Tuesday, May 24, 2022

HALLGARTEN & COMPANY

Initiation of Coverage

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Silver Bullet Mines Corp.

(TSX-V: SBMI, OTCQB: SBMCF)

Strategy: LONG

Price (CAD)	$0.365
18-Month Target Price (CAD)	$1.30
Upside to Target	256%
High-low (12 mth)	$0.25 - $0.59
Market Cap (CAD mn)	$22.78
Shares O/S (millions)	**62.42**
Fully Diluted (millions)	**83.69**

Silver Bullet Mines

"Old School Mining"

- + The company is on the cusp on beginning production of silver dore and copper concentrate from its Buckeye Mine, which it has fast-tracked over the last twelve months
- + Following fast on the footsteps of the Buckeye development the company has resolved to kickstart the Washington Mine in Idaho spurred on by truly bonanza grades of over 50 opt that it has encountered from recent sampling
- + Despite a move of Silver from its long-time price in the mid to low teens to a level some $10 higher, there has not been a concomitant strengthening in silver production
- + The company's iconoclastic approach of prioritizing mine development over paper production (in the form of the eternal PEA/PFS/BFS cycle) is bearing fruit in saving money that would otherwise go on consultants and short-circuiting the wait until the first pour
- ✘ One of the lingering effects of the pandemic was the massive global shipping snarl-up from mid-2021 with development at Buckeye held up by equipment being trapped at the port of Long Beach
- ✘ The much-watched gold/silver ratio made significant improvement during the pandemic bust has now stopped in its tracks

Production as the Priority

New silver mines appearing on the scene are not a daily occurrence or even a regular happening. The silver price made a quantum leap from being rangebound for many years in the low to mid-teens to the low to mid-twenties and yet there has not been a concomitant surge in new mine openings. Too many players want to mine the story rather than mine the metals. This is not the case with Silver Bullet Mines that are advancing not one but two mines to production at the current moment. They are singing out of our preferred hymnbook with the Three Ps (production, production, production) being their mantra and spending the money that would otherwise going on endless consultants' reports on actually advancing the mine builds.

In this initiation of coverage we will look at Silver Bullet's two active mining projects (and then the likely swift follow-on) and at their likely economics, while discussing the outlook for silver.

The Assets

The company has four principal assets, of which two are in development. These are the Buckeye, McMorris, & Silver Sevens mines in Arizona, the Washington mine in Idaho, the Lone Mountain & Ophir Canyon projects in Nevada and the Black Copper & Richmond (Richman) Basin Deposits in Arizona. We shall focus on the development projects in this note.

The Black Diamond Property

The Black Diamond Property includes 232 contiguous Bureau of Land Management (BLM) claims in a large block totaling approximately 4,793 acres (1,940 ha) of land within the Tonto National Forest. The property is road accessible from the city of Globe. Black Diamond is a massive project in extension and hosts five formerly producing silver mines.

This asset is in the Globe-Miami copper camp of Gila County, in central Arizona, and represents the main development asset at the moment. It is located approximately 90 miles (145km) east of Phoenix, AZ. The property is centred on the Richmond Basin, nine miles (14.5km) north of the city of Globe, and is the site of high-grade silver discoveries in the 1870's.

The past producing mines contained within the Black Diamond Property include the Richmond, Jumbo, La Plata, Silver Seven, Buckeye, Ellesworth and Black Copper (formerly the Nugget Mine), Helene, Chilson Shafts and others based primarily on the silver-copper veins of the area.

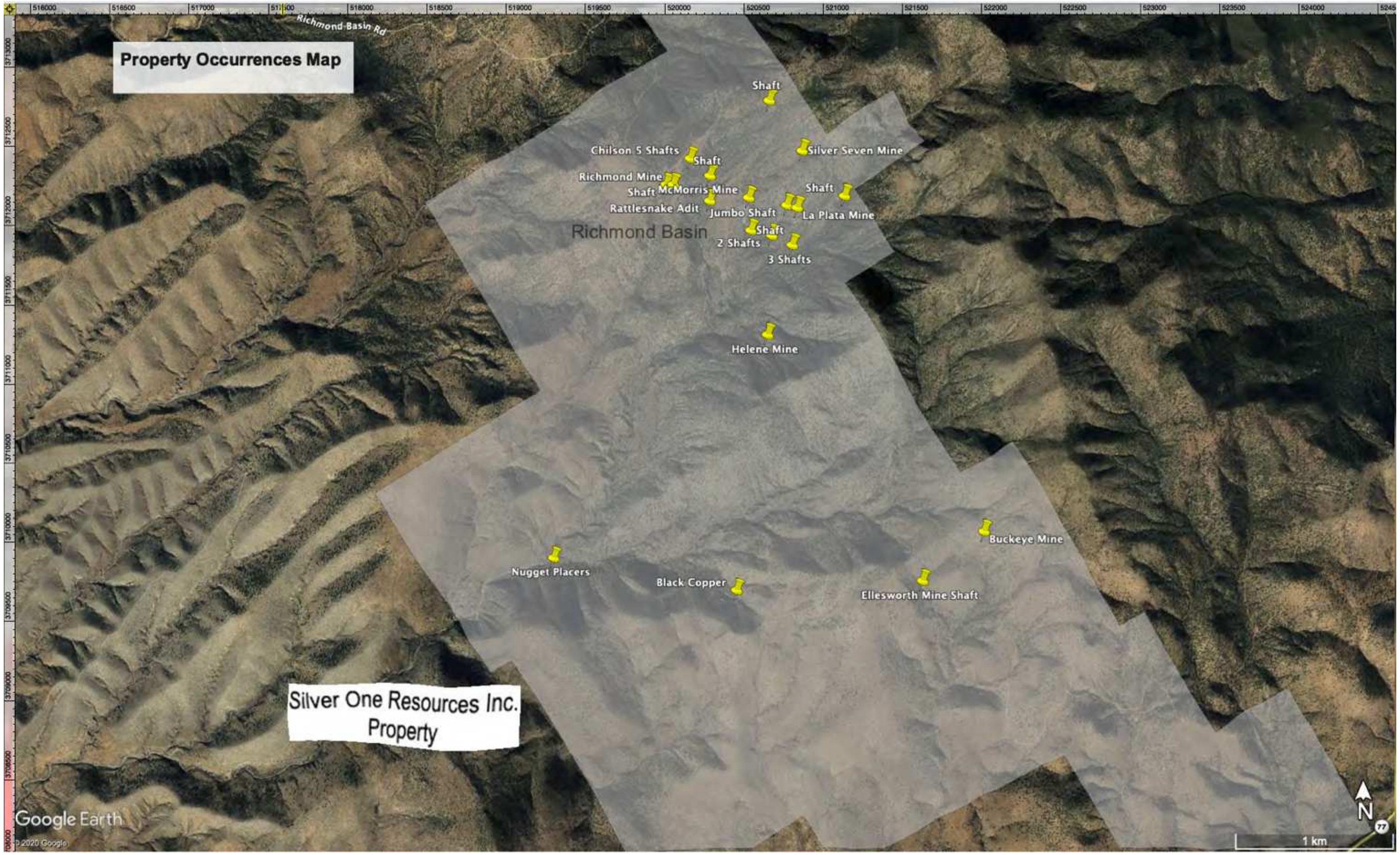
In addition, and included in the Black Diamond Property, SBMI also holds a lease on a 100% interest in the Buckeye Patent of approximately 16 acres (6.5 ha) contained within the Black Diamond Property. The lease agreement with the local landowners is in good standing and is in place for 17 more years from the date of this report with escalating annual payments.

The Deal

Silver Bullet Mines first acquired the Black Diamond Property from Black Diamond Exploration, Inc. (BDE) as a result of a Purchase Agreement dated May 20, 2020. A subsequent Quitclaim Deed dated September 27, 2020 transferred the Black Diamond Property from BDE to SBMI. Pursuant to a Definitive Agreement effective November 12, 2020, between Pinehurst Capital 1 and Silver Bullet Mines Inc., Pinehurst Capital 1 agreed to acquire all 30 million of the common shares of SBMI, the owner of the Black Diamond Property. On completion of this transaction the issuer had a 100% interest in the Black Diamond Property. Silver Bullet Mines must make annual BLM claim fees to maintain and control the claim group.

The next annual payment due on the leased claim is US$55,000. A 5% NSR exists on any production only from the Buckeye patent. These landowners included two additional two noncontiguous patent lots in this lease agreement. These patents, the Newton Mine patent of 16.69 acres (6.83 ha) and the Red Robin Mine patent of 15.71 acres (6.35 ha), are located between the Black Diamond Claim group and the city of Globe. Exploration work of up to $10,000 can be done on these patents.

It worthy of note that there is no NSR on the BLM claims.


