

HALLGARTEN & COMPANY

Coverage Update

Christopher Ecclestone
ceccestone@hallgartenco.com

Southern Silver Exploration

(TSX-V: SSV, OTCQB: SSVFF, FSE: SEG1)

Strategy: Long

Key Metrics	
Price (CAD)	\$0.245
12-Month Target Price (CAD)	\$0.72
Upside to Target	194%
12mth hi-low CAD	\$ 0.105 -0.265
Market Cap (CAD mn)	\$30.12
Shares Outstanding (mns)	123.0
Fully Diluted	166.2
Insiders (Electrum 36.2%, Mgt 10%)	46%

Southern Silver Exploration

Resource Expansion puts a Takeover Target on its Back

- + Silver has resurged in recent weeks as laggard status *vis a vis* Gold became ever more unsupportable. The potential for it to near \$20 per oz has increased substantially
- + Increase in Indicated Mineral resources to 11.1mn tonnes averaging 105g/t Ag, 0.1g/t Au, 0.16% Cu, 1.2% Pb and 3.7% Zn (375g/t AgEq; 8.2% ZnEq)
- + A 4.2mn tonne increase in Inferred Mineral resources to 12.8mn tonnes averaging 111g/t Ag, 0.07g/t Au, 0.27% Cu, 0.9% Pb and 2.8% Zn (334g/t AgEq; 7.2% ZnEq)
- + In Situ value of nearly \$3.9bn at current metals prices
- + Substantial Zinc component in the deposit which gives a strong kicker to the project economics
- + US\$18.5mn spent to date on exploration, with a discovery cost of: \$0.07/oz AgEq & \$0.005/lb ZnEq.
- + Partnered with Electrum Global Holdings LP, which owns 60% at the project level
- + Takeover prospects are rising as the company is one of the few substantial undeveloped assets in the Mexican silver space
- × Resource is Indicated & Inferred at this time, with the nature of the deposit making further upgrading of classification a challenging task
- × Base metals have given up much of the gains they made in 2018 and are now in a holding pattern awaiting clearer signs of global economic growth

Silver Resurgent

Most of the period since 2011 could be called a "lost decade" for Silver. After its 2011 surge to nearly \$50 per oz the price has mainly doodled around in the US\$12-14 range, more frequently threatening to go lower rather than higher. Despite this it broke to the upside in the middle of this year when it became apparent that it had been left behind in gold's move up in the preceding months with the gold/silver ratio falling to 90:1.

The rationale for Gold's move is frequently given as global tensions (particularly Iran), but global tensions are not new and, like death and taxes, are always with us. Maybe it was just the turn of precious metal to rise again as an asset class. The move is nuanced though with a strong bias towards physical metals and towards precious metals producers. Explorers are still left out in the cold looking in at the party going on inside.

Silver is not exactly ebullient. It has moved up to a higher level but then gone into a holding pattern and now gotten a second wind. This spells better earnings for producers and eventually that will lead to

reconsideration of their decidedly bare pipeline of new projects. Most producers have been resting on their laurels and leaving the exploration and resource confirmation for "someone else" to do. Concomitant with that is the truism that the producers can always pick up junior explorers (and their resources) on the cheap. This may prove to be a fallacious assumption.

Juniors like Southern Silver are finding small financings are still doable and are advancing with work on their main projects. Thus we find the ambitions of mid-tiers of picking up such entities at absolutely rock-bottom prices are delusional. When the worm turns, junior producers will again be sought after as the sole source to fill the pipelines of mid-tier companies that have soft-pedalled their own exploration efforts since 2011. Southern Silver moreover, with a well-cashed up major shareholder at both the corporate level and the project level has no pressure to sell out to the first interloper. We suspect only a hard bargain will be struck by Electrum on Southern Silver and its asset.

Some Background

Southern Silver's main prospect for all of this decade has been the Cerro La Minitas project in Durango State, Mexico. The project has been operated since 2015 on a joint venture basis by Southern Silver (40%) as operator and the mining private equity fund, Electrum Global Holdings LP (60%), one of the few private equity groups to have shown success and competence in the resources space.

