

The Mexican Junior Gold and Silver Producer Report

March 15, 2013

Why Mexico?

Mexico is one of the world's leading venues for mineral potential and has a 500-year history of mining. Mexico, the world's main silver producer, is quickly becoming a key player in the gold market driven mainly by an exploration boom at the Guerrero Gold Belt, an emerging gold mining district in the south of the country. Relatively high gold prices during 2012 compelled companies to start mining more aggressively in the challenging terrain of Mexico's mountainous areas.

The Fraser Institute's 2011/2012 Mining Survey ranked Mexico ninth out of 64 worldwide venues for composite policy and mineral potential. Mexico ranks among the easiest countries to do business in Latin America according to the World Bank's Ease of Doing Business 2013 report thanks to its stable economic environment and growing GDP. During the years 2010-2012 the mining industry is expected to invest US\$13.8 billion in the country, which combined with previous investment dating back to 2007, the mining industry will have invested US\$21.75 billion by the end of 2012; an incredible and historic amount for this sector of the Mexican economy.

With a strong mining tradition, over the years, Mexico has developed genuine expertise in mining. Labor costs are still – in comparison to other stable countries – very competitive. Furthermore, it is far quicker for a company to obtain an operating license in Mexico than in other countries. Unlike other Latin American jurisdictions such as Chile, Peru and others, Mexico does not currently have any mining taxes. We have seen proposals in the early stages of discussion for a new mining tax in Mexico; however these have not passed the initial stages. These initiatives in the Mexican Congress ask for 4% on gross revenue, 3% on EBITDA, and also an unassigned rate to the total mineral sales based on an average market price. We do expect these new taxes (royalties) to be implemented in the coming years, though more at the lower end of expected rates. Impact on the mining companies is therefore foreseeable and limited.

Company Overview

The following companies represent an extract of the junior precious metals mining companies we follow with operations in Mexico.

ARGONAUT GOLD (TSX: AR)

[Home page of Argonaut Gold](#)

[Chart 2 year](#)

SHARES OUTSTANDING / FULLY DILUTED	MARKET CAP
148.6 million / 150.7 million	CAD 1,220.2M
52 WEEK LOW / HIGH	TSX
CAD 6.44 to 11.08	1,182,501 (30-day)
RECOMMENDATION	RISK RATING
BUY	AVERAGE

CREATING THE NEXT MID-TIER GOLD PRODUCER: 120'000 OUNCES IN 2013. TO GROW TO 500'000 OUNCES OF GOLD EQUIVALENT BY 2018.

Business Summary

Argonaut Gold is a Canadian gold company engaged in exploration, mine development and production activities. Its primary assets are the El Castillo Mine in Durango, Mexico, and the La Colorada Mine in Sonora, Mexico (both in the production stage), the advanced exploration stage San Antonio project in Mexico, the recently acquired advanced exploration stage Magino project in Ontario, Canada and several exploration stage projects, all of which are located in North America.

Its subsidiaries include Castle Gold Corp., Pediment Gold Corp, Argonaut Gold U.S. Corp. and Compania Minera Pitalla. In January 2011 the company acquired Pediment Gold Corp. and in December 2012, it acquired Prodigy Gold Inc.

Argonaut Gold has shown impressive production and earnings growth. We expect the company to continue this growth path and to double its gold production within the next three years. With the addition of the Magino mine production, Argonaut Gold plans to produce over 500'000 ounces.

Projects



El Castillo Gold Mine, Durango

The El Castillo gold mine is a producing gold mine located 100 km north of the city of Durango, in the State of Durango, Mexico. Access is excellent by paved highway and the last 1.5 km to the mine is well maintained gravel roads. There are approximately 1385 hectares of minerals concessions and surface rights.

The gold mine commenced construction and operations in 2007 with commercial production reported in 2008. Company guidance for Castillo mine is 90'000 oz. in 2013. The company plans to spend \$32M in total for the construction of a new pad and ponds, as well as new crushing and other equipment.

La Colorada Gold and Silver Mine, Sonora

The past producing La Colorada gold-silver mine property is located approximately 40 km southeast of Hermosillo, Sonora State, Mexico. La Colorada originally operated as a high-grade underground mine, which closed at the start of the Mexican Revolution in 1914. During the period 1993-2000 Eldorado Gold Corp developed a bulk tonnage heap leach operation from several open pits. Argonaut bought 100% ownership in January 2011.

Argonaut expects to produce 30'000 to 40'000 oz. of gold in 2013. Thanks to good silver bi-product, the cash costs could be as low as \$450/oz. The company plans to spend \$14M this year on the mine improvement.

San Antonio Gold Project, California Baja

The San Antonio Gold Project is located on the Baja California Peninsula, adjacent to the historic mining town of San Antonio and 40 km southeast from the port city of La Paz. Good gravel roads traverse most of the project area and a high voltage power line crosses through it. The 100% owned project covers a large land package of favorable geological trend.

This future mine is currently in permitting phase. Argonaut expects to produce around 70'000 oz. of gold from 2015 on.

