

Recommendation: **Buy**

Target Price: **C\$4.15**

Current Price	C\$1.77	Shares Outstanding (MM)	
52 Wk High	C\$4.64	Basic	33.1
52 Wk Low	C\$1.60	Diluted	38.0
Cash (MM)	\$3.4	Mgmt and Dir	0.9
Debt (MM)	\$13.3	Mkt Cap. (MM)	\$46.4
NAV	C\$5.50	EV (MM)	\$56.4
P/NAV	0.32x	Reserves	0.0MMoz
NAV (spot)	C\$5.60	Total Resource	109.7MMoz
P/NAV (spot)	0.32x		
Total Return	134%		

Fiscal YE Dec 31		2020A	2021E	2022E
Prod'n (000oz)	Q1	296.3	328.7A	345.2
	Q2	18.9	296.0A	345.2
	Q3	326.9	326.7A	345.2
	Q4	355.6	345.2	345.2
	FY	997.7	1,296.7	1,380.8
Cash Cost (\$/oz Ag)		\$15.38	\$11.78	\$6.87
AISC (\$/oz Ag)		\$26	\$23	\$16
Adj. EPS	Q1	\$(0.12)	\$(0.05)A	\$0.02
	Q2	\$(0.17)	\$(0.07)A	\$0.02
	Q3	\$0.02	\$(0.15)A	\$0.02
	Q4	\$(0.04)	\$(0.01)	\$0.02
	FY	\$(0.29)	\$(0.27)	\$0.09
Adj. CFPS	Q1	\$(0.08)	\$0.03A	\$0.12
	Q2	\$(0.15)	\$0.03A	\$0.12
	Q3	\$(0.01)	\$(0.00)A	\$0.12
	Q4	\$0.08	\$0.09	\$0.12
	FY	\$(0.13)	\$0.14	\$0.49
P/CF		-	9.8x	2.9x
FCF (MM)		\$(8.5)	\$(3.1)	\$11.1
FCF Yield		-	3.0%	23.9%

NAV: Cormark deck is \$24.00/oz; spot silver is \$24.78/oz

### Company Description:

Excellon Resources is a silver producer engaged in the operation of the 100%-owned Platosa mine in Mexico with development projects including Kilgore, a gold development in Idaho, USA, and Silver City, a high-grade epithermal silver project in Saxony, Germany.

## Excellon Resources Inc.

(EXN - TSX)

### Silver City On Display

Unless otherwise denoted, all figures shown in US\$

#### Investment Thesis:

Excellon Resources is a junior silver producer engaged in the operation of the 100%-owned Platosa mine in Mexico with development optionality from its Kilgore project, a gold development in Idaho, USA, and Silver City, a high-grade epithermal silver project in Saxony, Germany, that we recently visited.

#### Highlights:

- **Silver City Has A Rich Mining History**

The exploration licenses that Excellon holds and surrounding area have a long and rich history of silver mining. The area's long history of mining dates back to 1185, after silver ore was discovered in a road cut near Freiberg. Mining continued until the 19th century and ceased when Germany abandoned the silver standard. Sporadic silver mining continued in the 1880s, but ultimately ceased in 1969 due to economic, political and technological limitations. Documented production since the mid-1500s accounts for 180 MMoz of silver excluding gold and base metal production.

- **Assays Remain Pending From The 12,000 m Silver City Drill Program**

There are currently two drill rigs turning for the 12,000 m 2021 diamond drilling program that began in June and will focus on four priority targets: Grauer Wolf, Reichenbach, Bräunsdorf and Peter Vein. We believe these results could turn more attention back to Excellon if the company can prove out the area.

- **First-Mover Advantage in Germany Warrants Silver City Valuation**

We ascribe a nominal value of \$45.0 MM to the Silver City project. While there are no resources at the project yet, we believe this is a reasonable value given the exploration potential of the asset. If Silver City were in a standalone company, we are confident the market value would be at least \$45.0 MM. Excellon continues to be a first mover on silver exploration in Saxony, with an unparalleled ground position covering historical high-grade silver mines on an epithermal silver belt that has never seen modern exploration for precious metals.

