

April 2024: Letter from the Chairman – Mr. Rob Bruggeman

How many large silver producer mines can you name? This is a bit of a trick question because most large silver mines primarily produce either gold or base metals, with silver typically representing a by-product. I highlight this because AbraSilver’s Diablillos project is uniquely positioned as a high-quality, advanced-stage primary silver project with robust economics.

Mine production of silver has shrunk in the past decade, falling to 822 Moz in 2022 from a peak of 900 Moz in 2016¹. Meanwhile, physical inventories have been drawn down to extremely low levels as demand increased to 1,242 Moz from 980 Moz over that same period. Factoring in the 181 Moz of recycled silver, that equated to a deficit of 238 Moz of silver in 2022.

When demand outpaces supply to this extent, it is an unsustainable situation. Given the time it takes to bring on new silver production, the logical outcome is for silver prices to move substantially higher to promote new mine development, shake loose existing inventory, and temper silver demand. Consequently, I expect silver prices to continue the current upward trend and eventually trade at a better gold-silver ratio than we currently have. The big question is: even with higher prices, where will the new production come from? Mine production would need to increase a whopping 238 Moz or 29% from 2022 production levels to balance supply and demand. For perspective, that is equal to the 2022 silver production from the nine biggest silver producers combined! That certainly is not going to happen overnight.

This backdrop for silver production bodes very well for AbraSilver and its shareholders. The recent [Pre-Feasibility Study](#) (“PFS”) on the Diablillos project highlighted the silver production potential of the project. In the PFS, 58% of revenue over the 13-year life of mine is from silver, with the remaining 42% of revenue from gold.

The massive silver production potential from Diablillos is also worth noting. Due to zonation, silver production is front-end loaded in the PFS mine plan and silver production averages 14.5 million ounces in the first five years of full production. Based on 2022 production data, that would make Diablillos the 6th largest primary silver mine in the world².

Diablillos is envisioned as a straightforward open pit mine with a conventional leach plant. Initial capex in the PFS was US \$373 million, which is relatively modest for a project that has the potential to be a top 10 primary silver mine. Despite high taxes and duties in Argentina, which we think may come down under the current mining-friendly government, the Diablillos project has fantastic after-tax economics with an NPV_{5%} of US \$494 million and after-tax IRR of 26%, based on a silver price of US \$23.50/oz and a gold price of US \$1,850/oz.

The PFS also resulted in the first ever Proven and Probable Mineral Resource estimate (“P&P”) for Diablillos. P&P resources contain 123 million ounces of silver and 1.1 million ounces of gold (42.3 Mt grading 90.8 g/t Ag and 0.81 g/t Au), or 210 million ounces of silver-equivalent. Based on recent metallurgical testing, management believes it may be feasible to increase the P&P reserves and potentially improve the economics even more.

¹ The Silver Institute - <https://www.silverinstitute.org/silver-supply-demand/>

² <https://www.statista.com/statistics/253333/leading-primary-silver-mines/>

The PFS contains a substantial amount of mineralized material that was treated as waste because it is below the cut-off grade. Some of this material appears to be amenable to low-cost beneficiation methods (e.g., heap leaching). Therefore, it may be possible to convert that waste into ore if gold can be economically extracted from this material. Planned work in 2024 will evaluate the potential to pull more mineralized material into the mine plan with the goals of increasing production, reducing the stripping ratio, and enhancing the economics of the Diablillos project. More metallurgical testing and study work is planned to test this potential over the coming months.

Diablillos also still has significant exploration potential, as evidenced by last year's discovery of the high-grade JAC zone. JAC is a shallow, silver-dominant zone that coincides with a magnetic low area covered with unconsolidated colluvial material. Our technical team has identified other areas with similar characteristics, so we expect more drilling will continue to successfully expand our existing large resource base. Our per-ounce discovery costs for silver and gold have been very low and we believe there is still significantly more value to be added at Diablillos through the drill bit.

The world clearly needs more silver production. Demand is already outpacing supply and that imbalance could grow as silver demand for photovoltaics, 5G and electrical applications increases. Silver producers and gold producers masquerading as silver producers are going to be clamoring to find new silver and silver-gold development projects to boost their production and retain the coveted silver producer label. Our Diablillos project stands out as one of the best silver-gold development projects out there and we firmly believe it can get even better with upcoming work planned in 2024.

Yours truly,

Robert Bruggeman

Chairman

AbraSilver Resource Corp.