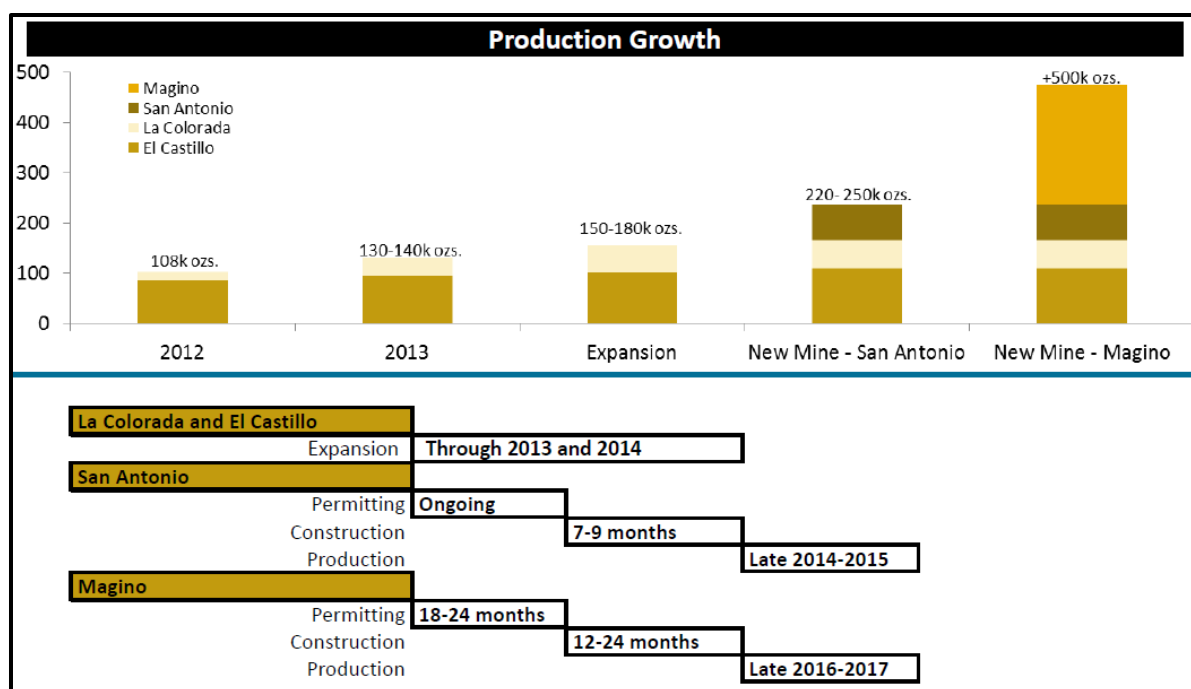
Magino Gold Project, Ontario, Canada

The Magino mine property is a past producing underground gold mine located 40 kilometres northeast of Wawa. The property consists of seven patented mining claims, four leased mining claims and 69 unpatented mining claims totaling 2,204.495 hectares. Magino is being evaluated by Prodigy as an open-pit mining opportunity with the potential for deeper, higher grade gold production. The latest resource estimate will provide the framework for a pre-feasibility study expected in Q3 2013.

There was extensive drilling on the property in 2012. These new drill results will be reflected in a new resource estimate that will probably be published together with the PFS later this year. Argonaut is expecting the Magino mine to be a major contributor to its gold production: Adding 250'000 oz. p.a. from 2017 on.

Production Summary

Argonaut Gold expects to produce totally 120'000 to 140'000 ounces of gold with average cash costs of \$650/oz. in 2013.



Future Production

Phase I will increase La Colorada and El Castillo’s annual gold production to over 155,000 ounces through expansion of the existing processing plants. The expansion will be funded through internal cash generation and should be below \$100m.

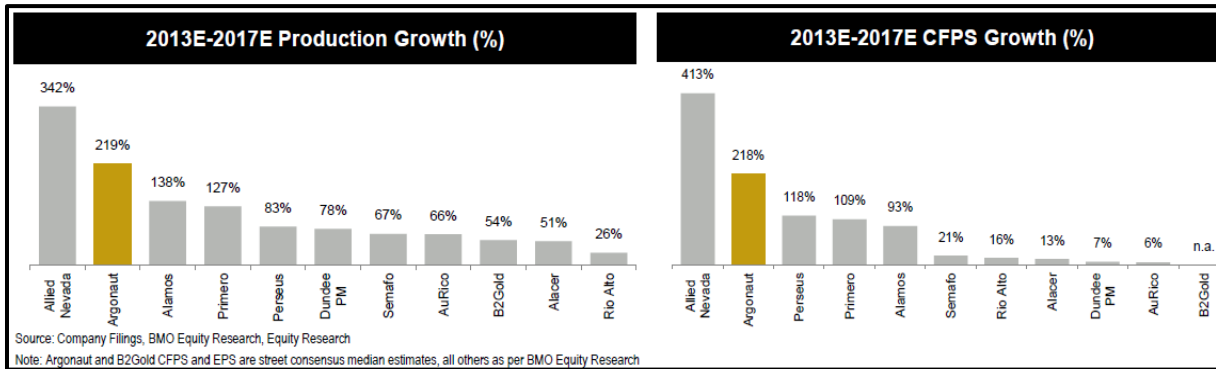
Completion of **Phase II** brings on new production from San Antonio and Magino in 2015, resp. 2017. This has the potential to eventually produce around **500,000 ounces per year** spreading fixed costs over more ounces and keeping total cash costs at current levels.

Resources

Reserves & Resources	Conversion	Probability	Tonnes	Grade oz/t	Au oz	Au oz adjusted
Reserves						
Proven	100%	100%	104'650'000	0.0116	1'211'382.64	1'211'382.64
Probable	100%	90%	844'000	0.0106	8'955.63	8'060.06
Resources						
Measured	80%	90%	233'758'600	0.0129	3'006'541	2'164'710
Indicated	80%	50%	327'794'608	0.0288	9'433'317	3'773'327
Inferred	80%	10%	25'494'222	0.0257	655'800	52'464
Total					14'315'997	7'209'944
Market Cap. / oz.					79.42	157.69

The ongoing exploration program shows substantial upside: thus adding more ounces to La Colorada, El Castillo and Magino and expanding their life-of-mine (LOM). Argonaut’s La Fortuna project located in the State of Durango currently has gold resources of 308k (as of Oct. 2008). This remains a mid-term exploration project.

Valuation



Our own discounted cash-flow valuation (DCF) puts Argonaut Gold’s net asset value as follows:

NAV: CAD 13.30
 P/NAV: 0.60x

The current share price does not reflect the company’s future cash-flow from production, nor does it value its current gold resources adequately. Current market capitalization of Argonaut Gold prices their entire (unadjusted) gold resources at only \$80 / ounce.

We therefore see Argonaut Gold at the current price levels of CAD 8.21 as a buying opportunity.