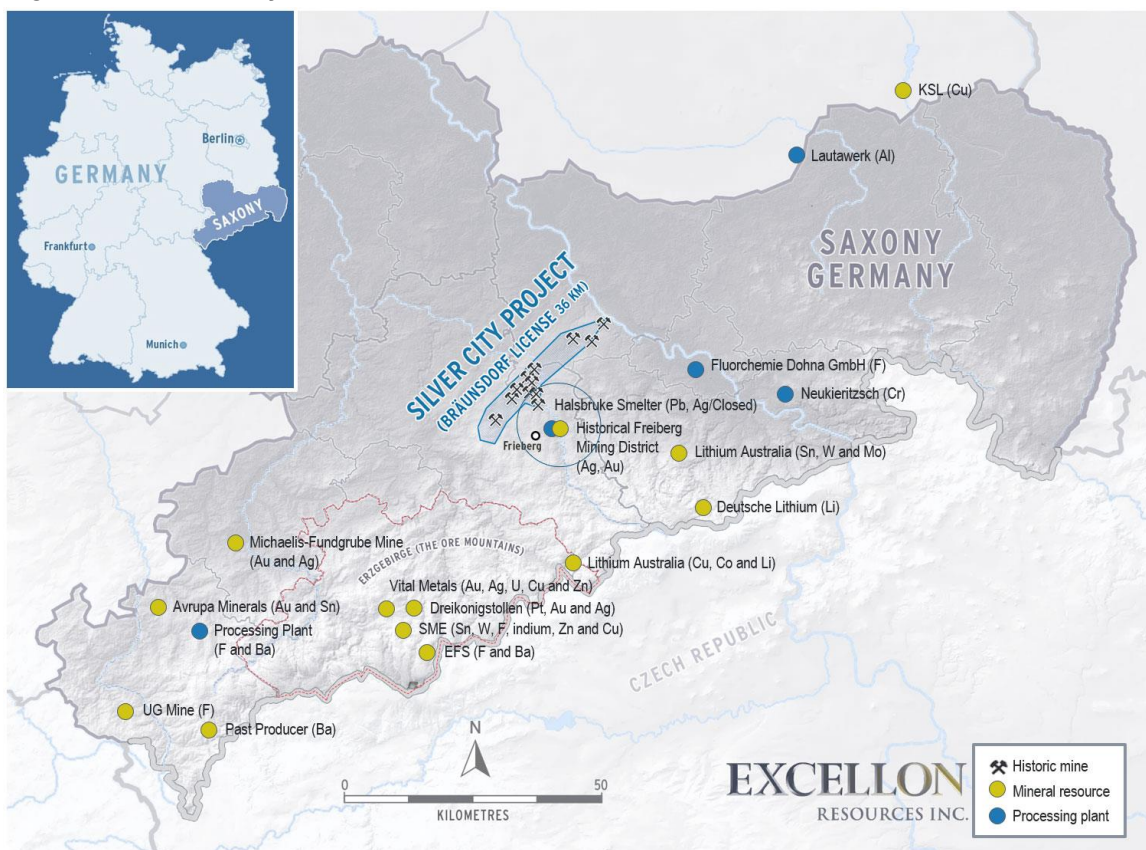
- **Maintaining Buy Rating**

With production stabilized at Platosa, we see upside in the shares from FCF generation in the near-term and from further drill results at the Silver City exploration project in Germany where assays are pending. We maintain our Buy recommendation and C\$4.15 target price.

**Site Visit Showcases Silver City.** Last week, we attended a site visit to Excellon’s Silver City project in Germany (Figure 1). Excellon continues to be a first mover on silver exploration in Saxony, with an unparalleled ground position covering historical high-grade silver mines on an epithermal silver belt that has never seen modern exploration for precious metals. Drilling to date has confirmed high-grade silver mineralization over 12 km of strike within 36 km of strike potential on the project, demonstrating the impressive scale of this epithermal silver system. This project has exceptional exploration potential and while we still await drill results from the 2021 drill program, the footprint and silver-production history of the area suggests significant modern resource upside.

**Silver City Details.** The Silver City Project is composed of the Bräunsdorf, Frauenstein, Mohorn and Oederan exploration licenses in Saxony, Germany (Figure 2), at a total 342 km<sup>2</sup>. It is situated west of the city of Freiberg (30 km southwest of Dresden) in the historic Freiberg mining district. Excellon holds an option to acquire a 100% interest in the Bräunsdorf license from Globex Mining Enterprises Inc. (GMX-TSX: GMX) and has 100% ownership of the Frauenstein, Mohorn and Oederan exploration licenses. The Saxony district has over 800 years of mining history and a strong business culture that is supportive of Excellon’s efforts to revive mining in the region. Excellon has done a good job building relationships with all stakeholders from local and community levels, to municipal and state regulators and the local mining associations, and has signed numerous land access agreements (12 in 2020; 31 in 2021).