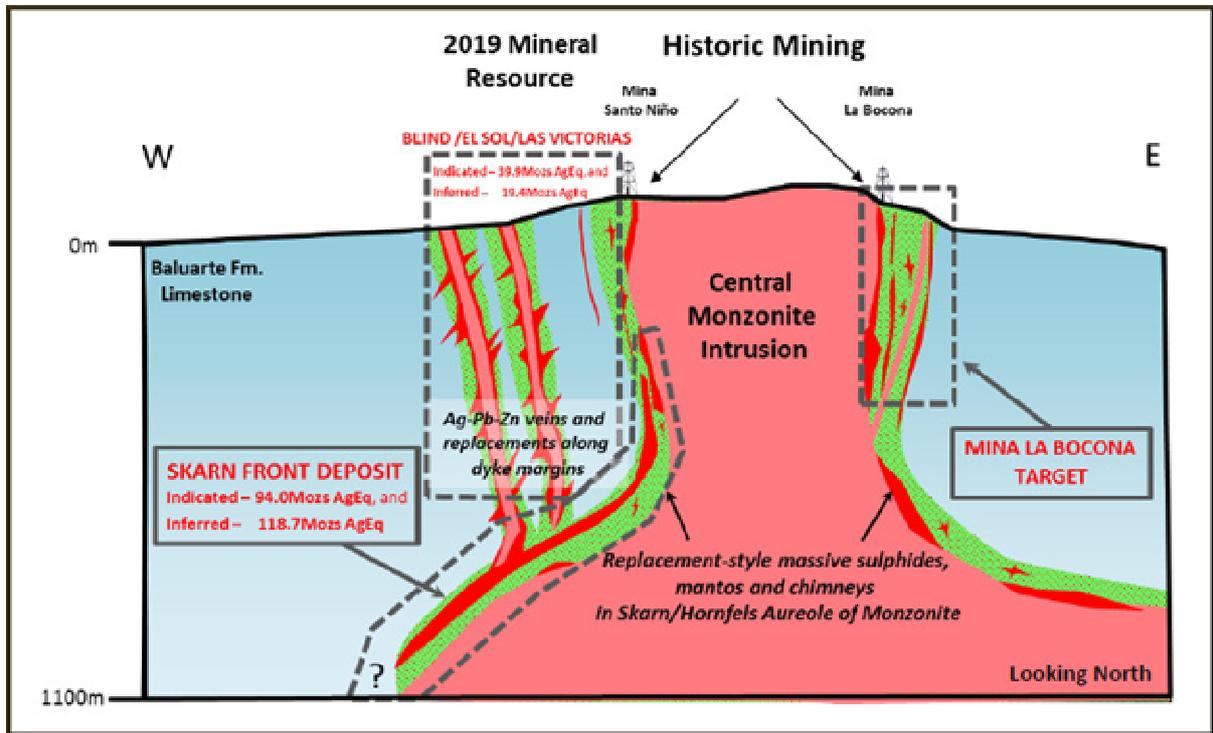
Empowered by this arrangement Southern Silver has expanded its exploration program and recently announced a resource estimate which increased yet again both the precious and base metal components of the resource. In this review, we shall look at the recent resource estimate increase and the path being followed towards an eventual trade sale.

Cerro Las Minitas

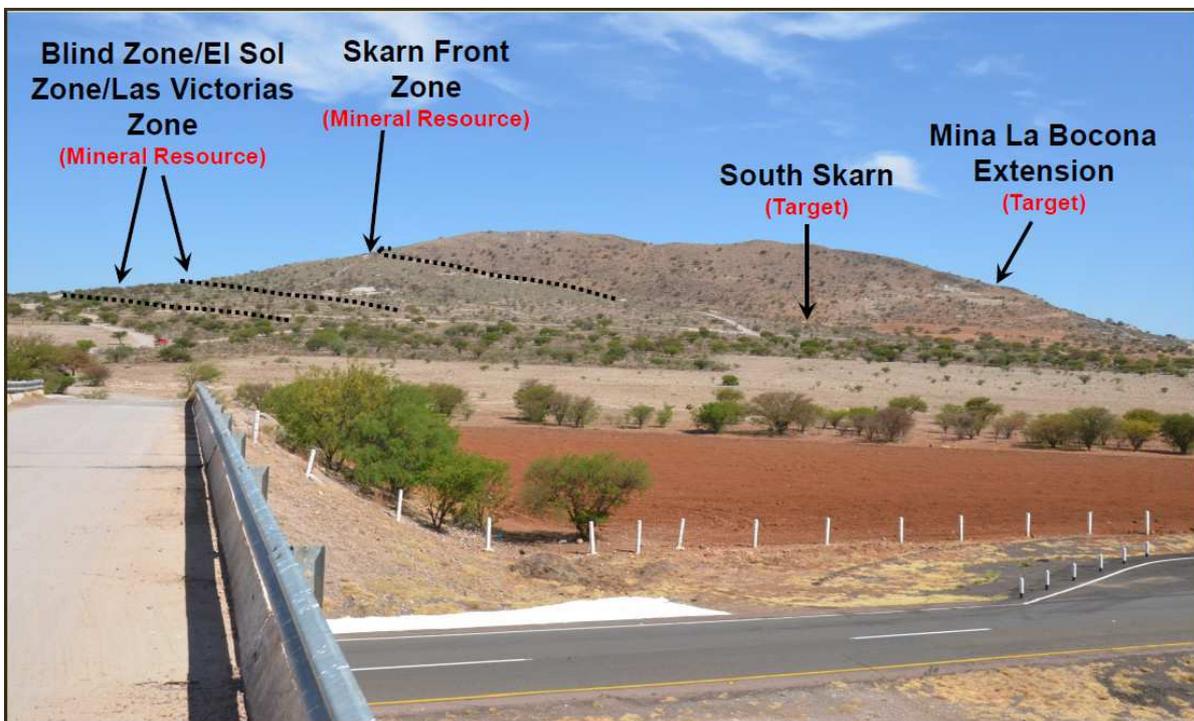
Cerro Las Minitas is located about 70 kilometres to the northeast of the city of Durango in Durango State, Mexico, and is accessed easily by road. The property comprises 18 concessions, totaling approximately 13,640 hectares.

The project lies within the Faja de Plata (Belt of Silver) of north central Mexico, which hosts prolific Au, Ag, Pb, Zn and Cu deposits, that stretches from the highly productive vein deposits of Fresnillo in Zacatecas to the south, to the massive manto deposits of Santa Eulalia in Chihuahua to the north. This belt includes the productive replacement deposits of San Martin, Velardeña, Santa Eulalia and Naica as well as the rich vein deposits of Fresnillo, El Bote, San Jose and various others.

The Cerro Las Minitas property sits within a broad W-NW-trending valley and is covered with a thick succession of Tertiary continental deposits and gravel. Near surface mineralization occurs as massive-sulphide pipes, veins and replacement deposits distributed in the skarn-altered margins of a large intrusive body. The company has identified four zones, but the potential for more exists. The initial focus was upon two high-grade silver-polymetallic deposits, the Blind zone and El Sol zone. From there, further work added the Las Victorias zone and then the deeper Skarn zone.