GOLD RESOURCE CORP. (NYSE: GORO)

[Home page of Gold Resource Corp.](#)
[Chart 2 year](#)

SHARES ISSUE / FULLY DILUTED	MARKET CAP
53.02M / 58.95M	USD 667.45M
52 WEEK LOW / HIGH	NYSE
USD 12.13 to 28.36	331,310 (30-day)
RECOMMENDATION	RISK RATING
BUY	AVERAGE

100,000 OUNCES OF GOLD EQUIVALENT IN OAXACA, MEXICO, AT LESS THAN \$400 CASH COST PER OUNCE. DIVIDEND YIELD CURRENTLY AT 5.6%

Business Summary

Gold Resource Corporation's goal is the development of gold and silver projects that feature low operating costs and produce high returns on capital. Management's commitment to shareholder value is reflected in the disciplined approach it has taken to the Company's capital structure, its focus on rapid project execution and its goal of meaningful dividend distributions.

GRC's initial exploration efforts have been focused on the El Aguila project, a property featuring high-grade gold and silver mineralization located in Oaxaca, Mexico. In 2012 Gold Resource produced 90,000 ounces of gold equivalent from this mine.

Three additional project opportunities have been established in relatively close proximity to El Aguila: the Las Margaritas silver property, the El Rey gold property, and the Solaga silver property. Collectively, they provide the Company with a pipeline of potential projects that would expand and diversify the Company's precious metal production profile. The Company plans to have four high-grade properties feeding one mill.

Management (14%) and Hochschild Mining plc (28%) are important shareholders of the company.

Projects



Oaxaca Mining Unit				
Property	Interest	Production	Development	Exploration
El Aguila	100%	✓	✓	✓
El Rey	100%		✓	✓
Alta Gracia	100%			✓
Las Margaritas	100%			✓
El Chamizo	100%			✓
Solaga	100%			✓

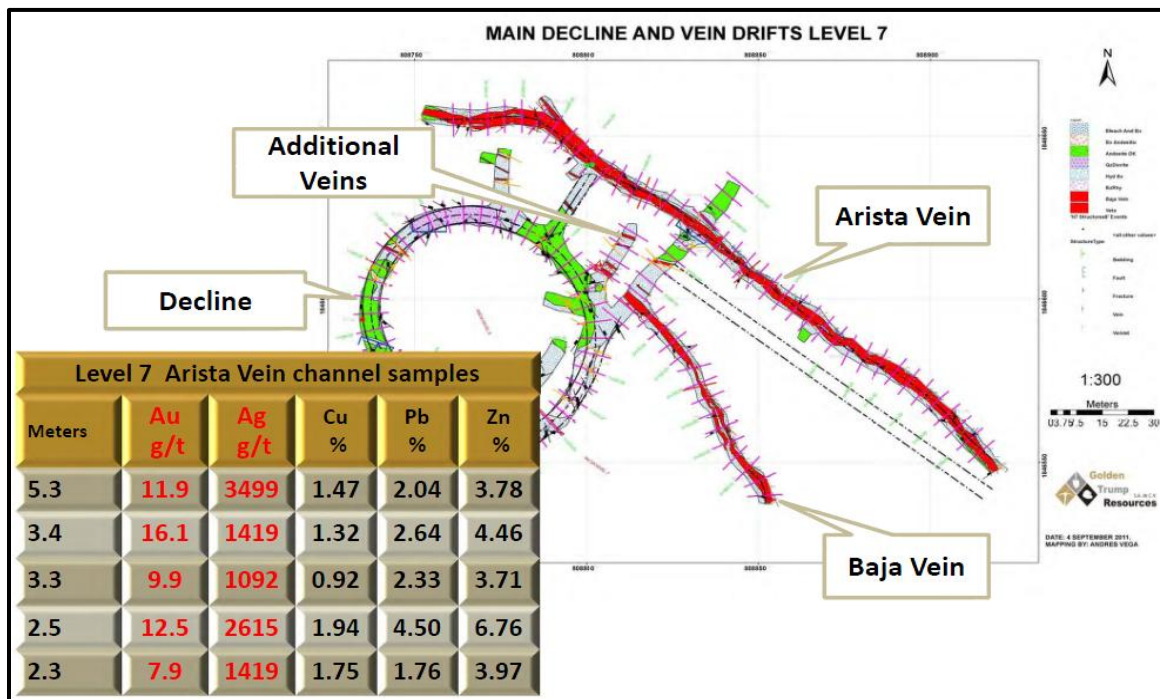
El Aguila Project

The El Aguila Project, located 120 kilometers southeast of the capital city of Oaxaca, Mexico, is a significant, newly discovered high-grade gold and silver system. The property has yielded several exceptional gold and silver surface samples, including a 36 grams-per-ton (g/t) gold sample and a 3,100 g/t silver sample. *

Arista Deposit

The La Arista Underground Mine has been steadily producing high grade ore. Thanks to the substantial bi-product credits (Silver, Copper, Lead and Zinc), the Arista mine is producing with cash costs of around \$400 / ounce. In 2012 the mine produced 90,432 precious metal gold equivalent ounces, marking a new record in annual production for the Company with a 37% increase over previous year's production.

The Company views 2013 as a significant development year for both mine development and mill upgrades. Expected mine development of the Arista deposit to the southeast is projected to provide the ore for production in 2013 and position the Company to target higher grade ore shoots located further southeast in the deposit in the 2014 production year. As has been the case over the last two years, the Company intends to upgrade the El Aguila mill. During 2013, the Company plans to increase the flotation mill capacity to a nominal 1,500 tonnes per day throughput.



Las Margaritas Project

Las Margaritas is a high-grade silver property in which GRC holds a 100% interest. It comprises the four northwest kilometers of the important N 70 W structural corridor, which is an extension of the El Aguila system. In addition, Las Margaritas occupies ground within an inferred caldera (collapsed volcanic center).