Property Occurrences Map
Richmond Basin Rd
Shaft
Chilson 5 Shafts
Shaft
Silver Seven Mine
Richmond Mine
Shaft
McMorris Mine
Shaft
Rattlesnake Adit
Jumbo Shaft
La Plata Mine
Richmond Basin
Shaft
2 Shafts
3 Shafts
Helene Mine
Buckeye Mine
Nugget Placers
Black Copper
Ellesworth Mine Shaft
Silver One Resources Inc.
Property
Google Earth
1 km
N

Iconoclasm to the Fore

We have long sustained that the Canadian equity markets are a hostile environment for small mines with self-evident economics. The powers-that-be have a symbiotic relationship with a handful of consulting firms that act as gate-keepers atop the all-mighty NI43-101 process. The regulators think it makes more sense to spend $5mn on studies than $4mn on reopening a mine. This supposedly protects investors but the number of investors that have lost their shirts on projects that have been "studied to death" since Bre-X prompted the Canadian regulators to "discover religion" is legion.

Despite the official hemming in of junior developers by the *Mafia of the Consultants*, an increasing number of this crew have decided to eschew the report path and move straight to development when the economics make action more attractive than inaction. They pay the price of not being able to declare commercial production or publish more than plain vanilla production numbers but still they use their finite resources to produce actual metals and "save the rainforest" from excessive paper production. The iconoclasm is spreading.

SBMI's management has stated clearly that they do not intend to spend capital on a third party resource estimate or Preliminary Economic Analysis for the Buckeye Silver Mine. In the company's opinion, given the nature of the known mineralization, the extensive historical third-party documentation, and the leadership team's direct experience at Buckeye, a third party resource estimate or PEA would be prohibitively expensive to have written without actually advancing the Company's knowledge of the Buckeye. "This is old school mining," in the words of the CEO John Carter, "and for this project it's the right way. Producing from 6-foot wide silver veins is not your standard mining opportunity, which means it requires a non-standard approach. Here, we believe the right approach is to carry out our own internal economic analysis."

Buckeye Mining History

In the 1880s the Globe district contained 20 organized mining companies and 12 reduction plants treating silver and gold ores from the 82 stamp mill stamps operating. The total silver from the area is reported to be US$3.65 million recovered, or about 3 million ounces (93,310.5 kg), at the average price of a US$1.20 per ounce silver for the times.

Regional Geology

The structural setting of the Globe-Miami District suggests it marks the intersection of two major orogenic belts, thought by a number of earth scientists to be a key ingredient for the location of important mining districts. The Early Proterozoic Mazatzal Revolution, between 1650 and 1730 million years ago, was a major mountain building episode related to colliding crustal plates, across Arizona and beyond. Compressive forces, generated from either the northwest or southeast, resulted in a range thought to be on the scale of the Himalayas. Deep seated, northeast trending structural breaks associated with this compression, developed along the southern flank of Mazatzal Land, which now coincides with location of the Globe-Miami District. Veining, alignment of Laramide-age intrusives, and fracture patterns within the disseminated copper porphyry ore bodies, all display a pronounced northeast fabric.

Property Geology

The Black Diamond Property is located in the Globe-Miami mining camp and the property shows various types of mineralization that could be associated with the Laramide-age intrusives and the overall structural trends. The McMorris Mine vein, trending west-northwest and the Buckeye Mine vein, trending northeast, all within the Richmond Basin and contained within the Black Diamond Property, are thought to be epithermal in origin along existing structures. These occurrences lie along the more extensive Arizona Silver Belt that extends from the Silver King mine, outside of the Black Diamond Property, near and to the west of Superior, AZ.

The Black Copper prospect, located on the Black Diamond Property, shows more characteristics of a skarn and again appears be associated with a northeast structural feature. Copper porphyry mineralization is not known on the property at this time but remains a target for consideration due to the project's location along a regional copper mineralization trend and the styles of mineralization found within and around the Richmond Basin.

Exploration

SBMI's initial target at the Buckeye is the high-grade polymetallic mineralized drift identified in 1976 by K.C. Delise, in a Mine Shaft Survey dated October 23, 1976 prepared by him for International Resources and Minerals Development Company. He identified this zone as extending approximately 500 feet along strike. He called this area the Treasure Room.

At the start of March, 2022 the company announced that its field team has blasted through into the Treasure Room, in exactly the location mapped by Delise. This is where prior mining in 1873 ended when a cave-in took place. He commented "… with us having blasted in, I can see multiple adits and drifts like a honeycomb".

In the first week of April of 2022 the company gave a report to the markets on its continuous assay program at the Buckeye mine with assay results from 44 samples. The assays included samples from four underground areas of the Buckeye Mine, these being:

- the footwall of the vein
- the recently announced Treasure Room stope
- behind the Treasure Room stope
- the historical tailings

For context for the numbers below, common wisdom is that 'bonanza' silver begins at 30 oz silver/t.

Five samples, taken from the footwall of the vein from an area covering approximately 14-18 inches in width, provided the following returns (in ounces of silver per ton or oz/t as well or g/t):

- 341.8 oz/t or 11,718.95 g/t;
- 336.2 oz/t or 11,152.95 g/t;
- 674.0 oz/t or 23,108.76 g/t;
- 706.6 oz/t or 24,226.49 g/t; and
- 124.4 oz/t or 4,265.18 g/t;

The average of the remaining 39 samples (including 6 samples of 0.0 oz/t) is as follows:

- Treasure Room stope assays (27 samples) – 20.17 oz/t or 691.56 g/t silver
- Assays behind the Treasure Room stope (7 samples) – 37.08 oz/t or 1,271.32 g/t silver
- Assays from the Treasure Room's historical workings (5 samples) – 17.9 oz/t or 613.72 g/t silver

The overall average for all the 39 above samples is 22.91 oz/t or 785.63 g/t silver. The high-grade values from the footwall were not included in the above overall average.

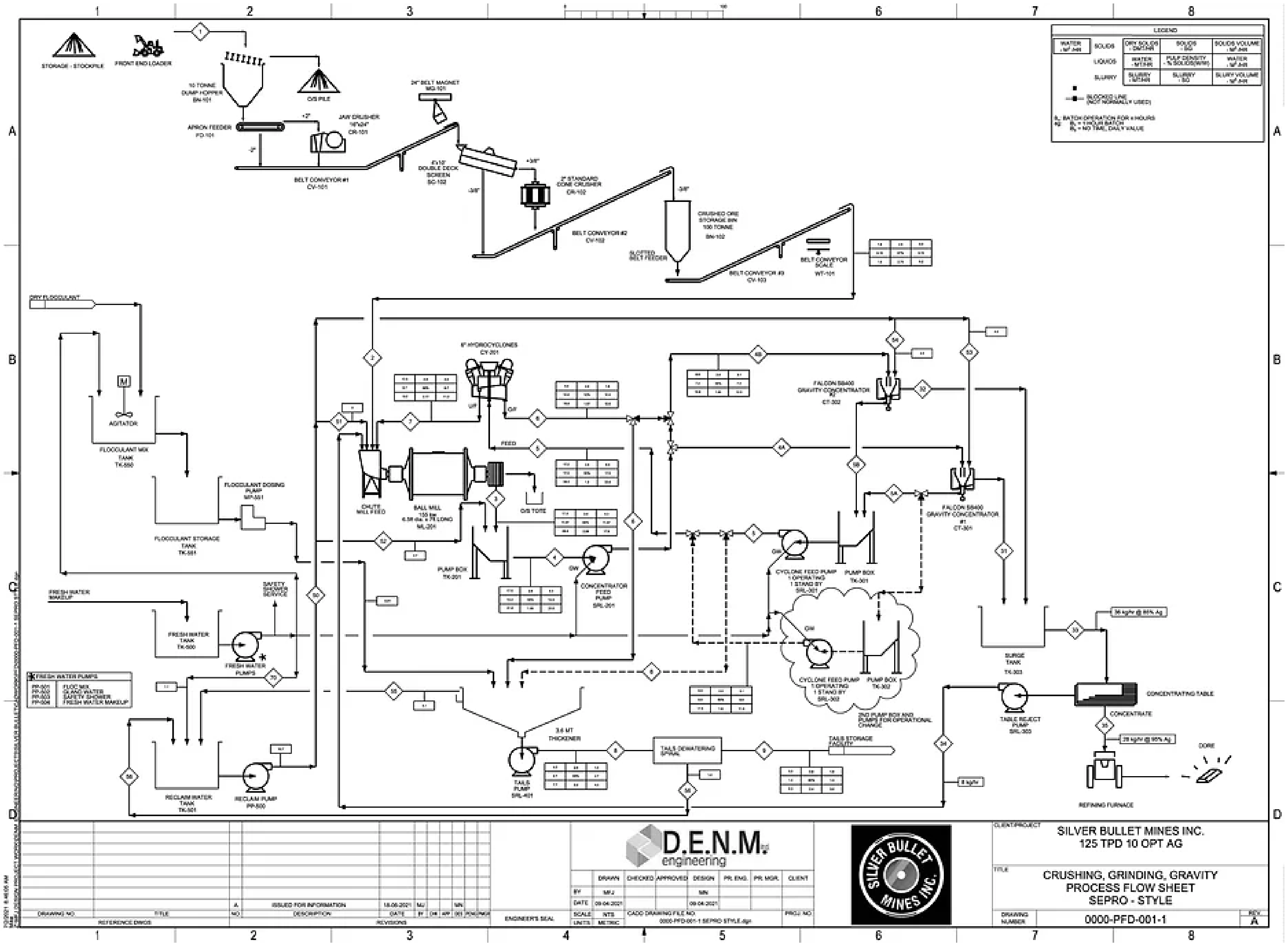
At the right can be seen the 35-pound sample from the historical workings.