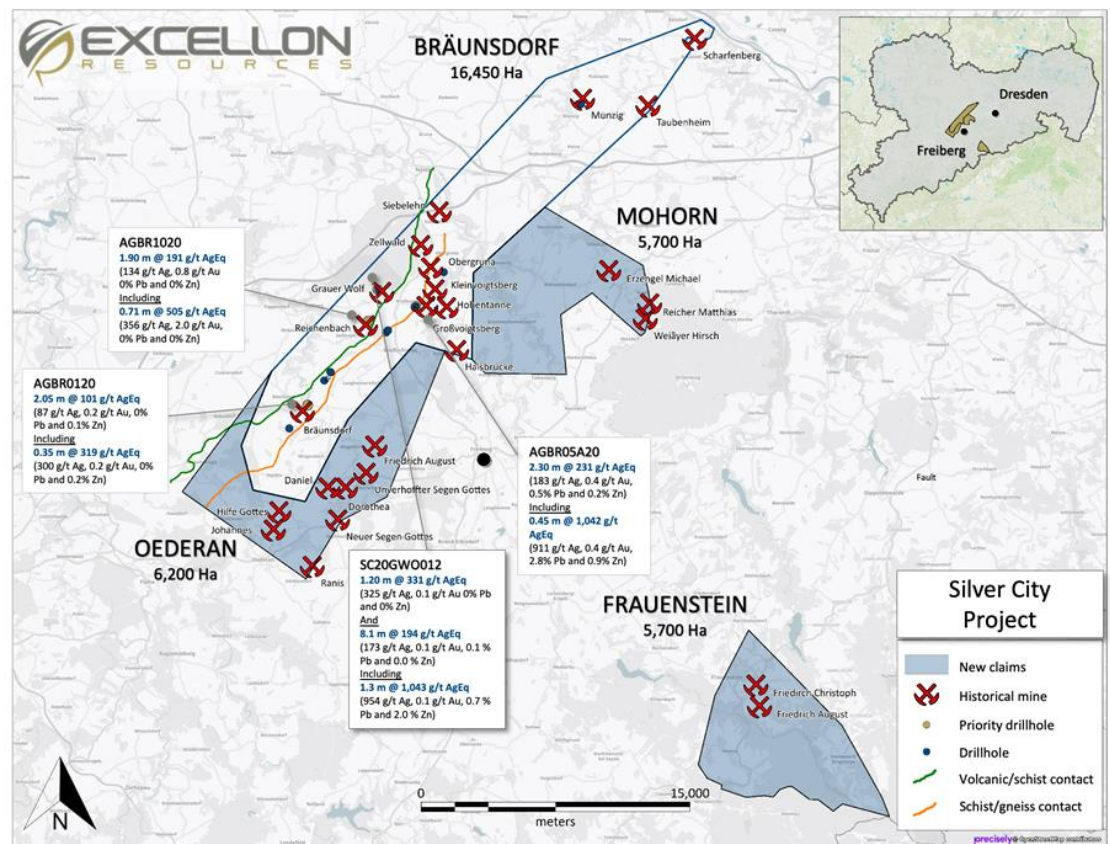
**Figure 1: Silver City Location Map**



Source: Excellon Resources Inc.

**Silver City Has A Rich Mining History.** The exploration licenses and surrounding area have a long and rich history of silver mining with numerous historic mining camps, small mines and prospects; many of which have only been explored and/or mined to shallow depths seldom exceeding 200 m below surface. The area’s long history of mining dates back to 1185, after silver ore was discovered in a road cut near Freiberg. Similar to the gold rush in North America, the silver rush in Europe originated in the mountains of Saxony, which were the source of wealth and power for the Saxon monarchy. Mining continued until the 19th century and ceased when Germany abandoned the silver standard after the Franco-Prussian war and as the depth of mining operations became difficult with the methods then being employed. Sporadic silver mining continued in the 1880s, but ultimately ceased in 1969 due to economic, political and technological limitations. Documented production since the mid-1500s accounts for 180 MMoz of silver excluding gold and base metal production.