In 2012 GRC announced high-grade mineralization at its Las Margaritas property with drill intercepts including 2.85 meters of **27.90 grams (0.89 ounces) per tonne gold and 2600 grams (84 ounces) per tonne silver.**

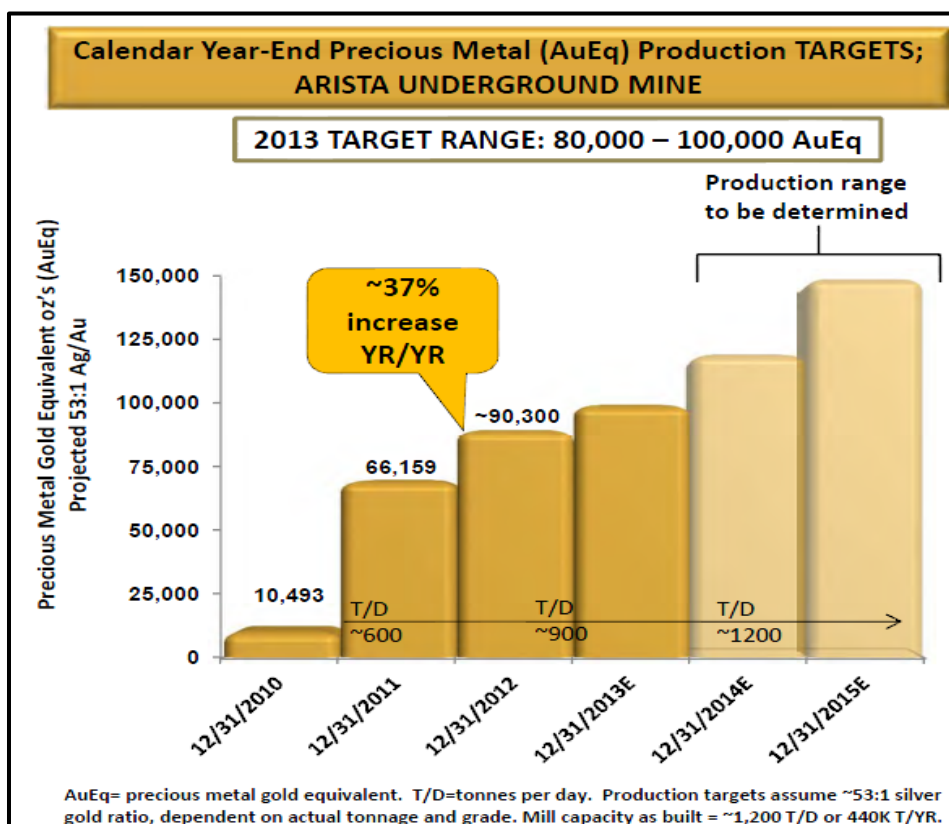
El Rey Project

El Rey is a high-grade gold property in which GRC has a 100% interest. While the site has been mined previously, very little information is known about the property.

GRC intends to explore this property as a potential high-grade gold vein. If it were mined, material could be trucked to the prospective El Aguila mill for processing.

Production Summary

Gold Resource expects to produce totally 80'000 to 100'000 ounces of gold equivalent with average cash costs of \$400/oz. in 2013.



Resources

Indicated Resources: 415'000 ounces Gold Equivalent

Inferred Resources: 1'048'000 ounces Gold Equivalent

What makes the valuation of Gold Resource challenging is the fact that the company has no NI-43-101 reserves and only a small amount of indicated and inferred resources.

The management of GRC has always taken the approach to move ahead with the mining operation without having a drill program to prove the existing resources.

The ongoing exploration program shows substantial upside: thus adding more ounces to La Arista mine and expanding its life-of-mine (LOM). Gold Resource's El Rey and Las Margaritas project located in El Aguila's vicinity have high-grade drill results and over mid-term resource and production potential.

Valuation

The company produces significant amount of positive cash flow. Gold Resource distributes 1/3 of its cash flow from mine site operations to its shareholders in dividends. The monthly dividend currently is at 6 cents per share.

This results in a highly attractive dividend yield of 5.6%. This is substantially above other dividend paying gold companies (Barrick Gold's dividend yield is 2.8%).

Our own discounted cash-flow valuation (DCF) puts Gold Resource's net asset value as follows:

NAV: CAD 17.20
P/NAV: 0.68x

We therefore see Gold Resource Corp. at the current price levels of CAD 12.95 as a buying opportunity.

TIMMINS GOLD CORP. (TSX: TMM)

[Home page of Timmins Gold](#)
[Chart 2 year](#)

SHARES OUTSTANDING / FULLY DILUTED	MARKET CAP
143.9 million / 153.0 million	CAD 401.9M
52 WEEK LOW / HIGH	TSX
CAD 1.49to 3.48	511,025 (30-day)
RECOMMENDATION	RISK RATING
BUY	AVERAGE

PLANS TO PRODUCE 125'000 OUNCES IN 2013. TO GROW TO 500'000 OUNCES OF GOLD EQUIVALENT BY 2018.

Business Summary

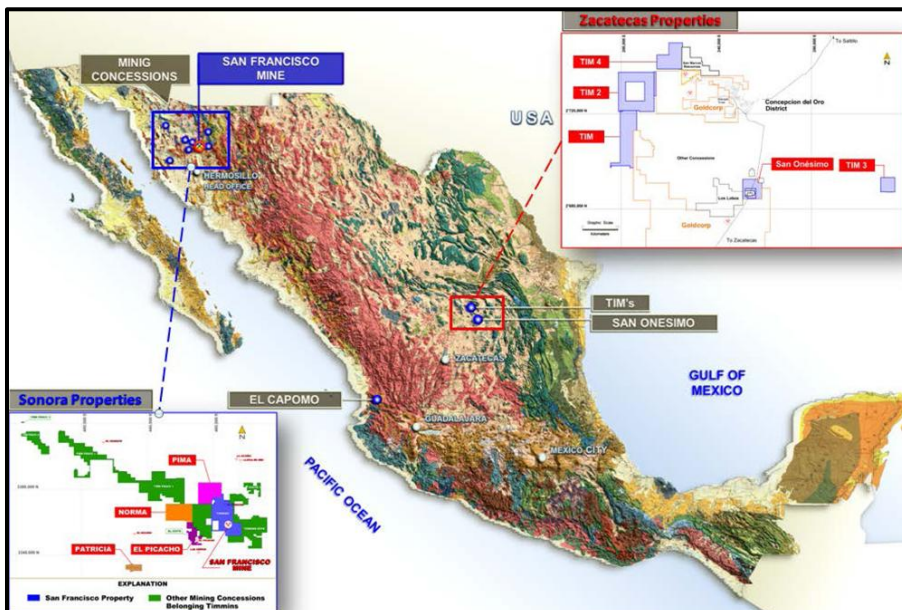
Timmins Gold Corp is well positioned for continuous growth as a gold production and development company. The Company owns and operates the San Francisco Gold Mine in Sonora State, an open pit heap leach operation from which Timmins Gold is expanding production to 125,000 - 130,000 ounces of gold in 2013.