The Mine Reboot

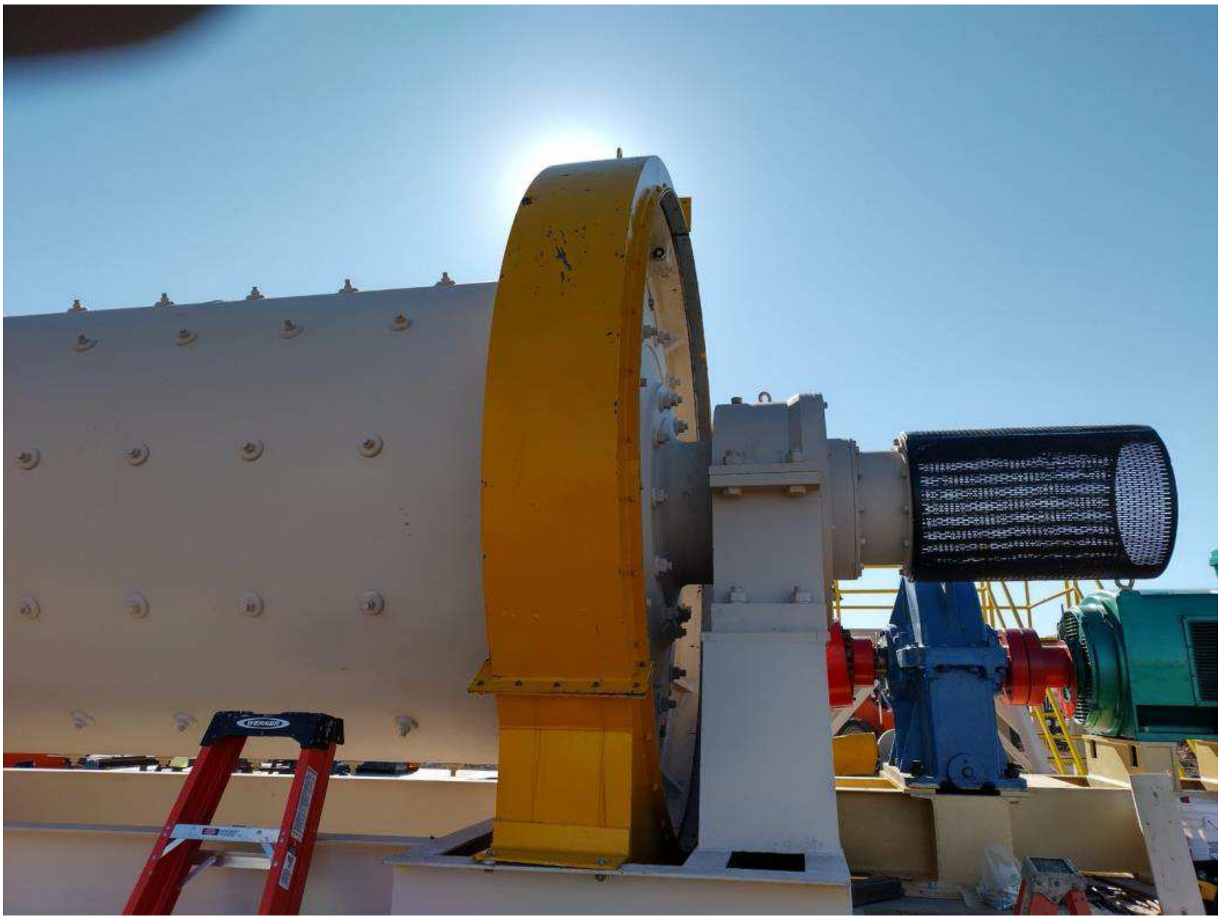
The plant is wholly-owned by SBMI and is expected to have a nameplate processing capacity of up to 125 metric tonnes of material per day. It is of modular design capable of being expanded in size and modified as required.

The plant is being constructed on SBMI-owned private property approximately 8 miles from Globe, Arizona and in proximity to the Buckeye mine.

As per the flow chart below, the plant is state of the art and is designed to maximize the recovery of both gold and silver, although its modular nature means it can be adjusted to recover other metals.


SILVER BULLET MINES INC.
125 TPD 10 OPT AG
CRUSHING, GRINDING, GRAVITY
PROCESS FLOW SHEET
SEPRO - STYLE
0000-PFD-001-1
D.E.N.M. engineering
SILVER BULLET MINES INC.
LEGEND
CONCENTRATING TABLE
REFINING FURNACE

The processing plant consists of a coarse ore feed bin, a fine ore bin, two stage crushing and screening, and a variable speed computer-controlled feed belt that leads to a grinding circuit. The grinding circuit is a ball mill in closed circuit with a bank of cyclones.



The ball mill as installed, on the mill pad.

The plan is for product from the ball mill to be pumped directly to a pair of Falcon concentrators. The product from the concentrators is then fed by gravity to a full size Diester concentrating table. Tailings from the Falcons and from the table are returned to the grinding circuit.

The cyclones then split the feed with the oversize material going back to the ball mill and the undersize material going to the tailings thickener. Processed material of the appropriate size is then sent to the bullion furnace where doré bars are poured. All tailings are dewatered and all available water is recycled.

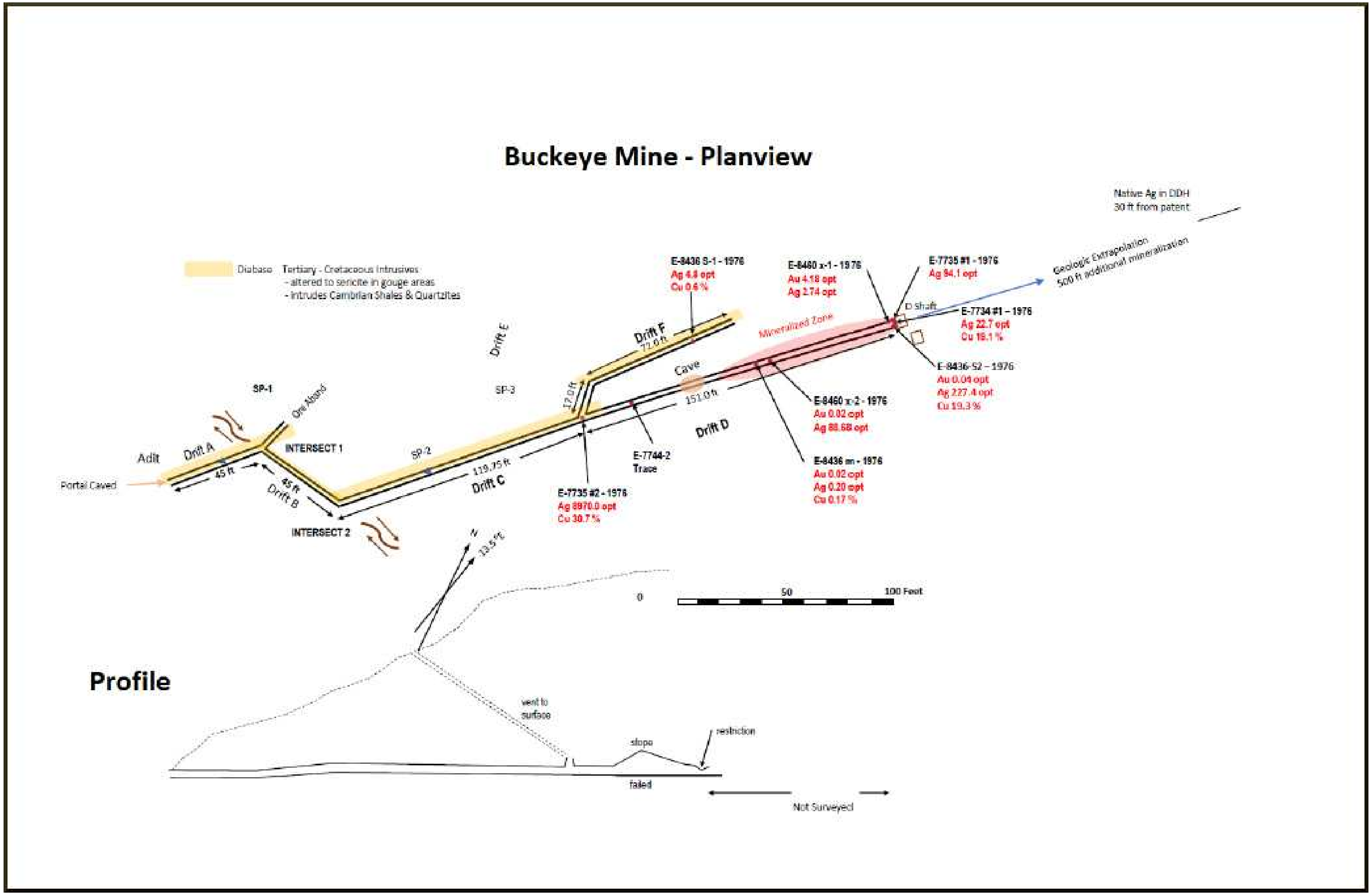
Other investments have included construction of an office, assay facility, storage pad, security, site roads, an evaporation pond, water tank, a septic system and a copper circuit. The on-site assay facility can provide assay results in less than a day. It also owns its own 2-boom jumbo, LHD (load-haul-dump), large Bobcat, and various other equipment. Owning all this equipment will allows Silver Bullet to process feed material quickly without debt payments draining cash.