The four main mineral deposits are the Blind, the El Sol, Skarn Front and the Las Victorias deposits of semi-massive to massive sulphide mineralization.



These deposits form sets of sub-parallel, northwest-trending and steeply dipping mineralized zones which are traced for over 1300 metres strike and up to 600 metres depth. The Skarn Front, forms beneath the Blind, El Sol and Las Victorias deposits and is localized on the outer edge of the skarn alteration zone surrounding the Central Monzonite Intrusion and has been drilled along an approximate 1100 metre strike length and to depths of up to 1100 metres.

The 3D visualization at the right shows the outlines of the four currently defined deposits. Geological modeling of the Blind, El Sol and Los Victorias deposits used a nominal 80g/t AgEq cut-off and identified multiple distinct mineralized structures with depth projections of up to 600 metres below surface.

Sulphide mineralization in the Skarn Front deposit is localized at the outer boundary of the skarnoid alteration zone surrounding the Central Monzonite Intrusion at or near the transition to the recrystallized/marbleized carbonate

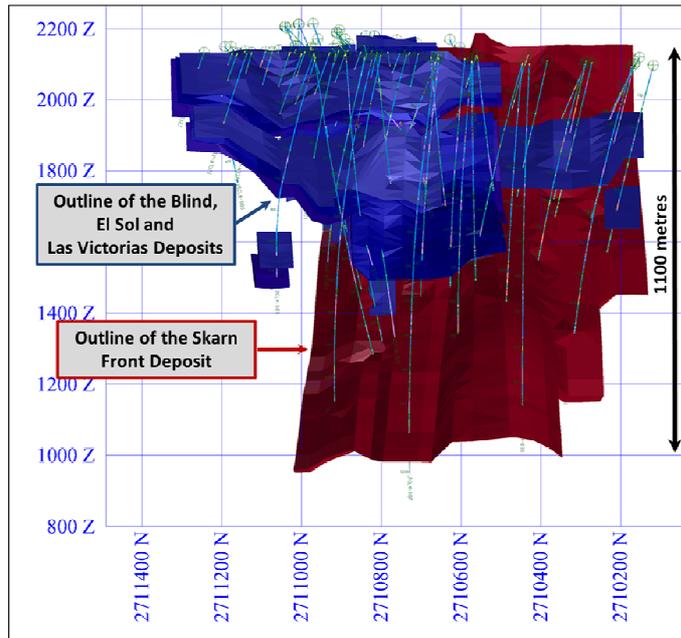
sediments (marmorized zone). Mineralization can be traced for up to 1100 metres along strike and up to 1100 metres depth.

Mineralization at the outer edge of the Skarn Front tends to be more lead and silver-enriched while mineralization deeper in the skarnoid zone (and adjacent to the central intrusion) more zinc enriched. Approximately 75% of the 2019 resource estimate is contained within this newly-defined Skarn Front deposit.

Within each deposit, mineralization may be localized along through-going structures or occur as replacements within stratigraphic units.

The Latest Resource

In early May the company released a new mineral resource estimate prepared by Kirkham Geosystems on the Cerro Las Minitas project. The new Resource Estimate updates that of January 2018 and incorporates additional data from a drilling program of 10,157 metres carried out in 2018-19, updates metal recoveries and pricing, applies a more rigorous Specific Gravity (SG) measurement protocol and further refinement of the resource wire frames.



During the period 2010-2018 the company completed programs of geological mapping, surface geochemical sampling and airborne and ground geophysical surveys in support of 59,912 metres of core drilling in 133 holes resulting in the delineation of four mineral deposits: the Blind; El Sol, Las Victorias and Skarn Front deposits on the Cerro Las Minitas Property.

Parameters

Four separate mineral deposits were modelled in the resource update, these being the Blind, El Sol, Skarn Front and Las Victorias deposits. Mineral resources were constrained using mainly geological constraints and approximate 10g/t AgEq grade domains. The Base Case cut-off grade of 175 g/t AgEq assumed \$75/tonne operating smelting and sustaining costs.

The Base Case AgEq cut-off values were calculated using average long-term prices of:

- \$16.60/oz. silver
- \$1,275/oz. gold
- \$2.75/lb. copper
- \$1.00/lb. lead
- \$1.25/lb. zinc

Metal recoveries for the Blind, El Sol and Las Victorias deposits of:

- 91% silver,
- 25% gold,
- 92% lead,
- 82% zinc and
- 80% copper

Metal recoveries for the Skarn Front deposit of 85% silver, 18% gold, 89% lead, 92% zinc and 84% copper were used to define the cut-off grades.

The Uplift

Compared to the 2018 Mineral Resource estimate, the 2019 update, at a 175g/t AgEq cut-off, included a nominal 0.97mn tonne increase in Indicated Mineral resources to 11.1mn tonnes averaging 105g/t Ag, 0.1g/t Au, 0.16% Cu, 1.2% Pb and 3.7% Zn (375g/t AgEq; 8.2% ZnEq), containing:

- 37.5 million ounces of silver

- 35,000 ounces of gold
- 40 million pounds of copper
- 303 million pounds of lead
- 897 million pounds of zinc

Resource in Ag Equiv Ozs				
Indicated	Tonnes	Ag	Ag	AgEq
	mns	g/t	mns ozs	ozs
Blind Zone	2.007	103	6.647	19.983
El Sol Zone	0.978	83	2.6	9.168
Las Victorias	0.87	141	3.949	10.775
Skarn Front	7.246	104	24.29	93.965
Total	11.102	105	37.485	133.891
Inferred				
Blind Zone	1261	80	3.258	9.848
El Sol Zone	0.794	65	1.669	6.695
Las Victorias	0.216	180	1.252	2.892
Skarn Front	10.573	116	39.569	118.684
Total	12.844	111	45.749	138.119

A more significant 4.2mn tonne increase in Inferred Mineral resources to 12.8mn tonnes averaging 111g/t Ag, 0.07g/t Au, 0.27% Cu, 0.9% Pb and 2.8% Zn (334g/t AgEq; 7.2% ZnEq) containing:

- 45.7 million ounces of silver
- 31 thousand ounces of gold
- 76 million pounds of copper
- 253 million pounds of lead
- 796 million pounds of zinc

Both the Indicated and Inferred resources equate to two billion pounds zinc equivalent.