On the exploration front, Timmins Gold has over 200,000 hectares of claims contiguous to the Mine along the highly prolific Northern Sonora Gold District. Exploration success around the mine has significantly increased gold resources and reserves. The Company is committed to an extensive 200,000 meter program in 2013 for further resource and reserve growth.

Timmins Gold's growth plan consists of ongoing drilling at San Francisco and advancement of its exploration projects.

The combination of production, free cash flow generation and exploration success positions Timmins to deliver increased shareholder value. Sentry Investments currently holds 18.25% of the company.

Projects



San Francisco Gold Mine, Sonora

Timmins Gold owns a 100% (no royalties) of its (single) producing San Francisco gold mine, an open-pit, heap leach operation. It is a 45,000 hectare land package with excellent infrastructure and location.



The gold mine commenced operations in 2010 and produced 95'000 ounces of gold in 2012.

The company is currently expanding production at this mine. The Phase 2 of crusher expansion to 24,000 tpd crushing capacity was completed in Q4 2012.

The ADR gold plant capacity is at 175,000 oz./yr.

The plans for the next 12 months have been defined as follows:

- Installation of additional crushing capacity for expansion to over 30,000 tpd in Q2, 2013
- Additional land purchased and all permits in place for expansion at La Chicharra Pit
- Complete 200,000 meter drill program around the San Francisco and La Chicharra pits, and on the regional claims package
- **Stabilize production at 125,000 - 130,000 ozs of gold per year**

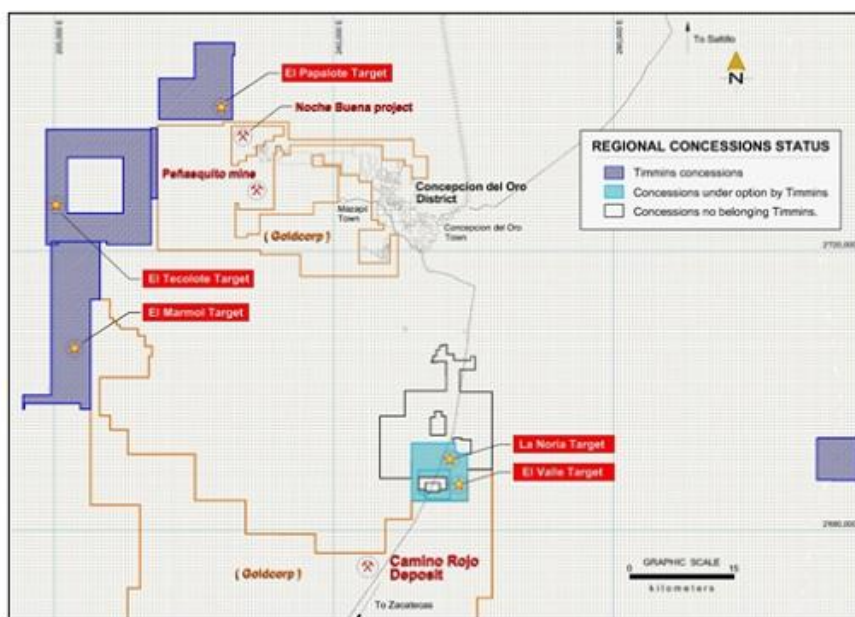
Exploration Projects

Timmins Gold has several exploration properties near their San Francisco mine in Sonora as well as an interesting land package in the state of Zacatecas. It has an over 200,000 hectares land package in Northern Sonora along the Sonora-Mojave megashear (San Francisco being part of that).

The San Onesimo property in Zacatecas is situated 16 kilometers to the northeast of the Camino Rojo Gold Deposit and 45 km SE of the Peñasquito mine, both belonging to Gold Corp (map). The area covers 5,603 hectares and can be accessed by paved road from both the city of Zacatecas and 220 kilometers to the southwest and from the city of Saltillo capital city of the state of Coahuila.

In the same region of Mazapil-Concepcion del Oro the company owns 5 mining concessions named Timm. The land package is over 45,000 hectares in total.

On both these projects the company plans to do additional exploration drilling this year.



Production Summary

Timmins Gold expects production of 125,000 -130,000 oz. gold with average cash costs of \$750/oz. in 2013.

Future Production

The expansion of the crushing capacity in early and again in late 2013 should take future production in 2014/15 to 140'000 ounces.

The company plans to continue to self-finance capital and exploration expenditures using mine operating cash flows.