**Figure 2: Silver City Target Map**



Source: Excellon Resources Inc.

**Silver City Geology.** Located along the western edge of the Erzgebirge terrain, the terrain is an erosional window of Variscan basement rocks exposed due to uplifting of the terrain during the Cenozoic period. A large number of hydrothermal veins have been emplaced into this terrain. These veins are typically sub-vertical and host predominantly silver and base metal-rich deposits associated with Permian magmatic activity. In the Braunsdorf district in particular, polymetallic veins are hosted within mica schist units, parallel to the tectonic contacts along a gneiss unit.

**Deep Local Mining Culture.** Mining left a strong mark on the local culture, industry and education, as evidenced by the establishment of the Freiberg University of Mining and Technology (TU Bergakademie Freiberg) in 1765, one of the oldest universities of mining and metallurgy in the world, and the Helmholtz Institute Freiberg, which specializes in a broad array of innovative mining technologies. The Institute was founded in 2011 by the federal government of Germany to align the country’s mineral history with a new

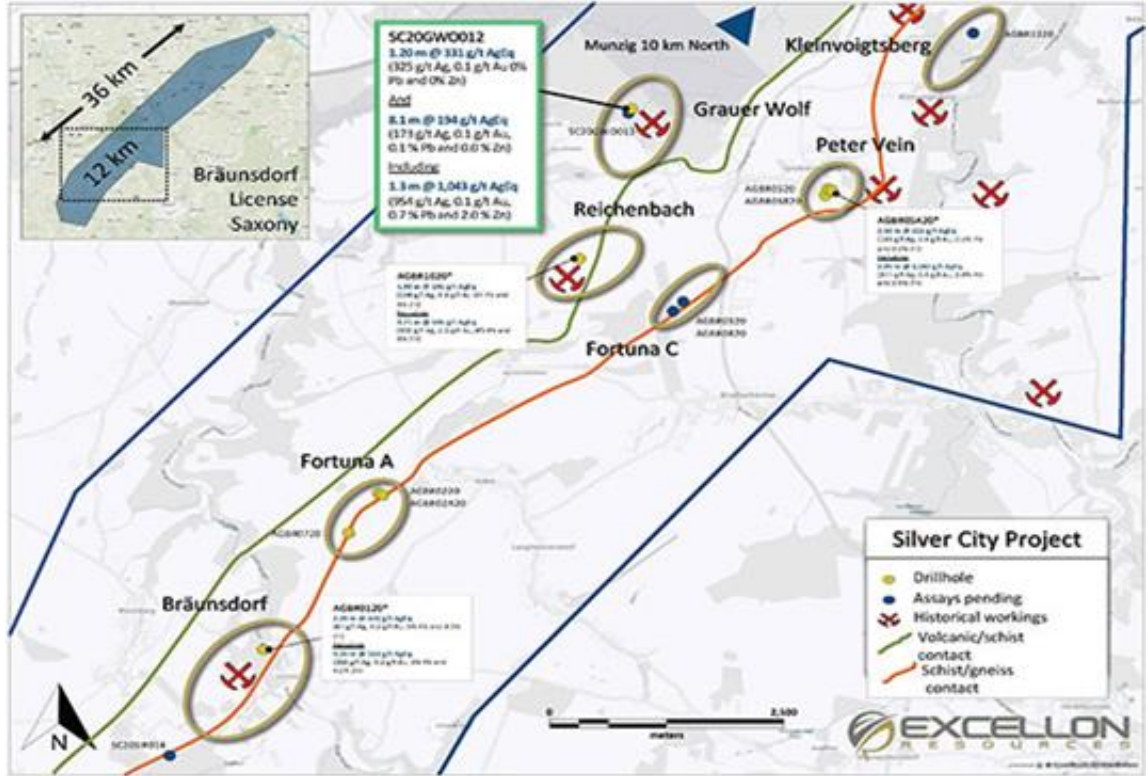


national strategy on raw materials. Currently, both the Saxon and German governments are proactively attracting mining investment and research through affiliations with several technology and mining institutes and transparent and collaborative mining law process. Excellon has established a research collaboration with Helmholtz Institute Freiberg and TU Bergakademie.