Resource in Zinc Equiv lbs					
Indicated	Tonnes	Pb	Zn	Cu	ZnEq
	mns	mn lbs	mn lbs	mn lbs	mn lbs
Blind Zone	2.007	90	103	5.2	354
El Sol Zone	0.978	50	47	2	162
Las Victorias	0.87	39	53	3.2	191
Skarn Front	7.246	125	694	29.7	1299
Total	11.102	303	897	40	2006
Inferred					
Blind Zone	1261	38	56	2	173
El Sol Zone	0.794	33	42	1	116
Las Victorias	0.216	13	10	0	53
Skarn Front	10.573	169	689	73	1701
Total	12.844	253	796	76	2043

Below can be seen the Mineral Resource Cut-off Sensitivities for the project:

CLM - Sensitivity of Resource					
	Tonnes	AgEq	AgEq	ZnEq	ZnEq
	mns	g/t	mn ozs	%	mns lbs
150 g/t Ag Eq cut-off					
Indicated	13.078	343	144.18	7.4	2.12
Inferred	15.673	304	152.96	6.6	2.72
175 g/t Ag Eq cut-off					
Indicated	11.102	375	133.89	8.2	2.01
Inferred	12.844	334	138.11	7.2	2.04
250 g/t Ag Eq cut-off					
Indicated	7.457	457	109.52	9.9	1.62
Inferred	6.692	449	96.52	9.6	1.42
350 g/t Ag Eq cut-off					
Indicated	4.656	556	83.19	11.9	1.22
Inferred	3.854	564	69.89	12.1	1.02

Kirkham calculated grade-tonnage sensitivities at 150g/t, 175g/t, 250g/t, and 350g/t AgEq cut-off values, which demonstrate both a significant increase in contained precious and base-metals at lower cut-off values and good tonnage and grade retention at incrementally higher cut-off values.

Exploration Work

The strategy with the drilling program in the 2018-19 exploration season was to:

- fill grade gaps in the earlier block model and allow the more effective projection of higher grade mineralization throughout the deposits
- build continuity of several higher grade zones within the central part of the Skarn Front deposit establishing several high-grade lenses of mineralization within 400 metres of surface
- establish greater continuity between the Skarn Front deposit and footwall mineralization (lateral to and equivalent to the Skarn Front style mineralization) in the Las Victorias zone
- extend and build continuity of higher-grade, shallow mineralization (<400 metres) in both the Las Victorias deposit and North Skarn zone

Thus far the exploration campaign has:

- added 163K tonnes of Indicated Resource and 216K tonnes of Inferred Resource at grades >380g/t AgEq in the Las Victorias deposit;
- added 2.1mn tonnes to the Indicated Resource and 2.7mn tonnes to the Inferred Resource to the Skarn Front deposit at similar or higher average AgEq grade
- provided better definition of three higher grade sub-zones within the El Sol deposit
- identified anomalous silver and pathfinder mineralization in the CLM West Epithermal 19,500 ha. claim group located approximately 10-15km to the southwest of the established mineral resources on the CLM property

The Mineral Resources at Cerro Las Minitas have increased substantially since the initial resource estimate in 2016, with 133 drill holes for 59,000 metres, US\$18.5mn spent to date and with a discovery cost of: \$0.07/oz AgEq; \$0.005/lb ZnEq.