Overview of SBMI's mill site, showing the fine and coarse ore bins on the right, the ball mill in the middle, and assorted equipment to the left.

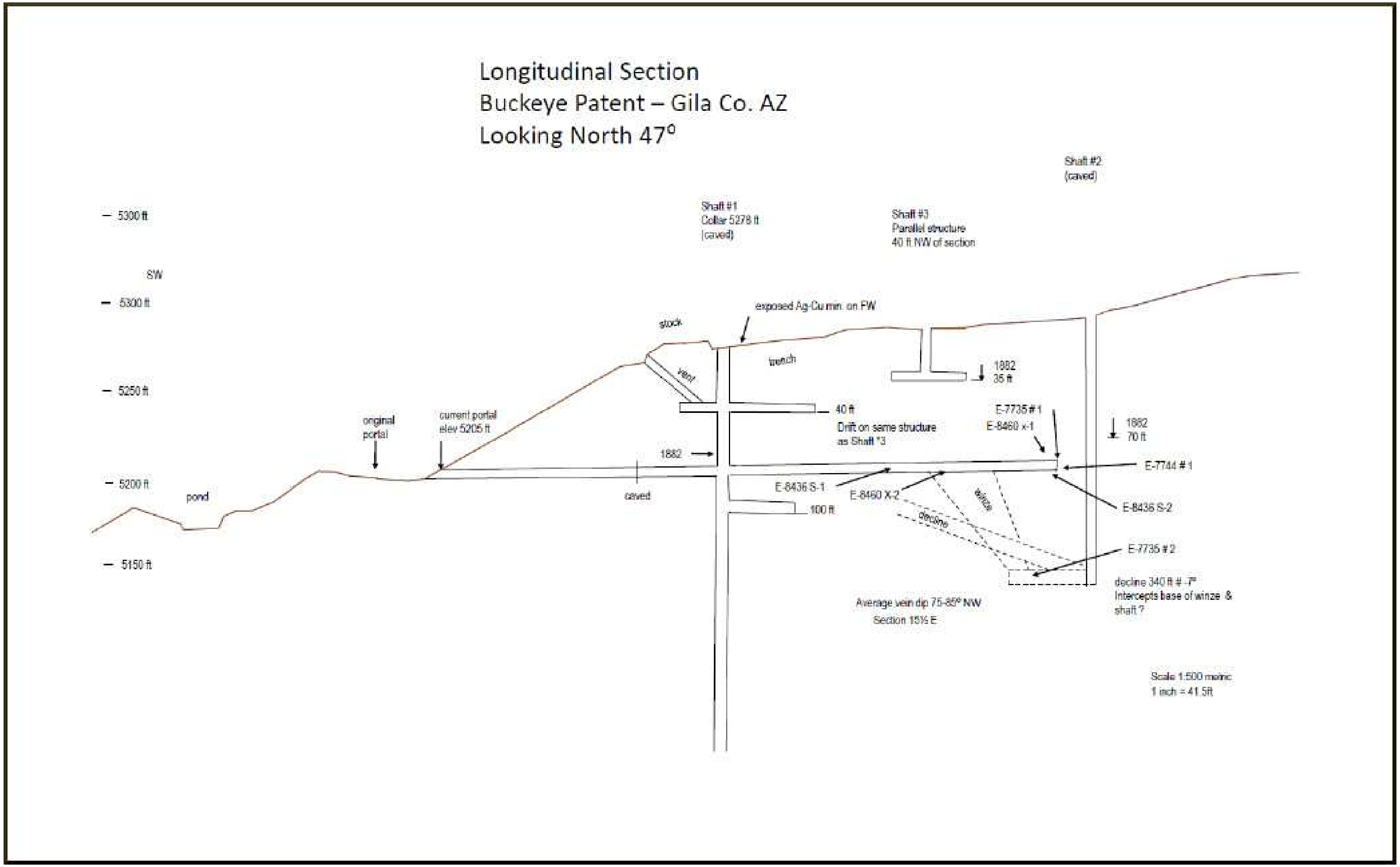
As to the underground workings the team have secured a central decline portal, mucked out the adit and put a temporary ventilation and pumping system in place.

All major components are in place at the mill and the technical team is completing the installation of smaller components while preparing for the installation of the electrical system. The timing of starting of the electrical work was dependent upon the timing of delivery of the third shipping container to the millsite and the installation of the equipment including the Motor Control Centre (MCC). The installation of those items was a pragmatic pre-condition to SBMI applying for the requisite permits.

With regards to tailings, historically as high-grade ore was hauled away for processing the tailings ended up at the smelter sites. Going forward the company has created two tailings storage facilities at Buckeye.



Buckeye Mine - Planview
Diabase Tertiary - Cretaceous Intrusives
- altered to sericite in gouge areas
- intrudes Cambrian Shales & Quartzites
Native Ag in DDH
30 ft from patent
Geologic Extrapolation
500 ft additional mineralization
E-8436 S-1 - 1976
Ag 4.8 opt
Cu 0.6 %
E-8460 x-1 - 1976
Au 4.18 opt
Ag 2.74 opt
E-7735 #1 - 1976
Ag 94.1 opt
D Shaft
E-7734 #1 – 1976
Ag 22.7 opt
Cu 18.1 %
E-8436-52 – 1976
Au 0.04 opt
Ag 227.4 opt
Cu 19.3 %
Mineralized Zone
Drift E
Drift F
72.0 ft
Cave
151.0 ft
Drift D
17.0 ft
SP-1
SP-2
SP-3
Ore Abang
Adit
Drift A
Portal Caved
45 ft
INTERSECT 1
45 ft
Drift B
INTERSECT 2
119.75 ft
Drift C
E-7744-2
Trace
E-7735 #2 - 1976
Ag 8870.0 opt
Cu 30.7 %
E-8460 x-2 - 1976
Au 0.02 opt
Ag 88.68 opt
E-8436 m - 1976
Au 0.02 opt
Ag 0.20 opt
Cu 0.17 %
N
13.5°E
0
50
100 Feet
Profile
vent to
surface
stope
restriction
failed
Not Surveyed


Longitudinal Section
Buckeye Patent – Gila Co. AZ
Looking North 47°
Shaft #2
(caved)
Shaft #1
Collar 5278 ft
(caved)
Shaft #3
Parallel structure
40 ft NW of section
5300 ft
SW
5300 ft
5250 ft
5200 ft
5150 ft
exposed Ag-Cu min. on FW
stock
vent
trench
1882
35 ft
40 ft
Drift on same structure
as Shaft #3
E-7735 # 1
E-8460 x-1
1882
70 ft
original
portal
current portal
elev 5205 ft
1882
E-7744 # 1
pond
caved
E-8436 S-1
E-8460 X-2
100 ft
winze
decline
E-8436 S-2
E-7735 # 2
decline 340 ft # -7°
Intercepts base of winze &
shaft ?
Average vein dip 75-85° NW
Section 15½ E
Scale 1:500 metric
1 inch = 41.5ft

Once those items were installed, SBMI applied for and received the necessary permits. With those permits in hand the electrical contractor is currently assembling the panels and switchgear at its plant mill. SBMI anticipates that task should be completed in the next three weeks. Cable trays on the mill and MCC are installed in anticipation of the electrical team being on-site. The electrical team presented on-site on May 13, 2022 and have begun wiring the MCC.

The recent financing allowed the company to add a copper circuit to the processing operation at Buckeye.

Commissioning/Start-Up

Commissioning was originally scheduled for the first quarter of 2022 but there were delays in receipt of equipment due to the massive shipping snarl-up in the port of Long Beach. However, in anticipation of that commissioning, the company has approximately 1000 tonnes of material already stockpiled for feed allowing it to hit the ground running.

The company is in discussions with various groups concerning the offtake of both the doré and the concentrates.

We would anticipate pilot silver production in early June of 2022.