**Highlights Of 2020 Drill Program.** The 2020 drill program defined four priority targets, Bräunsdorf, Reichenbach, Peter Vein and Grauer Wolf (Figure 3). The 2020 program totaled 3,700 m of drilling and intersected significant alteration and/or mineralization in seven of nine targets. Highlights from the 2020 drilling program include:

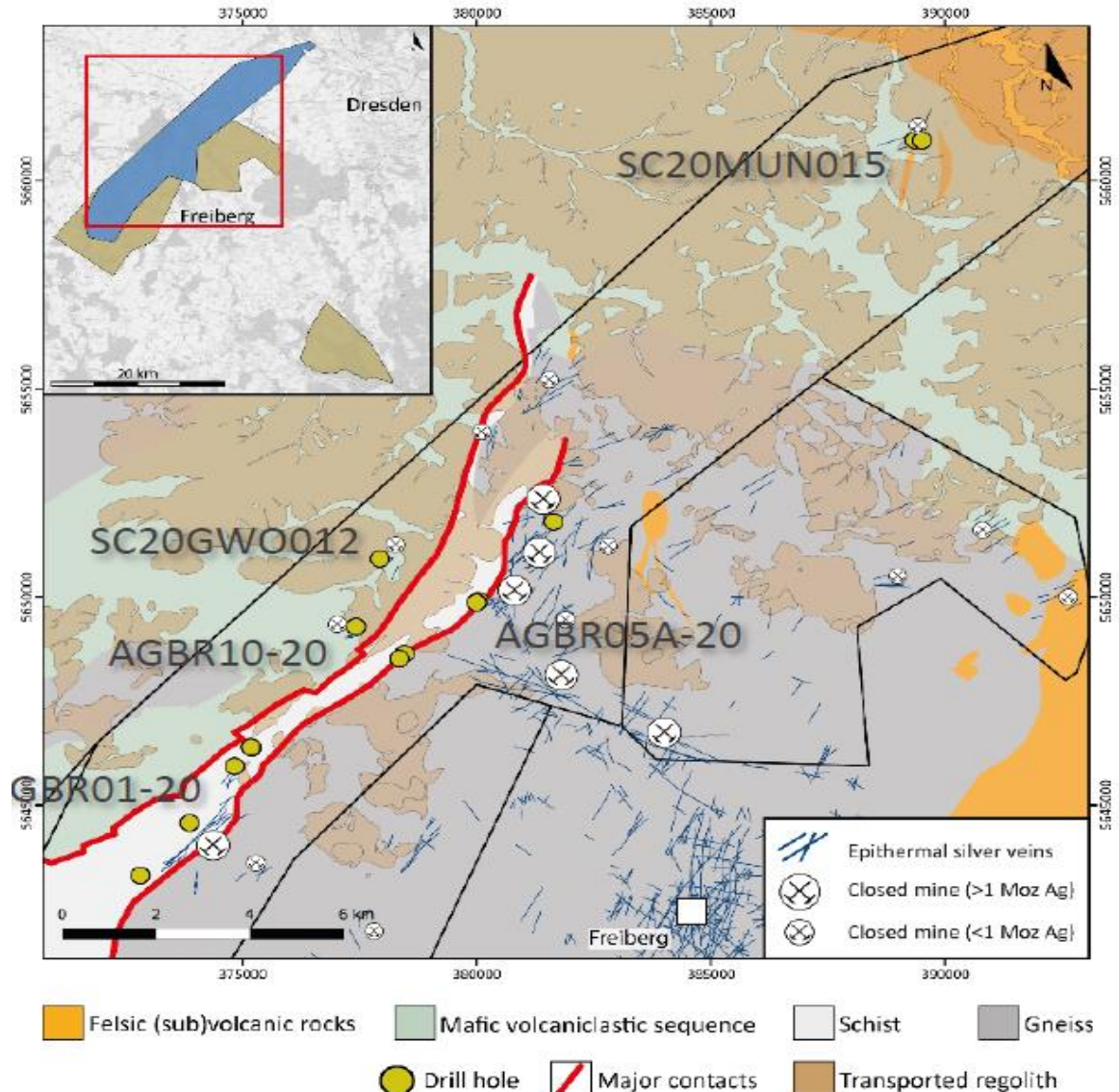
- **Peter Vein (AGBR05A-20):** 1,042 g/t AgEq over 0.45 m (911 g/t Ag, 0.4 g/t Au, 2.8% Pb and 0.9% Zn), within 231 g/t AgEq over 2.30 m (183 g/t Ag, 0.4 g/t Au, 0.5% Pb and 0.2% Zn)
  - *Quartz-carbonate vein hosting a disseminated to semi-massive polymetallic sulfide mineralization. Native silver and sulfosalts are intergrown with Ag-rich galena and sphalerite*
- **Reichenbach (AGBR10-20):** 505 g/t AgEq over 0.71 m (356 g/t Ag, 2.0 g/t Au), within 191 g/t AgEq (134 g/t Ag and 0.8 g/t Au) over 1.9 m
  - *Strongly altered mafic tuff hosting a hydrothermal quartz breccia with disseminated silver mineralization with visible silver sulfosalts*
- **Bräunsdorf (AGBR01-20):** 319 g/t AgEq over 0.35 m (300 g/t Ag, 0.2 g/t Au and 0.2% Zn), within 101 g/t AgEq (87 g/t Ag, 0.2 g/t Au) over 2.05 m
  - *Brecciated and altered schist hosting a quartz-carbonate stockwork with visible silver sulfosalts*
- **Grauer Wolf (SC20GWO12):** 1,043 g/t AgEq over 1.3 m (954 g/t Ag, 0.1 g/t Au, 0.7% Pb and 2.0% Zn) within 100 metres of surface, within 194 g/t AgEq over 8.1 m (173 g/t Ag, 0.1 g/t Au, 0.4% Pb and 0.3% Zn), and 331 g/t AgEq over 1.2 m (325 g/t Ag, 0.1 g/t Au, 0.03% Pb and 0.03% Zn)
  - *Altered mafic hosting polymetallic-quartz composite veins. Vein selvages are composed of sphalerite and galena with interstitial silver minerals*
- **Munzig:** Drilling encountered two zones of mineralization within 75 m of surface (including 2.43 m grading 116 g/t AgEq and 1.60 m grading 143 g/t AgEq) separated by a non-mineralized dike, potentially aligning with historic records describing some of the broadest widths in the area.