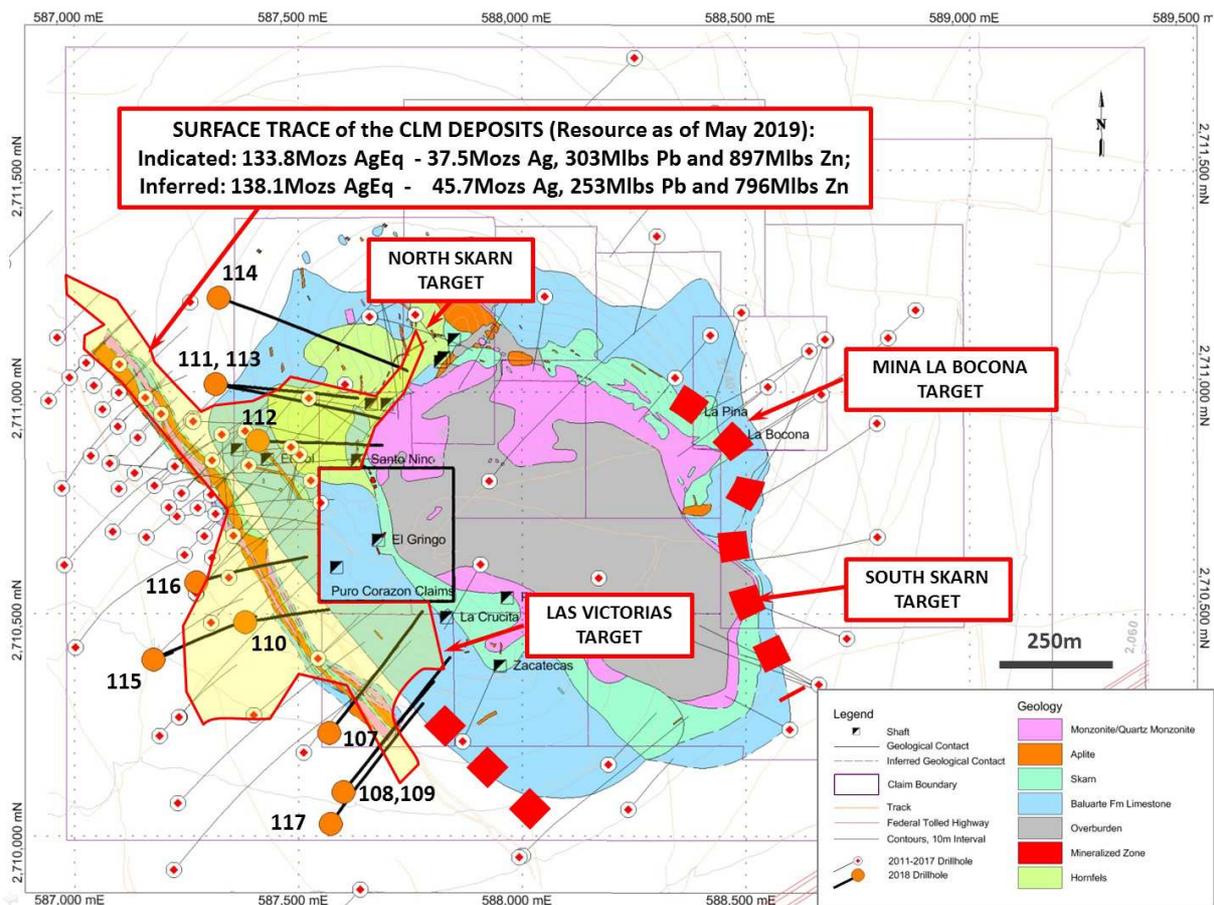
Further Resource Expansion and Upgrading

The goal at this stage is to get the total resource from around 272mn AgEq ozs to 350mn AgEq ozs by the end of 2020. Upgrading the resource to Measured status is more of a challenge because of the long thin deposit wrapped around the unmineralised intrusion. One of the company's geologists likened it to "drilling an orange peel".

Therefore the overall objective of the 2019-20 exploration program is to continue to increase the existing resource base and to identify and drill test new epithermal vein systems within the larger claim package.

Future Targets

There are several other high priority targets throughout the property, the main area of future attention being the Minas La Bocona zone, as shown on the map below, which lies to the north-east of the hill.



In the Minas La Bocona zone, thick intervals of precious-metal-enriched, polymetallic mineralization have been identified both along the margin and outboard of the Central Intrusion forming a semi-continuous mineralized zone for approximately 250 metres along strike and 500 metres down plunge. Mineralization intersected in the La Bocona area tends to be more gold-enriched than mineralization on the west side of the intrusion and this is a viable target for follow-up.

The company believes that there exists potential to develop deeper porphyry or skarn targets nearer the

contact with the central monzonite intrusion.

Metallurgy

Up until the current time, three phases of metallurgical test work have been conducted on mineralization at Cerro Las Minitas. The work has consisted of:

- Initial test work in 2015 on a high-grade sulphide composite of dump samples from shallow workings on the Blind zone. The work was performed at Dawson Metallurgical Laboratories of Midvale, Utah
- More comprehensive test work in 2017-18 on representative composites of the Blind-El Sol sulphide mineralization, Blind-El Sol oxide mineralization and Skarn Front sulphide mineralization. The work included kinetic (grindability) tests, a series of batch flotation tests, probe-work and some ICP analyses to determine levels of deleterious metals within the composites and was performed by Blue Coast Research of Parksville, BC
- Further test work, completed in 2018, which focused on optimizing the flotation sequence in order to upgrade the zinc concentrate by removing chalcopyrite and if possible, creating a separate copper concentrate

For the 2017-18 test work, representative samples of the Blind – El Sol oxides and sulphides as well as the Skarn Front sulphides were collected from drill core and combined into three distinct composites to represent the three different styles of mineralization currently identified on the project.

Sulphide minerals represent 18.1% of the Skarn Front composite and 23.5% of the Blind-El Sol sulphide composite. Major sulphide minerals include sphalerite, pyrite and galena. Significant arsenopyrite is present in the Blind – El Sol sulphide composite, but was effectively rejected during flotation.

The Blind - El Sol oxide composite was subjected to a limited test program. Whole ore cyanidation tests averaged 74% Ag recovery. Lack of sulphide minerals in the oxide material meant that flotation was ineffective and resulted in poor recoveries for lead and zinc.

Batch flotation test work was successful in separating lead and zinc concentrates from the Blind – El Sol deposits and copper, lead and zinc concentrates from the Skarn Front deposit and provided the following recoveries:

Blind – El Sol Zone:

- Lead Concentrate (avg of 2): 82% Ag, 90% Pb and 4% Zn recovery assaying 2880ppm Ag, 68% Pb and 2% Zn
- Zinc Concentrate: 78% Zn recovery at a grade of 52% Zn

In September 2018 the company reported the results of metallurgical test work on the Skarn Front deposit resulting in the successful separation of a potential "saleable grade" copper concentrate as well as the generation of a cleaner zinc concentrate grading above 50% zinc without sacrificing zinc, lead or silver recoveries. These results were:

- Copper Concentrate: 67.7% Cu and 15.1% Ag recovery assaying 27.9% Cu and 1661g/t Ag (3 stages of cleaning)
- Lead Concentrate: 85.2% Pb and 67.3% Ag recovery assaying 60.8% Pb and 4596g/t Ag (one stage of cleaning)
- Zinc Concentrate: 89% Zn and 8.2% Ag recovery assaying 50.7% Zn and 111g/t Ag (3 stages of cleaning)

The focus of this new test work was to optimize the flotation sequence, upgrade the zinc concentrate by removing the chalcopryrite and if possible, create a separate copper concentrate. The best results were achieved using a sequential float of Cu-Pb-Zn followed by subsequent cleaning of each concentrate. However, heavy dilution of the zinc concentrate by chalcopryrite resulted in lower than optimal recoveries and grades of zinc concentrate generated from the Skarn Front composite.