The Washington Mine

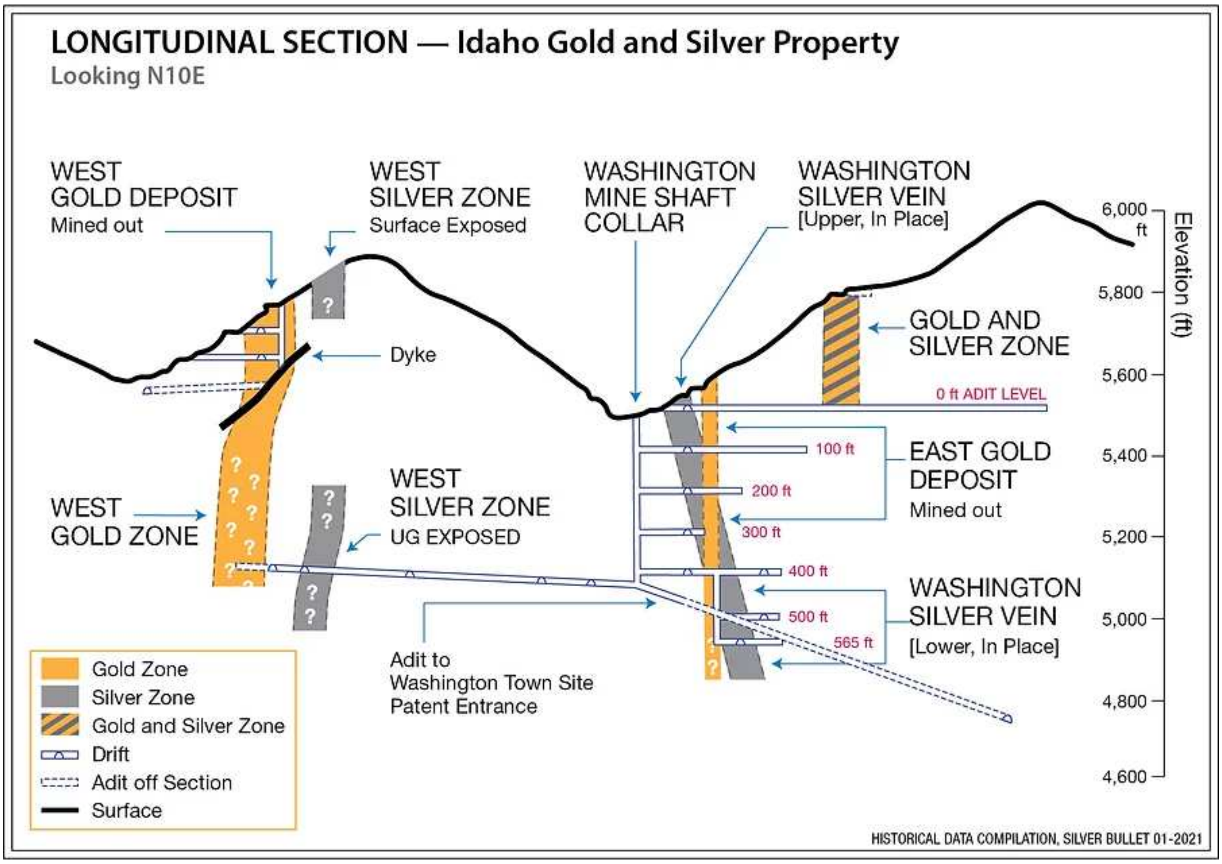
SBMI purchased the Washington Mine in Idaho in December 2020 for a cash payment of US$380,000. The project consists of 118.88 acres of private property as mining patents, with the ability to increase the land package significantly through additional agreements for Bureau of Land Management mining claims.

History

The property first saw production in the late 1800's with an average gold grade of one ounce per ton. It again produced in the 1930's during which the then-owner lacked the process capability needed to produce silver, so a decision was then made to block out the silver mineralization with the intention of returning at a future date to process the silver. To the best of SBMI’s knowledge, that never happened. A historical report (*Geological Evaluation*, Roger G. Stoker, P.G. and Ryne C. Stoker, Energy Services Inc., December, 1981.) included an estimate of three million ounces of silver with a grade of 30 to 90 ounces per ton and 15,000 ounces of gold at 0.3 ounces per ton for the veins identified on the property at the time.

In the 1980s the previous owner reopened the underground and produced a bulk sample claimed to be representative of the silver mineralization in the Washington Vein. The bulk sample was sent to Hecla Smelting for processing with the head grade reported to be 44 ounces silver per ton.

Finally, *Stoker* indicated the location of the Berger Vein, described as a "gold ore shoot 25 feet wide, 135 feet long, and unknown depth." Average grades were given as 0.3 oz/ton gold with unknown silver content. Additional notes in *Stoker* suggest that the Berger Vein was intersected in drifting at the 400 foot level.



Exploration

Following purchase of the property in December 2020, Silver Bullet's team conducted geologic mapping and sampling, grid soil geochemistry, and prepared staging areas for pending underground rehab and bulk sampling. Further work was carried out to confirm the precise location of the historically mined veins and to correlate the property boundaries at the time when it was last exploited.

Production Decision

Initially management expected to warehouse the property until after the Buckeye Silver Mine began generating revenue so minimal allocation was made for it in SBMI's 2021 or 2022 budget. However, preliminary work at the Washington Mine revealed it could be capable of near-term revenue generation, in light of the assay results from a blended bulk sample of 55.5 oz/t silver that were released in mid-January.

In mid-March 2022 management announced it had made a production decision for the Washington Mine. Upon review of the historical records, SBMI's 2021 and 2022 field programs, the proposed budget, the existing infrastructure and the current data including the blended bulk sample, the board decided to advance with the reactivation of mining at the Washington Mine.

The plan is to widen the existing adit, make the area safe for work, proceed to the historical workings and extract mineralized material. To that end SBMI is in discussions with an experienced contract miner to commence such work as soon as reasonably possible, subject to a due diligence site visit.

Historical Adit at the Washington Mine in Idaho

At present, the portal of the Washington Mine is open to where a cave blocks passage about 30 ft inside. Beyond this cave, it is estimated to be only about 90 ft to where silver ore was being mined in 1981. A primary goal of the pending work season will be to gain access to the Washington silver chute and commence with a bulk sampling program. Close to the Washington ore chute and showing on old mine plan maps, is a cross cut trending south, right to where the surface documented 'Berger' gold chute should be exposed, (and directly below the gold-in-soil anomaly discovered by SBMI). Opening this cross cut will be included in underground rehab planning, which would additionally allow for establishing underground drill stations to test both the Washington and Berger structures at depth.

The historical records and existing infrastructure suggest SBMI should be able to in the short-term extract a bulk sample of 1,500 to 3,000 tonnes of mineralized material from that blocked-out volume. After a brief pause to assess the results of the bulk sample and to inspect more of the existing infrastructure, Silver Bullet would continue extracting material from this part of the mine and also develop a ramp to the high-grade parallel structure identified in last year's field program.

The company is waiting on metallurgical testing results from Montana Technical University to enable SBMI to create an appropriate flowsheet and recovery parameters, following which management intends to reach terms with a third-party mill in Idaho. The resulting processed silver and other materials will be sold to local smelters at spot prices. The company is also in discussions with two commodity brokers interested in buying the expected concentrate. There is a risk the company will not be able to reach agreement with any of these counter-parties, including the contract miner.

In late May 2022, the company indicated that it would be accessing ore in June and begin processing in July.

Economics

The operation at the Washington mine will initially have the look of trial mining/bulk sampling. The initial campaign should be between 1,500 and 3,000 tonnes extracted by contract miners. The material would be taken 150 miles to a facility that would toll-mill the ore.

While grades could be anywhere from 39-90 ozs per tonne based upon historical records we would prefer to posit the low end of the range (i.e. 40 opt). Working on the basis of a 2,000 tonne sample at 40ozs per tonne, initial yield from the sample would be 80,000 ozs or around US$1.76mn of silver at current prices.

Contract mining for the extraction of the sample will be treated as capex as will refurbishment and stabilization of the shaft and adits. With trucking of $100 per tonne and $150 per tonne for tolling being the sole identifiable costs against revenue these shall amount to around $500,000 for the sample. This leaves a net revenue of around $1.25mn from the sampling.

McMorris Mine – Third Cab off the Rank

The company intends to re-open the McMorris Mine after the Buckeye and the Washington mines are in production. The McMorris Silver Mines are near Central Heights, Arizona. Historically the area has been associated with the Richmond Basin Mining District which is now part of the Tonto National Forest.

In its heyday, McMorris was an underground mining operation. Initial production took place in 1875 and the McMorris Mine is estimated to have produced ~ 500,000 oz at 250 oz/ton Ag in direct shipping ore from 1875 to 1893.

There is one known shaft (the entrance to which is shown below). Subsurface depth reaches a maximum of 198 meters (650 feet) with three levels.

History

The McMorris mine and area was worked from 1875 to 1893 and produced around a half million ounces

(15,552 kilograms) from some 2500 tons (2,268 tonnes) grading 200 oz per ton (6,857.1 g/t) silver in direct shipping ore. The mine closed under an ownership dispute.

Several more attempts were made to work the McMorris mine and veins but none were successful in operation. In 1986 an exploration team re-entered the McMorris mine.

Sampling on the 100 level drift returned the value, from a selected grab sample, of 323 oz per ton (11,074.3 g/t) silver from the vein. On the 200 level drift another selected grab vein sample, returned 3,846 oz per ton (131,862.8 g/t) silver and 62 to 130 ounces per ton (2,125.7 to 4457.1 g/t) across the vein over 3 feet (1 m).

Between 1963- 1964, the Blue Quail Mining Company leased the claims surrounding the McMorris mine and shaft. That company drilled two diamond drill holes 1,000 feet (305 m) west of the McMorris shaft. One hole was reported to have returned an interval passing 65 oz of silver per ton (2,228.6 g/t). The company then rehabilitated one of the area shafts and all drifts in order to locate the intersection underground within the mine workings. They reported that the vein averaged 67 ft (20 m) wide along their workings. The average grade of the muck excavated from the raise was reported to grade 7 ounces Ag per ton (240 g/t). Approximately 40 tons (36 tonnes) of material were said to be sent to the local smelter.