Figure 3: Silver City Drill Targets



Source: Excellon Resources Inc.

Figure 4: 2020 Drill Hole Locations



Source: Excellon Resources Inc.

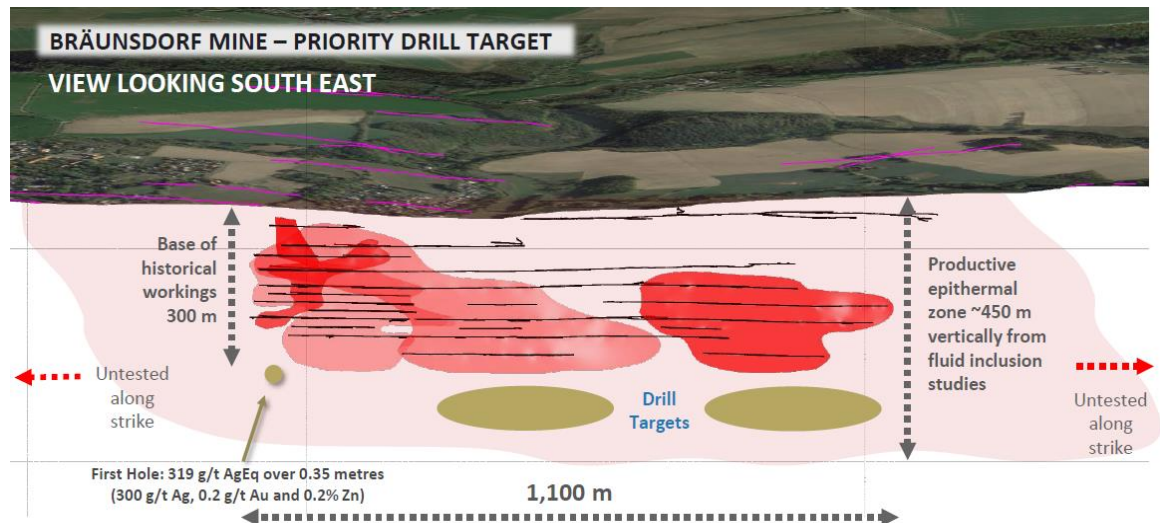
**Grauer Wolf.** Importantly, the Grauer Wolf discovery is on a geological contact that saw little historical mining, opening up a parallel strike for additional potential discoveries. The Grauer Wolf target is on the lesser known and relatively unexploited mafic volcanic contact, approximately 1.5 km north of the Reichenbach target, where drilling also intersected significant mineralization on the contact. This discovery further highlights the exploration potential along this second trend. Drilling at Grauer Wolf intersected a wide and brittle structural package with intense alteration and veining. High-grade silver and ancillary gold are hosted in epithermal veins with lower-grade material permeating the host units.