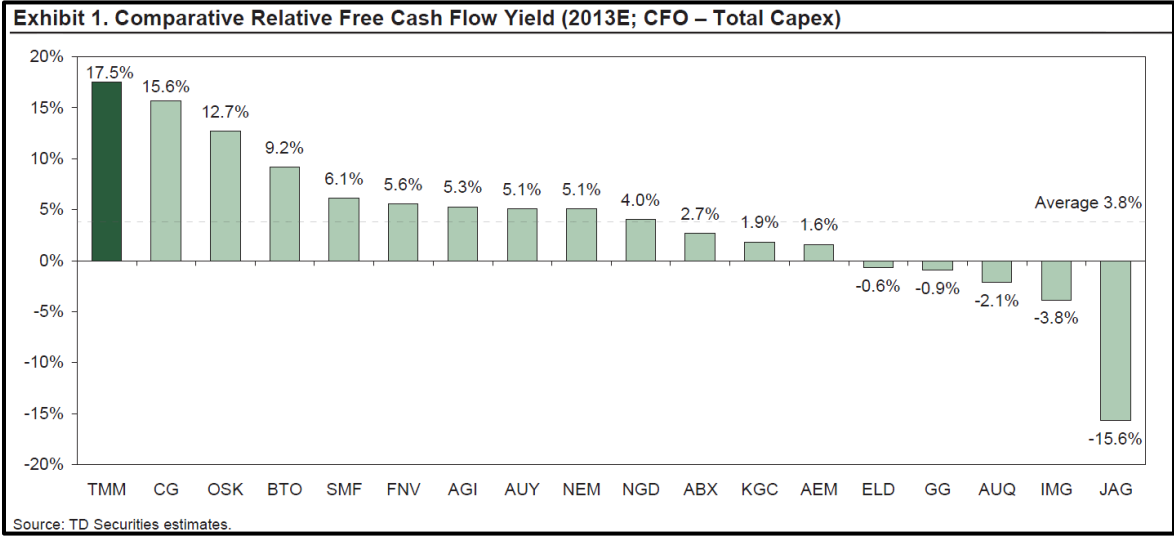
Resources

Reserves & Resources	Conversion	Probability	Tonnes	Grade oz/t	Au oz	Au oz adjusted
Reserves						
Proven	100%	100%	49'030'000	0.0188	920'692	920'692
Probable	100%	90%	23'361'000	0.0176	410'132	369'119
Resources						
Measured	80%	90%	58'010'000	0.0196	1'137'817	819'228
Indicated	80%	50%	23'787'000	0.0186	443'616	177'446
Inferred	80%	10%	93'202'000	0.0145	1'348'582	107'887
Total					2'930'015	1'104'561
Market Cap. / oz.					137.22	364.01

The ongoing exploration program shows substantial upside:

- Significant exploration upside at San Francisco Mine
- and numerous regional targets
- 200,000 meter drill program planned for 2013

Valuation



Our own discounted cash-flow valuation (DCF) puts Timmins Gold’s net asset value as follows:

NAV: CAD 3.85
 P/NAV: 0.65x

The current share price does not reflect the company’s future cash-flow from production, nor does it value its current gold resources adequately. Current market capitalization of Timmins Gold prices their entire (unadjusted) gold resources at only \$137 / ounce.

We therefore see Timmins Gold at the current price levels of CAD 2.73 as a buying opportunity.

AVINO SILVER & GOLD MINES (TSX-V / NYSE: ASM)

[Home page of Avino Silver & Gold Mines](#)
[Chart 2 year](#)

SHARES OUTSTANDING / FULLY DILUTED	MARKET CAP
27.1 million / 34.9 million	CAD 46.6M
52 WEEK LOW / HIGH	TSX-V
CAD 1.08 to 2.25	30,820 (30-day)
RECOMMENDATION	RISK RATING
BUY	SPECULATIVE

LOW-COST / HIGH-GRADE SILVER PRODUCER: TO DOUBLE PRODUCTION IN TWO YEARS

Business Summary

Avino Silver & Gold Mines is an experienced, Vancouver based mining and exploration firm and is one of the purest silver producers in the industry. Avino's mission is to create shareholder value through profitable growth at the historic Avino property near Durango. Other than the Avino mine, which is owned 99.28%, all the company's properties are owned 100%. In Mexico, Avino has over 30 years of operating history and long-standing business relationships.

Avino's February 2013 production results from its San Gonzalo mine operation located on the Avino property were 59,230 ounces of silver equivalent. This result reflects a substantial increase in silver production and gold production over 2012 months.

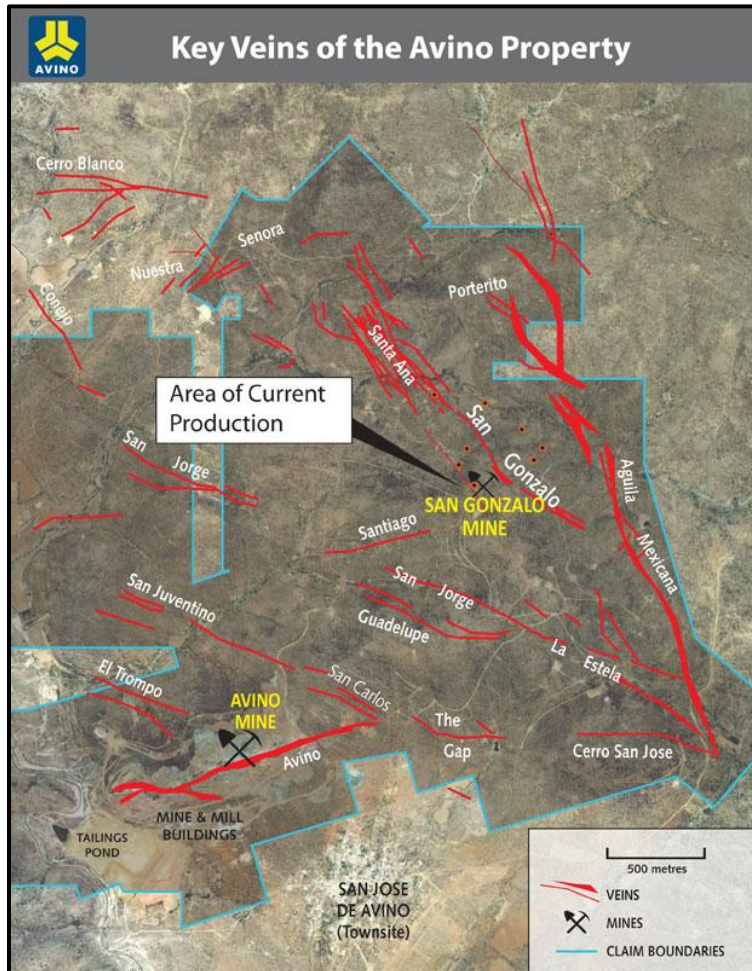
Projects



Avino Silver Mine, Durango

The Avino mine is located in the Durango region of North Central Mexico in the heart of the Sierra Madre Silver Belt. The property covers 3,215 acres, is easily accessible by road and has access to water and grid power.

The Avino mine was once described by the Spaniards as "a mountain of silver." The mine first opened in the 1500s. It has operated intermittently ever since, including for 27 years under Avino Silver & Gold Mines beginning in 1974. During the 3 decades that the mine was in production under Avino, silver grades averaged from 3 to 7 ounces per ton with more than 16 Moz of silver, 96,000 oz of gold and 24Mlb of copper produced through both open pit and underground mining. The mine shut down in 2001 due to low silver prices and the closure of a key smelter.



