb geochemical values have been identified, the (ii) **Dorita underground mine** which was operating until 1985, averaging 425 g/t Ag where 11 known high-grade polymetallic vein structures were exploited. (iii) **Huancarpusca and Amanda**, are both targets with high-sulfidation alterations identified and elevated silver, gold and lead geochemical values. The Huancarpusca veins specifically consist of at least 14 silver-rich polymetallic veins at the edges of the Huancarpusca high-sulphidation alteration and between the Huancarpusca and Dorita alteration zones.

Figure 9. Reliquias licences (A/C) plan view and x-section, & (B) Dorita claim block plan view



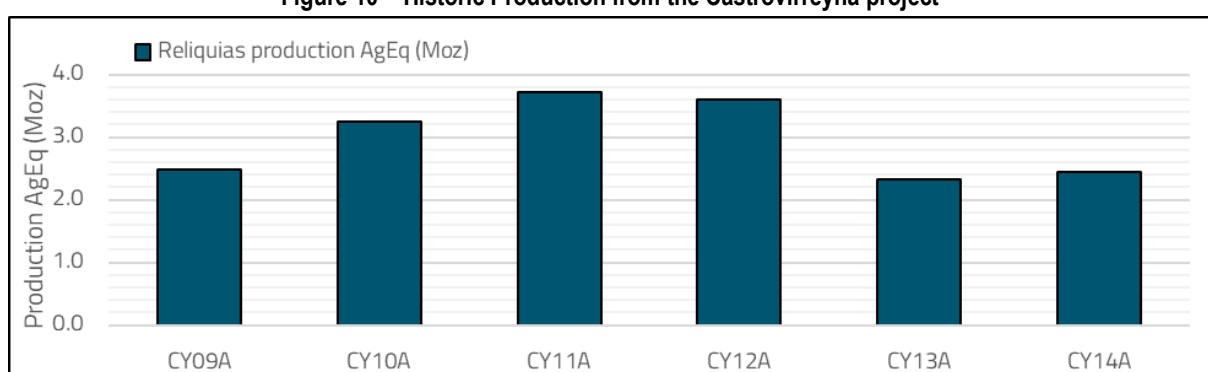
Source: Silver Mountain

APPENDIX II: RELIQUIAS MINE SITE + HISTORY

Infrastructure: The Castrovirreyna Project includes mine infrastructure that supported the historic Reliquias operations. The existing infrastructure includes the Reliquias underground mine and its ventilation and water pumping systems and mining equipment, a concentrator plant with 2,000tpd capacity which requires a minor refurbishment prior to the re-start of operations, a tailings dam and auxiliary infrastructure such as power and water supply, fuel bay, a camp, warehouses, and maintenance shops. As such, pre-production capex is substantially lower than a greenfield project of similar size.

Production History: The Castrovirreyna mining district has numerous underexplored polymetallic deposits that have produced >100Moz Ag since 1948. Looking specifically at Reliquias, during the period 2009-2014, the previous owner mined the Mataballo and Sacasipuedes veins using long-hole stoping around remnant areas. Prior operators 'cherry picked' the mine and went bankrupt during the downturn in 2014, but still managed 3-4Moz AgEq production (see Figure 10 for historic production profile) for total 17.8 Moz AgEq (spot). In 2015, during a period of lower silver prices, the mine was put on care and maintenance and the company declared bankruptcy.

Figure 10 – Historic Production from the Castrovirreyna project



Source: Silver Mountain, AgEq calcs at spot

Figure 11. Silver Mountain Management & Board of Directors

Alfredo Bazo President, CEO & Director	Jean Pierre Fort CFO	Richard Contreras COO	Torsten Danne Director of Exploration	Luis Perales Plant Superintendent	Franklin Rodriguez Mine Superintendent
Former CEO/CFO of Buenaventura Ingenieros and Master Drilling Peru	Mining & Metals Capital Markets Experience	Mining engineer, >30 years of experience in open pit and underground operations	Former exploration manager at Southern Copper (Argentina) and Nexa Resources (Peru)	Former superintendent of projects at Conscorio Minero Horizonte, Buenaventura Ingenieros, Volcan and Nexa	Former Site Manager at Compania de Minas Buenaventura, managing exploration, mine dev. / closure
Civil Engineer & Certified Project Management Professional, former cost control engineer at Minera Yanacocha	+10 years supply chain, projects, investor relations, and finance at Volcan Cia Minera in Peru	Country Manager for Pan American Silver and GM for Glencore in Peru	>20 years of international experience, evaluating multiple types of deposits, special focus on precious metals	>18 years of experience constructing and developing mining plants in Latin America	BEng Mining Engineering, MBA Pontificia Universidad Catolica, Peru
Jose Vizquerra Chairman	Julio Arce Director	Alfredo Plenge Director	Blair Zaritsky Independent Director	Victoria Vargas Independent Director	Juan Carlos Ortiz Independent Director
President & CEO at O3 mining	Preciously ran the non-ferrous and bulk commodities divisions at Trafigura	Former CEO of Castrovirreyna Mining Group, CFO at Sociedad Minera El Brocal and VP at BCP.	CFO at Osisko Mining and O3 Mining	VP of Investor Relations at Minera Alamos and CFO at VMS Mining	VP of operations at Compania de Minas Buenaventura
Former EVP of Strategic Development for Osisko Mining and Ex-head of Business Development for Cia. De Minas Buenaventura	MBA, London Business School, major in Finance & Strategy	More than 25 years of experience within the mining and finance industries	Board member at Moneta Gold and Talisker Resources	18 years of experience in the mining industry, former VP Corporate Communication & Investor Relations at Sierra Metals	More than 25 years of experience as a senior mining engineer

Source: Silver Mountain

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SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	53

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