Management regarded these test results as significant in that they produced a saleable copper concentrate and increased both the recovery of zinc and the grade of the zinc concentrate by approximately 10% over the earlier flotation test results. Silver strongly partitions into the lead and copper concentrates for a combined 82.4% Ag recovery in concentrates that traditionally receive favourable payable terms.

The combined results from the Blind – El Sol and the Skarn Front deposits provided recoveries that management regarded as very favorable.

More advanced metallurgical test work should include variability tests of different parts of the CLM deposits and lock cycle tests to better define the processing flowsheet. In recent months the exploration team has collected 215kg of core samples to form eight different composites for further metallurgical testing. The composites reflect both high-grade and low grade "ores" and varying metal ratios (high/low Cu, high Ag-Pb, high Zn).

The composites have been shipped from Mexico and are currently sitting in the queue in the Blue Coast Research lab. Management anticipates that the test work will start in September and proceed through the Fall.

The company anticipates the results will allow greater confidence in establishing metal recoveries and applying NSR values to the mineralization throughout the deposit. This will be a critical component to completing the PEA on the project.

Mine Plan

It may seem somewhat jumping the gun to muse upon potential mining strategies ahead of the PEA's publication. However, there are some aspects to the deposit that make certain stratagems inevitable.

KGL in preparing the latest resource suggest that an underground mining scenario is appropriate for the project at this stage and has recommended a 175g/t AgEq cut-off value for the base-case resource estimate.

The "shape" of the mineralisation provides some interesting challenges. As the deposit "wraps around" the unmineralised core of the hill, it would be foreseen that the underground workings would show a similar structure. It may however end up being the case that ramping in on both sides of the hill would create two mines that effectively join up and become one as the mine evolves.

We would note from the resource statement that the Skarn Front looks like the obvious first target for a mining operation due to that target containing the overwhelming bulk of the resource as currently defined.

Mines that might be viewed as similar are the San Martin mine and the La Parrilla mine. Grupo Mexico's San Martin is strong analogue - it's a large polymetallic skarn system with similar grades, while First Majestic's La Parilla has both epithermal vein mineralization and Ag-Pb-Zn polymetallic replacement (Skarn) mineralization. Southern Silver has used mining costs associated with the La Parilla skarn to determine the cut-offs for its own resource estimate.

The water level at Cerro las Minitas is around 80-100metres down from surface.

The PEA itself is expected to cost around USD\$250K.

The proposed production metrics are:

- ✓ 3,000-4,000 tpd of ore
- ✓ +10-year mine life
- ✓ Payback of around 3-4 years

It is also worth noting that while CLM is not seen as a copper resource of any great significance this metal has the potential to add around US\$65mn to the bottom line over a ten-year mine life. The incremental cost of adding a copper circuit would be only around USD\$1mn.

The Deal with Electrum Global

In May 2015, Southern Silver announced an earn-in agreement with Electrum Global Holdings L.P.. The deal with Southern Silver granted Electrum the right to earn an indirect 60% interest in Cerro Las Minitas (via the SSV subsidiary which owns the Mexican company that holds 100% of the project) by funding

exploration and development expenditures of US\$5mn on that project over a maximum 48-month period. The company fulfilled the requirements under this deal in October 2016 and now holds 60% of the project.

Financing

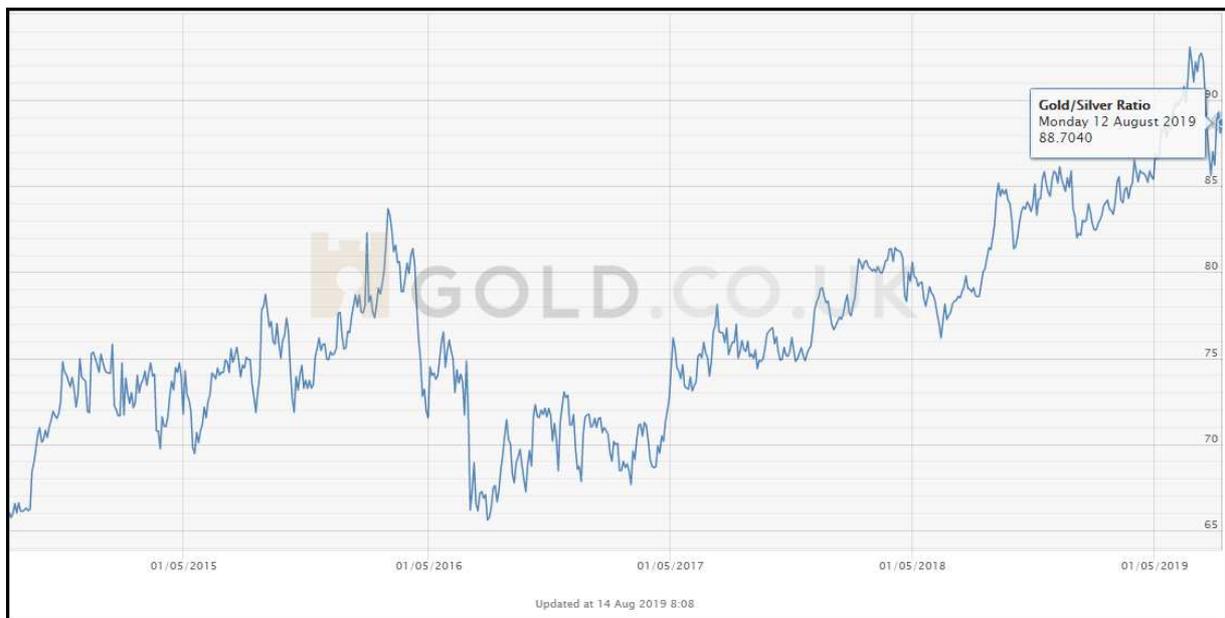
In late July the company announced a \$2mn financing (via a private placement) then shortly thereafter (in fact hours later) increased it to \$4.5mn. Southern Silver now plans to issue up to 22.5mn units in a non-brokered private placement at a price of \$0.20 per Unit for gross proceeds of \$4.5mn. Each unit will consist of one common share and one share purchase warrant, with each warrant exercisable to purchase one additional common share for a period of five years at an exercise price of \$0.25 per share.