In Feb 2012, Avino finalized a new 20 year royalty agreement (3.5% NSR) allowing the company to once again mine the main Avino vein (ET zone).

- The Avino Mine is now dewatered down to level 7.5 from 5. The ramp is in good condition. Rehabilitation work can now begin in the few areas affected by sloughing and falling rock.
- Mexican authorities have granted permission to the Company to begin de-watering the mine without requiring a formal permit.

Avino plans to have a stand-alone 250 tpd circuit to treat San Gonzalo material and re-commission the 1,000 tpd circuit to treat Avino (ET) material once the mine has been dewatered. Permitting for a new tailings dam is also underway.

San Gonzalo Zone

The San Gonzalo deposit is located approximately 2 km from the original Avino mine and beneath the shallow workings of an old mine from the colonial period. It constitutes a strongly developed vein system over 25 m across.

In 2012 the underground mine allowed to stockpile sufficient material to support a full time 250 tpd operation. Currently the upgrading and expansion of its San Gonzalo mine continues to progress rapidly. At San Gonzalo, activities in February 2013 were centered on underground development and mining as well as delivering new underground mining equipment.

Avino expects grades and recoveries will improve at lower levels because silver assay results from the 2007 drilling at levels 4 and 5 of the mine produced a number of core intercept samples (down hole) **greater than 1,000 g/t Ag, some reaching as high as 5,265 g/t Ag, over 0.65 metres.**

Tailings Resource

Avino continues to explore options for upgrading the mine's tailings resource. The tailings are situated approximately 500 m west-southwest of the main shaft to the main Avino mine. In 2012 an updated Technical Report on the Avino Property was published which focused on the oxide tailings resource. This tailings mineral resource will be mined through surface methods and without blasting. CAPEX of US\$29.1 million and an annual estimated operating cost (OPEX) of US\$12.74 per tonne of tailings treated. Economics for the project are as follows:

	Spot Prices Case
Gold Value (US\$)	\$1,622.20
Silver Value (US\$)	\$28.36
IRR	92%
Payback period	1.1
NPV (US\$'000) 8% discount rate	\$74,186

Other Projects

Avino has 100% ownership of these projects located in Canada:

- Minto Property, British Columbia: Drilling in 2006
- Olympic Property, British Columbia: Drilling in 2004
- Eagle Property, Yukon: Drilling in 2009

Production Summary

In 2012 Avino produced 253,000 ounces of silver equivalent. On October 1st, Avino began processing high-grade material from the San Gonzalo Mine with plans to accommodate a sustained 250 tonne per day ("tpd") operation. January 2013 production equaled 62,780 ounces of silver equivalent.

Future Production

Avino is currently expanding the primary crushing circuit at the processing plant to operate at 1,500 tonnes per day ("tpd") and feed three separate recovery circuits:

Circuit #	Throughput (tpd)	Source of Mill feed	Online Date
1	250	San Gonzalo	Now Online
2	250	Avino Surface Stockpiles, SG, ET	Q2 2013
3	1,000	Avino Mine	Q1 2014

A new 250 tpd circuit ("Circuit 2") that has been paid for with cash generated from the sale of San Gonzalo concentrate will initially be used to process remaining historic aboveground stockpiles left

from past mining of the main Avino Vein. The company expects the stockpiles will provide enough mill feed for approximately seven months of operations. During the third quarter of 2012, Circuit 1 (250 tpd) produced 50,074 ounces of silver equivalent (calculated) from the same stock piles, Avino expects output will be similar from Circuit 2 once it's activated in Q2 of this year. After the historic stockpiles have been depleted, the new circuit will have the ability to process additional mill feed from the San Gonzalo and Avino Mines as they are developed at depth.

Resources

The oxide tailings have inferred resource estimate filed in July 2012:

Cut-off (g/t)	Tailings Tonnes (k)	Grade (g/t)	Metal (M tr oz)	Cut-off (g/t)	Tailings Tonnes (t)	Grade (g/t)	Metal (k troy oz)
Oxide Tailings Total - Silver				Oxide Tailings Total - Gold			
50	2,263,050	91.52	6.66	0.10	2,263,050	0.54	39.53

Target Resource for Further Exploration within Sulphide Tailings (no official resource):

	Tonnes (t)	Silver (g/t)	Gold (g/t)	Silver (oz)	Gold (oz)
Lower Range	2,800,000	40.0	0.3	3,600,000	27,000
Upper Range	3,200,000	100.0	0.6	10,300,000	61,700

Avino has commissioned an independent engineering firm to assemble a new property wide technical report that will include new resource estimates for San Gonzalo and the main Avino Mine. Avino expects to receive the report in April.

Valuation

Our own discounted cash-flow valuation (DCF) puts Avino Silver & Gold Mine's net asset value as follows:

NAV: CAD 2.25
P/NAV: 0.57x

The current share price does not reflect the company's future cash-flow from production.

We therefore see Avino at the current price levels of CAD 1.65 as a buying opportunity.

IMPACT SILVER CORP. (TSX-V: IPT)

[Home page IPT](#)
[Chart 3 years](#)

SHARES ISSUE / FULLY DILUTED	MARKET CAP
68.1M / 72.3M	CAD 70.85
52 WEEK LOW / HIGH	CVE
CAD 0.96 to 1.94	66,664 (30-day)
RECOMMENDATION	RISK RATING
BUY	HIGH

**GROWING MEXICAN LOW COST SILVER AND GOLD PRODUCER:
 PRODUCTION FOR 2012 OF 33,000 OUNCES GOLD AND 580,000 OUNCES SILVER. TO
 DOUBLE BY 2014!**

Business Summary

IMPACT Silver Corp is a profitable silver mining company with three producing mines in Mexico. IMPACT's 100%-owned and operated underground silver mines feed a central 500 tonne-per-day processing plant, located within the historic Royal Mines of Zacualpan Silver District. IMPACT's fourth underground mine, the Oscar Mine, has commenced production in February 2013. IMPACT is also currently building its second mining district in Mexico, the open-pit Capire Mine and Processing Centre, which has begun pilot plant operations during the month of March, 2013.