**2021 Drill Program Now Underway.** There are currently two drill rigs turning for the 12,000 m 2021 diamond drilling program that began in June and will focus on four priority targets: Grauer Wolf, Reichenbach, Bräunsdorf and Peter Vein. The program is also designed to test new targets on over 30 km of strike on two confirmed contacts, with the mafic-schist contact identified in 2020 at Reichenbach and Grauer Wolf representing a potentially more conducive setting for epithermal silver mineralization. Priority drilling is also planned at Munzig, where anomalous mineralization was encountered in multiple zones during 2020 drilling. In addition to the drilling planned for 2021, fieldwork including mapping, prospecting and geophysical surveys



is scheduled to be completed on the Bräunsdorf license and the newly acquired Oederan, Mohon and Frauenstein licenses. These programs are intended to expand and define new drill targets into 2022.

**Figure 5: Bräunsdorf Target Section**



Historical records describe veins up to 2.5 m at 900 – 2,500 g/t Ag

Source: Excellon Resources Inc.

**Q3/21 Results.** Excellon reported Q3/21 financial results (production pre-reported) which fell short of our estimates earlier this week. The adjusted EPS loss of \$0.15 was below our estimate for a loss of \$0.02 on the back of lower-than-expected sales (sales of 463,452 oz AgEq versus production of 521,160 oz AgEq) and higher-than-expected exploration costs and taxes. CFPS of \$0.00 similarly missed our \$0.07 estimate.

- Excellon pre-reported production of 521,160 oz AgEq in Q3/21, below our prior 555,000 oz AgEq estimate but up from the 487,009 oz AgEq produced in Q2/21. The production included 326,706 oz silver, 2.0 MMlb zinc and 1.9 MMlb lead. AISC of \$21.52/oz was in line with our \$21.58/oz estimate (versus AISC of \$26.69/oz in Q2/21).
- FCF of negative \$1.8 MM was below our positive \$0.9 MM estimate due to lower-than-expected operating cash flow and higher-than-expected capex (\$2.2 MM actual versus our \$1.3 MM estimate).
- Cash ended Q3/21 at \$3.4 MM, down from \$5.5 MM at the end of Q1/21. Excellon has no debt except for \$13.3 MM in convertible debentures which were issued in August 2020.
- Excellon took a provision of \$22.3 MM in the quarter relating to the Miguel Auza litigation as required by accounting rules. Recall that the legal action is against San Pedro, Excellon's subsidiary, that holds the Miguel Auza processing plant and the Evolución mineral resource. With San Pedro being a separate legal subsidiary, Excellon believes there is no recourse to its other assets including Platosa, Silver City, and Kilgore. San Pedro continues to operate as normal, and Management believes there is no legal basis for the litigation and is looking for a just and fair resolution to the matter.

**NAV Summary & Details.** We are not making any changes to our NAV of C\$5.50 or our target price of C\$4.15 at this time. Our target price is based on a 0.75x P/NAV multiple and represents upside of 134% from the current share price. Our NAV of C\$5.50 (see Figure 7) is based the following values and assumptions:

- We calculate an NPV<sub>5%</sub> of \$70.6 MM for the Platosa mine using our long-term silver price assumption of \$24.00/oz. This assumes an average of 2.0 MMoz AgEq per year of production over a 5.5 year mine life at an average AISC of \$17.20/oz.
- We ascribe a value of \$25.0 MM to the 99.9 MMoz AgEq of resources at the Evolución project in Mexico based on an in-situ valuation of \$0.25/oz.
- We ascribe a value of \$24.0 MM to the 0.96 MMoz of gold resources at the Kilgore project in Idaho based on an in-situ valuation of \$25/oz.
- We ascribe a nominal value of \$45.0 MM to the Silver City project. While there are no resources at the project yet, we believe this is a reasonable value given the exploration potential of the asset. If Silver City were in a standalone company, we are confident the market value would be at least \$45.0 MM. In Figure 8 we provide a sensitivity of our NAV estimate to the silver price (for the Platosa NPV<sub>5%</sub>) and various values hypothetically ascribed to the Silver City project.