Net proceeds from the private placement will be used for working capital and to cover SSV's proportionate share (40%) of the costs associated with the continued 2019-20 exploration programs at Cerro Las Minitas.

There is an over-allotment (greenshoe) option to allow a purchase of up to 10% additional units beyond the number of units in the offering.

Silver – Back with a Vengeance

The travails of silver (and its acolytes) have been nothing short of torture. That gold was lackluster for so long was bad enough but that tarnished (pardon the pun) silver even more and the ratio of silver to gold slipped away to ridiculous levels. The ratio was rapidly heading towards the 100:1 when the patently obvious value of silver returned to the fore and the metal turned around in a rather rapid rally.



Some might claim this is catch-up with gold which made its move a month or so ago with little positive backwash for silver. We would prefer to say that the ratio nearing 100 prompted those on the sidelines to leap back into the water.

At this time it seems churlish to over-analyze silver's fundamentals on the industrial side. The main arguments should be its lagging behind gold and the fact that most silver producers have production costs that make silver marginal below \$12 per oz. This means skimpy profits, poor incentives to invest, explore or expand and thus a rather arid pipeline of new projects.

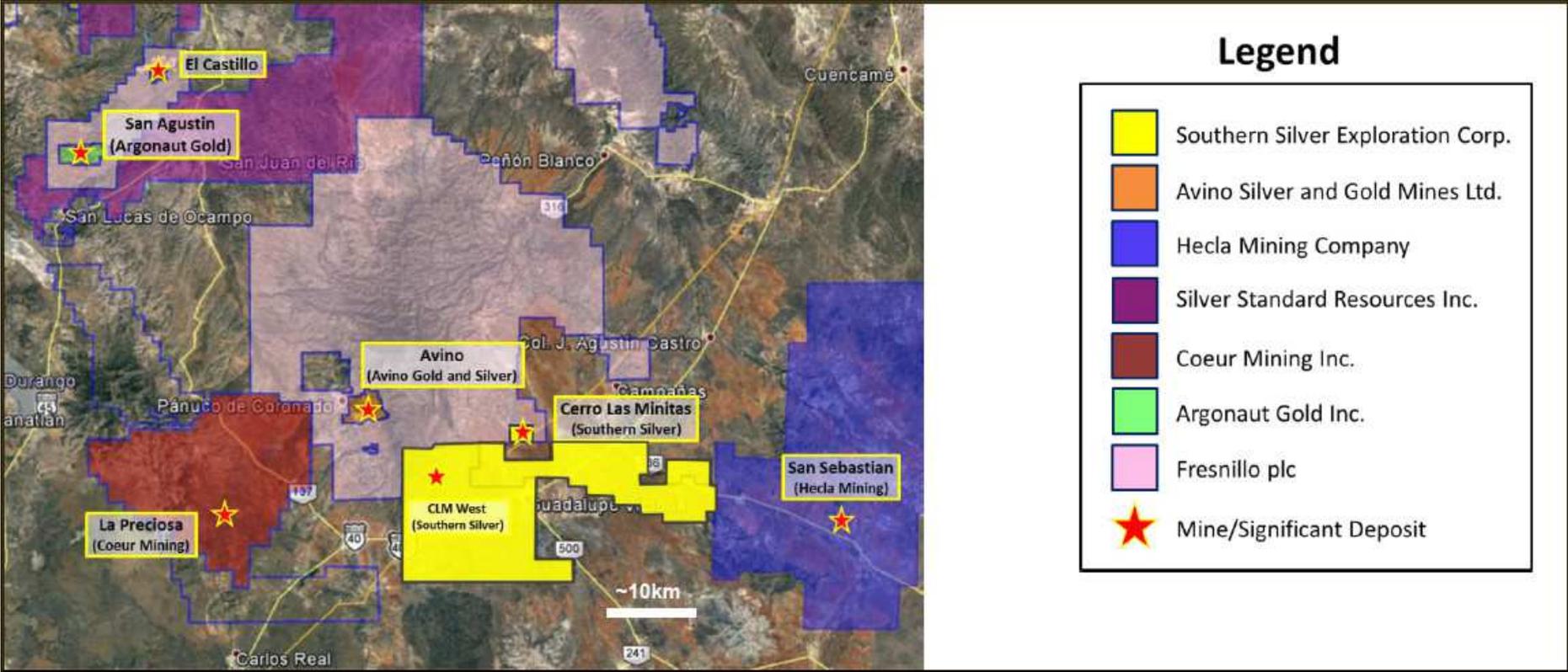


We are not silver bugs, and never have been, but we recently (in early July) resolved to add a position in the physical silver ETF (SLV) to the Model Mining Portfolio. This joined our long-held position in Southern Silver and one in Mexican silver producer, Excellon (TSX:EXN), which we had added earlier this year.