The McMorris Mine was last reconditioned and entered in 1987, when sampling was undertaken at various levels for Western Metals Associates and a report was prepared by Arturo Ona, geologist.

Geology

The ore mined is composed of cerargyrite and chalcopyrite with waste material consisting primarily of quartz and barite. The ore body is a shear structure that extends 2,286 meters (7,500 feet) long and 2 meters (6 feet) wide. Associated rock in this area is diorite from the Paleocene epoch 66.00 to 56.00 million years ago. The Mexican Highland of the Intermontane Plateaus characterize the geomorphology of the surrounding area.

Mineralization in the Richmond Basin appears to be related to intrusions that are associated with both the diabase and the quartz diorite that are in contact with the Scanlan conglomerate and with alteration veins occupying faults and structural breaks. The silver mineralization is commonly observed in association with chalcopyrite, argentite and tennantite. Native silver can be observed occurring as nuggets and less commonly as wires. The quartz diorite is an interesting intrusion as both copper skarn and silver epithermal mineralization has been found around the contact zone with this rock.

The 1987 sampling produced grades from underground samples including up to 45 oz/ton in ore shoots. The average grade in remaining veins was estimated at 10 oz/ton. However, Ona targeted the high-grade area (100ozs per tonne) at McMorris to calculate a (historical) resource. In this area he suggested there was 1.65mn ozs of silver and 3,300 ozs of gold. In the shear zone, at a grade of 10 ozs per tonne he estimated 3.135mn ozs of silver and no gold.

There are additional cross veins and flat veins offering the potential for resource expansion.

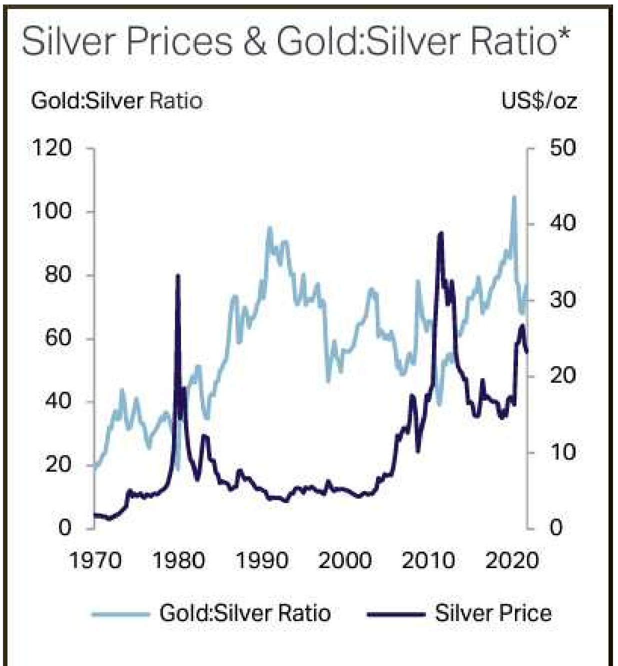
Proximity to Buckeye means that a separate processing operation may not be required at McMorris. Progress at Buckeye will dictate the strategy here.

On Silver

Precious metals roared back into focus in 2020 after coming back in from the cold over the last two years. It seemed to be that neither of the two usual pillars of a gold turnaround, inflation or political insecurity, powered the surge. No-one is complaining though that the rally lacks much underpinning.

Over recent decades the travails of silver have been nothing short of torture and its acolytes have suffered the death of a thousand cuts as very brief rallies inspire hope (such as the move to $50 early last decade) before it is again dashed on the rocks. That gold was lacklustre for so long was bad enough but that tarnished (pardon the pun) silver even more.

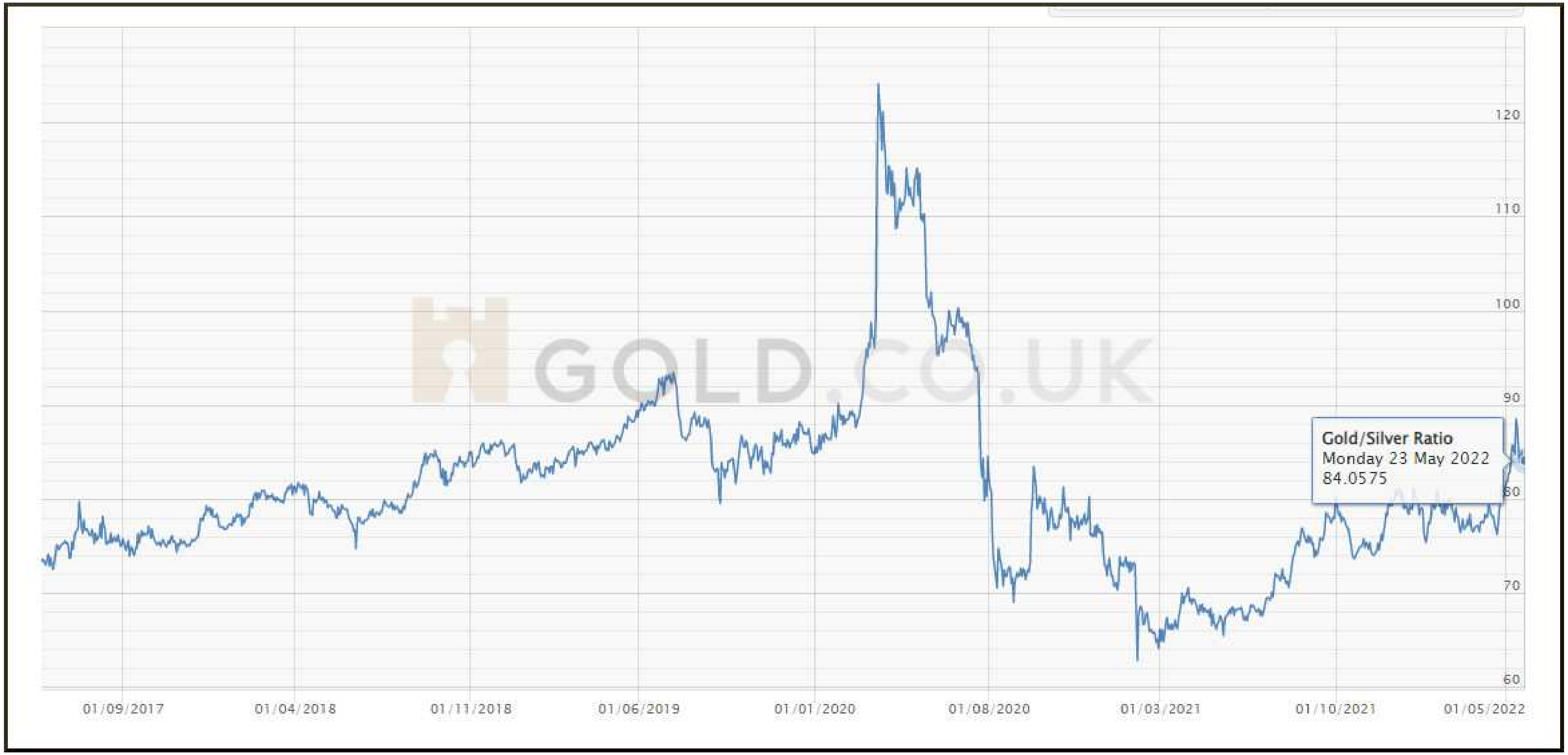
Silver was long distinguished from gold in having both a precious metals quality and strong industrial usage underpinning demand. The latter was significantly compromised by the demise of silver-backed photographic materials but now this has seen new usages arise the most prominent of which is applications in photo voltaic cells (PV) - largely in solar paneling.



* Monthly averages
Source: Bloomberg

A key indicator of silver's robustness is the ratio of silver to gold which slumped to ridiculous levels at the onset of the pandemic. The ratio soared over 100:1 when the patently obvious value of silver returned to the fore and the metal turned around in a rather rapid rally.

Few know that for a long, long time (indeed centuries) a ratio of 15 to one between the silver price and the gold price was regarded as fit and proper. It is seldom that the ratio got as out of whack as it did in early 2020, soaring to 128 to one.



Source: Gold.co.uk

We should also note the symbiotic relationship between Silver and the Zinc/Lead complex. While SBMI is mainly a silver mine (with gold and copper credits) much of silver's production is driven by the price and demand dynamics of the base metal duo with which it often occurs. Strong Zinc prices (as at the current time) drive higher production (where possible) irrespective of where Silver demand might be. Indeed, low Zinc prices for a long while (frankly most of last decade) caused Zinc producers to sustain production to continue to stay (marginally in profit) and this had the effect of dumping more silver on the market than was otherwise called for.

The polymetallic ore deposits, from which silver was recovered, account for more than two-thirds of U.S. and world resources of silver.

Mine Production Estimates of the USGS

	2019	2020e
United States	977	1,000
Argentina	1,080	1,000
Australia	1,330	1,300
Bolivia	1,160	1,100
Chile	1,350	1,300
China	3,440	3,200
Mexico	5,920	5,600
Peru	3,860	3,400
Poland	1,470	1,300
Russia	2,000	1,800
Other countries	3,920	3,500
World total (rounded)	26,500	25,000

Most recent silver discoveries have been associated with gold occurrences. However, in the opinion of the USGS, copper and lead-zinc occurrences that contain by-product silver will continue to account for a significant share of reserves and resources in the future.