**Figure 6: NAV Summary**

		at \$24.00/oz
Platosa, Mexico (100%)	NPV <sub>5%</sub> at \$24.00/oz silver	\$70.6
Evolución, Mexico (100%)	\$0.25/oz x resource of 99.9 MMoz AgEq	\$25.0
Kilgore, Idaho (100%)	\$25/oz x resource of 961,000 MMoz Au	\$24.0
Silver City exploration potential	nominal exploration value	\$45.0
<b>Total Mining Assets</b>		<b>\$164.6</b>
Cash	at September 30th, 2021	\$3.4
Long-term debt	at September 30th, 2021	\$0.0
Convertible debentures		(\$13.3)
Cash from ITM Proceeds		\$12.0
<b>Total NAV</b>		<b>\$166.6</b>
Basic Shares o/s (MM)	at September 30th, 2021	33.1
FD ITM Shares o/s (MM)		36.9
<b>Total NAVPS (US\$)</b>		<b>\$4.52</b>
<b>Total NAVPS (C\$)</b>		<b>C\$5.50</b>

Source: Cormark Securities Inc.

**Figure 7: NAV Sensitivity to Silver Price & Silver City Value**

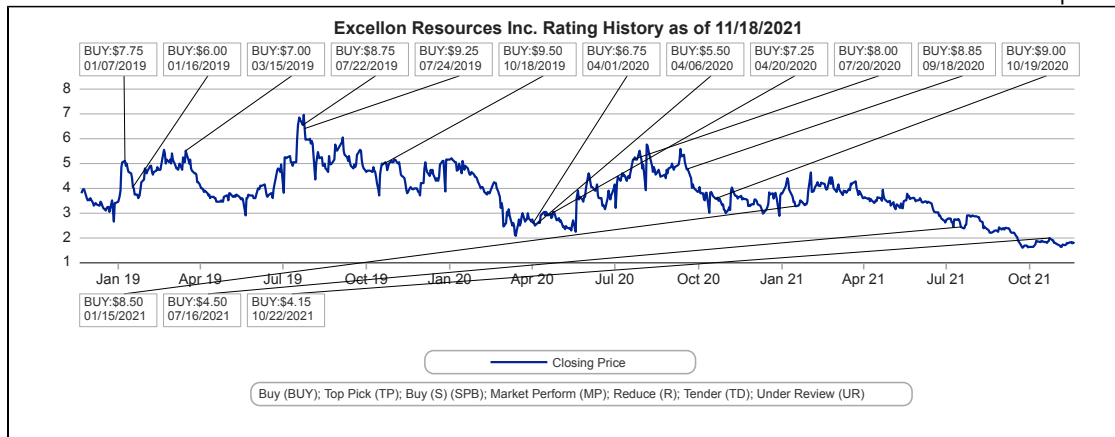
		Silver price							
		\$18.00	\$20.00	\$22.00	\$24.00	\$26.00	\$28.00	\$30.00	\$32.00
Silver City value	\$0	\$3.05	\$3.40	\$3.70	\$4.00	\$4.35	\$4.65	\$5.00	\$5.30
	\$20	\$3.70	\$4.05	\$4.35	\$4.70	\$5.00	\$5.35	\$5.65	\$6.00
	\$45	\$4.55	\$4.85	\$5.20	<b>\$5.50</b>	\$5.85	\$6.15	\$6.50	\$6.80
	\$50	\$4.70	\$5.05	\$5.35	\$5.70	\$6.00	\$6.30	\$6.65	\$6.95
	\$60	\$5.05	\$5.35	\$5.70	\$6.00	\$6.35	\$6.65	\$7.00	\$7.30
	\$80	\$5.70	\$6.00	\$6.35	\$6.65	\$7.00	\$7.30	\$7.65	\$7.95
	\$100	\$6.35	\$6.70	\$7.00	\$7.35	\$7.65	\$8.00	\$8.30	\$8.60

Source: Cormark Securities Inc.



**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month



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