Takeover Prospects

The selective recovery of the prices of various metals has been too sporadic and fleeting for one to draw too many conclusions about a broad revival of takeover activity. Some metals rise, and hopes with them, only to then turn down beyond acquisition fever has time to materialise.

In the parlance of our times, Cerro Las Minitas has “closeology” working for it. As the map on the following page shows there are a number of major mines in the immediate vicinity, two of which are held by silver mining majors, Coeur d’Alene and Hecla, with another owned by Avino Silver.



Farther afield, but resourced with large facilities that would negate the construction of too much processing infrastructure at site, are the likes of the Mexican-owned Fresnillo and Peñoles:

- The Velardeña Mine/Mill complex (Peñoles/Golden Minerals) is 75km to the NE along the highway
- The Torreon Smelter (Peñoles) is located approximately 135km to the NE (160km by road)
- La Parrilla Mine (First Majestic) is 80km to the south (little further by road)
- Fresnillo's El Titanic claim sits on the northern claim boundary of CLM
- Coeur Mining's La Preciosa deposit is 30km west
- Hecla's San Sebastian Mine is 35km SE

The map at the right shows the "neighbourhood" of Southern Silver in Durango State and adjoining states.

Even at multiples of its current price, Southern Silver presents itself as a plug-n-play asset that would solve the immediate problems of quite a number of mid-tier players that have underinvested during the down times and now have to explain to investors where new resources will be coming from in the period from 2020 onwards.



Valuation

One should look beyond the Silver component in this project to the potential appeal of the substantial Zinc resource at CLM and its appeal to base metals majors.

It is interesting to muse about the *in situ* value of the metals in the current Inferred and Indicated resource at CLM at current metals prices. We undertook this exercise in our Initiation of Coverage in August 2016. At that time the silver price used was higher (\$20.50) and the valuation came out as \$1.93bn.

Recalculating for current prices and the resource size having been boosted (and excluding gold) the valuation now comes out at USD\$3.94bn. It is difficult to find a company with an *in situ* valuation so high for such a low market capitalization.

Even using current levels, the Zinc/Lead component of Cerro Las Minitas has an “in the ground” value of over two billion dollars with the silver “chaser” worth more than US\$1.36 billion dollars more.

Cerro Las Minitas		
In Situ Valuation - USD\$ mns		
Silver	\$16.25	\$1,353
Lead	\$0.88	\$489
Copper	\$2.59	\$300
Zinc	\$1.06	\$1,795
		<hr/>
		<u>\$3,937</u> mn

Risks

Amongst the risks at the current time are:

- Silver price risk
- Zinc price risk
- Financing risk for SSV's part of the development costs at Cerro las Minitas
- Crime/cartel activity appearing in this specific part of Mexico

The issue of prices is more important than anything else. However, in being more than just a silver explorer Southern Silver gets to straddle the potential movements in both precious and base metals. Zinc had a run over the last two years and has recently been sliding back. This has occurred just as silver has regained impetus.

Whether Southern Silver has the wherewithal to match Electrum on a mine build in a development scenario is rather a moot point because we would expect the SSV will have been taken out by another producer or by Electrum at some point prior to construction taking place.

As for security issues, the company does not feel this is a problem as Durango is one of the better states

when it comes to a matter of security. The company has a good working relationship with the locals and the city of Durango is only 70km away. Management's comment on the positioning of its project, vis-à-vis some of the more troubled areas of the country, is "We are in the bean fields, not the marijuana fields".

Conclusion

The latest resource update from Southern Silver poses the question, not where to look next, but when to actually stop looking. It is clear that the company's team could keep exploring in a number of directions (and at depth) and not reach finality. The mineralisation at Cerro Las Minitas is a gift that keeps giving.

The time is nearing at which the rubber shall need to hit the road on development of the massive resource already identified. The point that this shall be achieved would seem to be the publication of a Preliminary Economic Assessment in late 2020.

The task now is to upgrade the resource through further infill drilling, while also adding resources in the new areas identified around the "hill". The stage will then be set for production of a PEA that quantifies the size and method for what will need to be an underground mine at Cerro Las Minitas.

If the resource keeps evolving as it is then Southern Silver's project will become a "must-have" for a major or mid-tier miner that has not been working through the downtime to maintain its production pipeline.

The question now is at what point do the fins start to appear in the water? And at what price are the sharks allowed to bite? On the latter question the power of decision is entirely with Electrum. With the healthy tailwind of Silver's reprise the outlook for silver explorers/developers/miners looks better now than it has done for five years.

In accord with this we reiterate our **Long** call on Southern Silver Exploration with a twelve-month target price of \$0.72 in normal circumstances, but would expect a takeover offer to be only given any consideration at prices above \$1 per share.



Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

Hallgarten & Company acts as a strategic consultant to Southern Silver Exploration and as such is compensated for those services, but does not hold any stock in the company, nor has the right to hold any stock in the future.

© 2019 Hallgarten & Company, Ltd. All rights reserved.

Reprints of Hallgarten reports are prohibited without permission.

Web access at:

Research: www.hallgartenco.com

60 Madison Ave, 6th Floor, New York, NY, 10010