The USGS records that, in 2020, mines in the US produced approximately 1,000 tons of silver with an estimated value of $670 million. Silver was produced at four silver mines and as a byproduct or coproduct from 33 domestic base- and precious-metal operations.

The Silver Institute published the following breakdown of where production was sourced from in its 2022 roundup of the silver industry.

Million ounces	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2021	2022F
Supply												
Mine Production	845.3	882.1	896.9	900.0	863.7	850.2	835.9	781.1	822.6	843.2	5%	2%
Recycling	180.3	161.3	147.3	145.9	147.2	148.6	147.7	162.2	173.0	180.5	7%	4%
Net Hedging Supply	-	10.7	2.2	-	-	-	15.2	8.5	-	5.0	na	na
Net Official Sector Sales	1.7	1.2	1.1	1.1	1.0	1.2	1.0	1.2	1.5	1.5	28%	1%
Total Supply	**1,027.3**	**1,055.3**	**1,047.4**	**1,046.9**	**1,011.9**	**1,000.0**	**999.8**	**953.0**	**997.2**	**1,030.3**	**5%**	**3%**

As can be noted, silver production from mines has essentially gone nowhere since 2013 and while recycling has gone up and down, it has also come back to where it was ten years ago.

Demand

According to the Silver Institute, all categories of silver demand strengthened in 2021, taking the annual total to 1.05bn ozs, a strong 19% gain over 2020. Industrial fabrication rose by 9% to 508.2mn ozs despite global logistical challenges.

This increase reflected the effects of a resumption of industrial operations and the re-opening of businesses as economies began to recover from COVID.

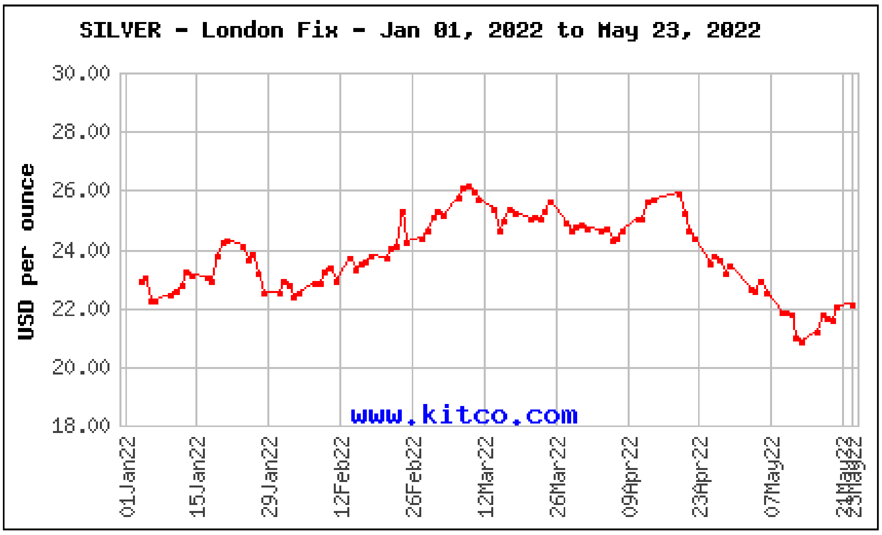
Silver jewelry fabrication jumped by 21% in 2021 to 181.4mn ozs. On top of soaring consumption, fabricators also benefited from rebuilding stocks, which had fallen in 2020.

The Institute noted that other supportive factors for Silver consumption's rebound included the demands of the home working economy, strong consumer electronics demand, 5G infrastructure investment, inventory build along the supply pipeline, and rising silver consumption in the green economy, chiefly in photovoltaics. There was also little pressure from substitution and thrifting, primarily as silver prices were viewed favorably.

Outlook

The year 2020 saw a dramatic improvement in the gold/silver ratio (in silver's favour) but the second half of 2021 did us silver bulls no favours. As the poor man's gold, we wonder can it benefit as much in an inflationary age as the poor man is getting poorer on static wages and inflationary cost of living moves. Then again inflation which the masses were was dead, has come roaring back to life and the erosion of fiat currencies has become evident to even the least economically-savvy.

Silver rallied early in 2022 as precious metals regained their mojo and then moved up again without the outbreak of war in the Ukraine, reaching as high as $26.



Interest rate rises have undoubtedly hit the whole metals' complex but to us they signal the recognition of inflation while simultaneously offering a merely feeble solution. Interest rates at half (or a quarter) of the rate of inflation do not cure inflation. Gold and silver may very well redeem themselves as a safe haven from inflation, a role that they have not played for many decades.

Our estimate for end of 2022 is $31 so far more aggressive a move than gold's merely because silver underperformed so badly in 2021.

SBMI - Earnings & Valuation

In the absence of a PEA on the Buckeye mine reboot, we can resort to our own back of the envelope calculations of what the mine is likely to yield in terms of net revenues and the valuation one should put upon SBMI.

Nameplate capacity is 125 tpd but we shall presume 100 tpd (despite the company already having a stockpile of mined material at the mine).

We shall use the premise of 300 days per year of operations. With our own estimate of an operating cost of around $13 per oz Ag then the operating margin per oz of silver produced will be around $10 per oz. We are using a grade of 20 ozs per tonne at this point. Thus the economic equation is:

100 tpd X 300 days X 20opt X $10 net margin per oz = US$6mn per annum

Using a ratio of 7 times free cashflow, one might posit a valuation (solely on Buckeye) of US$42mn then adding $10mn for the potential value of the other assets or around CAD$64mn in total, compared to a current market cap of CAD$22.5mn. Clearly the undervaluation is glaringly obvious, which we would attribute to the lack of comprehension of the short-circuiting of the "paper trail" of PEA/PFS/BFS so beloved of the Canadian regulators.

This mooted valuation is, we repeat just on Buckeye and gives no credit to potential expansion of Buckeye, the evolution of the mine in Idaho and then a renewed focus on the McMorris asset. However, just looking at what is without immediate view a valuation of around three times the current market cap within 12 months is foreseeable. For this reason we have envisioned a CAD$1.30 target price.

Capital History

Silver Bullet Mines came to the TSX-V in December of 2021 in an oversubscribed $6mn capital raise under the ticker SBMI.

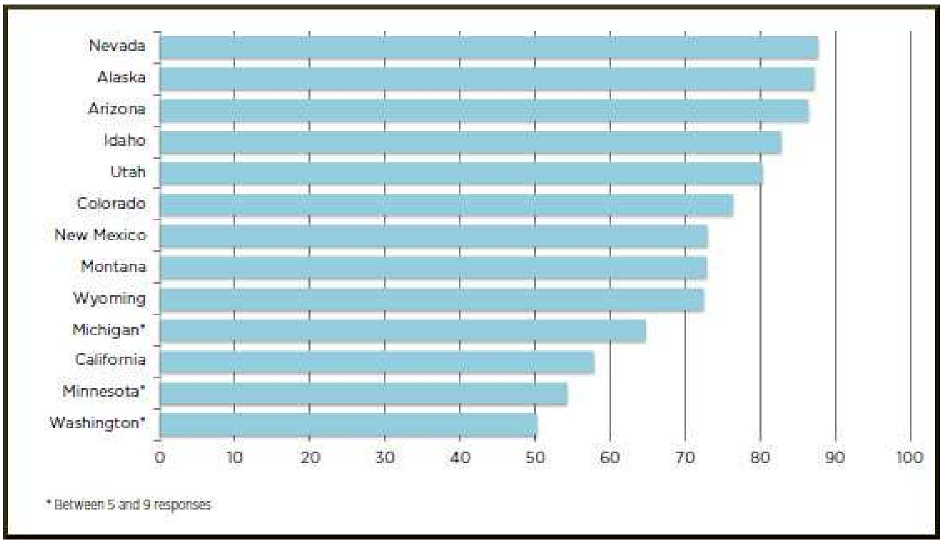
On March 30, 2022 the company announced that it had closed on the final round of a three tranche financing for total gross cash proceeds of $2,718,903.

The oversubscribed total represents 6,797,258 Units, with each Unit priced at $0.40. Each Unit consists of one common share and one full 60-cent warrant with a 24-month term, with each such warrant being exercisable into a common share. There is no acceleration clause on such warrants.

The financing had an original minimum/maximum of CAD$500,000 and CAD$2mn respectively and in the end was oversubscribed by more than 35% of the original maximum.

On April 11th of 2022 the company's common shares started trading on the OTCQB under the symbol SBMCF.

There are currently outstanding the 6.797mn aforementioned 60cts warrants which have a term until March 2024. There are also 11.233mn warrants with a 50 cent strike price. Additionally there are currently outstanding 3.233mn options exercisable at 30 cts.



Jurisdictional Quality

The Fraser Institute remains the most respected survey of the fluctuating fortunes of the world's mining jurisdictions. The 2021 survey ranked Arizona as third and Idaho as fourth in the US in terms of Investment Attractiveness.

In the rankings of the Policy Perception Index, Arizona ranked 4th and Idaho ranked 7th though the latter had slipped from a perfect 100 score in the 2020 survey to 83.58 in the most recent one.

Arizona ranked 2nd and Idaho ranked 4th in the Best Practices index. In particular the important infrastructure category ranked second Idaho fifth in the world and Arizona ninth.

Management & Directors

J. Birks Bovaird, Chairman, whose skillset has been the provision and implementation of corporate financial consulting and strategic planning services. He was previously the Vice President of Corporate Finance and acted for one of Canada's major accounting firms. He is Chair at Energy Fuels Inc. (EFR:T and UUUU:NASDAQ) as well as a member of the audit and compensation committees. He is an independent director of Noble Mineral Exploration Inc. (TSXV:NOB) where he is a member of the audit committee and chair of the compensation committee.

John Carter, CEO and Director, is a mining executive with over 40 years of experience with an expertise in mineral processing. He was president of two publicly listed junior exploration companies that previously held title to the Property and directed the exploration and test mining development of the Buckeye Mine which is located on the Property.

Peter M. Clausi, VP Capital Markets and Director, is a corporate lawyer, investment banker, shareholder rights activist and public company executive. He is currently the CEO of CBLT Inc. and an independent director at Alpha Peak Capital (currently unlisted).

Ron Murphy, VP Mining and Director, is a mining industry professional with more than 30 years of operational experience in developing underground mines in the United States. He currently operates a mining safety training school in Superior, Arizona.

Brian Crawford, CFO and Corporate Secretary, has extensive experience as a senior financial executive with public and private companies and as a partner in a national firm of chartered professional accountants. He currently serves as a board member and/or of several Canadian publicly listed companies.

Eric Balog, Director, is a mining-focused investor relations professional who joined the sector in early 2000 and brings experience in both traditional and online investor relations. He has played key roles in professionalizing and expanding clients institutional and retail investor awareness programs.

Risks

The prime risks we can envision at this stage are:

- Downwards movement in the Silver price
- Technical problems with plant or the mine as production starts to ramp up
- Political factors in either of the main jurisdictions
- Further mine reboots (such as Washington or McMorris) costing more than current funding allows for

The company's main vulnerability is the silver price and sentiment towards it. Despite this it would appear that the company would still be profitable at the Buckeye mine at prices of $18 per oz, or even lower. At least as long as the war in the Ukraine continues we do not see much danger of the price of gold or silver retracing lower. Indeed the longer it drags on the greater the chance of escalation in the conflict and thus the safe haven aspects of the precious metals will be reinforced. Beyond that we have the long term underinvestment in new mines/capacity which has left silver with a scant pipeline of new sources of supply.

Technical problems and mines are fellow travelers since the dawn of time. The evolution of production will tell whether glitches will be a factor.

For the moment both Idaho and Arizona are regarded as positive jurisdictions in which to operate though most US states saw a retreat in their ratings in the Fraser Survey in 2021 over where they were rated in 2020. It's worth noting that all the company's current productions targets are brownfields and also that they are underground operations and thus low environmental footprint.

The plan is to fund further mine development out of the recent financing (e.g. a small amount to be dedicated to the Washington reboot) and from cashflow generated by the onset of revenue flows from Buckeye. Overspends on reopening Washington, combined with technical issues at Buckeye that delayed or reduced revenue flows, could stymie this plan. On the obverse though the company has not even gone near streamers thus far and would clearly have a product flow that would interest this type of financing source. Additionally the company might just do a conventional financing once it shows that it can deliver at Buckeye and hopes to deliver to shareholders "more of the same".

Conclusion

The precious metals, Gold & Silver, initially responded positively to the outbreak of war (as they traditionally do) but were not able to sustain that momentum. But neither have they retreated to the extent that industrial metals have done in recent weeks. After the long doldrums of the middle of last decade a quantum move upward was achieved in 2019-20 which seems to have reset the base for both metals and added substantially to the economics of projects that would have struggled with Gold at $1300 and Silver at $13. The experience of the last decade though has made evident to producers that costs must be controlled to ensure a sufficient margin to survive periods of low prices.

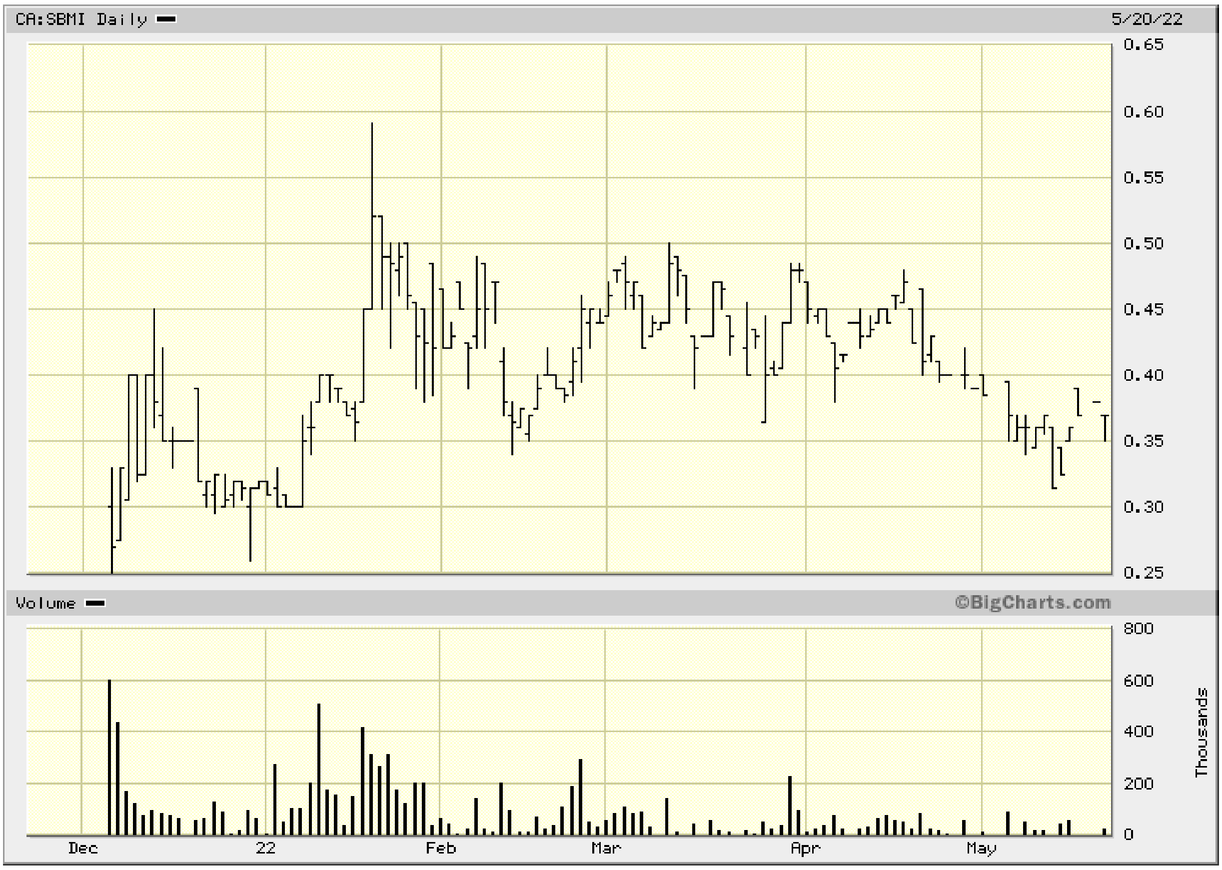
There is an old expression that you can "mine the mine or mine the market". SBMI clearly enunciated that it does not intend to spend capital on a third party resource estimate or Preliminary Economic Analysis for the Buckeye Silver Mine. In the company's opinion, given the nature of the known mineralization, the extensive historical third-party documentation, and the leadership team's direct experience at Buckeye, a third party resource estimate or PEA would be prohibitively expensive to have written without actually advancing the company's knowledge of the Buckeye. On this strategy we must concur.

The success of this strategy shall soon be measurable with Buckeye starting to produce within weeks. Then the company shall swiftly move on to the Washington mine in Idaho and then assess the potential at McMorris to do the same. There are few junior developers with two, let alone three, silver mines in production.

The company will have gone from a listing in late 2021, to production at Buckeye in June 2022, and extraction of initial material at Washington in the same month. Few miners have been able to go from starting gun to revenues in such a short timeframe. This is not to say that there won't be hiccups as we know in mining there is many an unexpected pitfall (literal or metaphorical), such as the port SNAFU in Los Angeles; however, the speed of advancement has been somewhat dazzling. The market will thus be all the more surprised to see revenues so swiftly appear.

Even elementary back of the envelope calculations on the likely revenues from Buckeye indicate that Silver Bullet is trading at around one third of where it should be in light of potential net revenues from just its "starter" mine.

In light of the potential for short-term production of silver from known and respected jurisdictions we rate Silver Bullet Mines as a **LONG** with a 12-month target price of CAD$0.90 and a likely CAD$1.30 some 18 months out.



CA:SBMI Daily
5/20/22
0.65
0.60
0.55
0.50
0.45
0.40
0.35
0.30
0.25
Volume
©BigCharts.com
800
600
400
200
0
Thousands
Dec
22
Feb
Mar
Apr
May

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