The upcoming commencement of production at the underground Oscar Mine and the open-pit Capire Mine represents the next phase of significant production growth for the Company, and aims to establish IMPACT as a multimillion ounce silver producer.

IMPACT also holds a 16.5% shareholding in Defiance Silver Corp. Energold Drilling is a shareholder of the company with 6.98 million shares.

Projects



Royal Mines of Zacualpan, Morelos

The Zacualpan Silver District is one of the oldest mining districts in North America. In 1531, it was the first mining district in the Americas to be given the title 'Royal Mines' of Zacualpan, by proclamation under the Spanish Crown. Zacualpan is located 100 kilometers southwest of Mexico City and 25 kilometers northwest of the well-known historic Taxco Silver Mine, operated by Grupo Mexico. In modern times, recorded silver production between 1975 and 2009 was over 34 million ounces silver equivalent.



IMPACT owns concessions covering most of the Royal Mines of Zacualpan Silver District. Assets include 423 square kilometers of mineral concessions, operating mines, a processing plant rated at 500 tonnes per day (tpd) and a semi-portable processing plant rated at 200 tpd.

San Ramon Mine

In the third quarter of 2012, San Ramon provided 50% of the mill feed (Q3 2011 - 28%) to the Guadalupe Processing Plant from the mining of high grade material. IMPACT recommenced mining at San Ramon in early 2008 on a selective basis with an emphasis on higher grade mineral. During the fourth quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on level 5.5. This zone is now a major contributor to production at San Ramon.

Noche Buena Mine

During the third quarter of 2012, the Noche Buena provided 27% of the mill feed. The mine is located four kilometers southwest of the Guadalupe Mill and opened in the first quarter of 2010. The mine is contributing a silver-gold feed with low lead and zinc contents to the Guadalupe Plant. This feed is being mixed and balanced with the higher grade lead from other mines to optimize the concentrate value.

The Noche Buena Mine is located in the Valle de Oro area, where IMPACT has also discovered and drilled several gold and copper rich veins including the Carlos Pacheco Vein, located only 200 meters east of the Noche Buena Mine workings. IMPACT mine engineers have begun to drive a cross cut from the Noche Buena Mine workings to the Carlos Pacheco gold zone for additional underground drilling and test mining.

Gallega Mine

The Gallega Mine was restarted in late 2011 and during the third quarter of 2012 provided 13% (Q3 2011 - 0%) of mill feed. Gallega will continue to supplement modest silver rich feed to the mill through 2012.

Chivo Mine

The Chivo Mine, located in the central part of the Zacualpan Silver District, commenced production in early 2007. The Chivo Mine was the second mine put into production by the IMPACT Silver team and is located 1.3 kilometers north of the San Ramon Mine.

During the third quarter of 2012, the Chivo provided 10% (Q3 2011 - 41%) of mill feed. In 2012, silver grades declined as the mine transitioned from higher grade silver to higher grade lead and zinc at depth. Over the next months, the company is shifting production from the Chivo Mine to the Gallaga Mine and ultimately to the Oscar Mine to take advantage of Oscar's high silver values.

Cuchara-Oscar Mine

In February 2013 the Cuchara-Oscar Mine went into production. It is IMPACT's fourth underground silver mine taken from discovery to production at the Royal Mines of Zacualpan Silver District.

The Cuchara-Oscar Mine is projected to provide approximately 20% of the mineral feed in 2013 to the Guadalupe Processing Plant with the balance of the feed mainly provided by the currently producing San Ramon and Noche Buena Mines.

Mamatla, Morelos

IMPACT Silver holds a 100% interest in the Mamatla Mineral District, located 16 km southwest its active mining and processing operations in Zacualpan. The Mamatla District represents a second production district with an operating processing plant and numerous mine targets scheduled for production in 2013 and onwards. This new district will significantly increase silver production and assist the company in fulfilling its goal of becoming a multimillion ounce silver producer.

Capire Mine

The open-pit Capire Project is scheduled for **production in early 2013**, which is planned to increase silver production significantly onwards.

On March 14, 2013, the company announced the start of the preliminary operations. Construction of the 200 tpd (tonne-per-day) pilot plant is now complete and first concentrate shipments are expected within the second quarter of 2013.

The purpose of the 200 tpd pilot plant and mining operation is to determine the future production costs and cut-off grades for a possible larger plant and provide near-term operating cash flow.

Production Summary

IMPACT Silver expects to produce totally 1 million ounces of silver in 2013. The year 2013 is going to a difficult year to estimate, as both the Cuchara-Oscar Mine as well as the Capire Mine went or will go into production.

Future Production

2012 was a transition year for IMPACT as two new mines were built, the open-pit Capire Mine and the high grade silver Oscar Mine, representing the foundation for the next phase of production growth.

IMPACT Silver plans to significantly increase production through the following objectives:

1. Aggressive exploration to accelerate organic growth at the Royal Mines of Zacualpan.
2. Complete additional and continual improvements to the 500 tpd processing plant to increase recoveries and throughput.
3. Double silver production in the next three to four years with the expansion of the Capire Production Center.
4. Continue exploration and development of both silver zones and deep gold horizons in the Valle de Oro area.

Resources

Reserves & Resources	Conversion	Probability	Tonnes	Grade oz/t	AgEq oz	Ag oz adjusted
Reserves						
Proven	100%	100%	-	-	-	-
Probable	100%	90%	-	-	-	-
Resources						
Measured	80%	90%	1'976'787	1.7685	6'193'000	4'458'960
Indicated	80%	50%	2'473'219	1.3987	6'596'000	2'638'400
Inferred	80%	10%	296'532	1.2347	673'000	53'840
Total					13'462'000	7'151'200

Total drilling in 2012 was 35,274 meters. Drill programs in 2012 were conducted on the Oscar, Condesa, Carlos Pacheco and Mirasol areas of the Zacualpan District, as well as expansion drilling on the Capire Mine development area of the Mamatla District. Good high grade silver intercepts were the result of identifying and drilling at the newly discovered Mirasol Silver Area. We expect this to result in a significant increase of measured resources.

Valuation

Our own discounted cash-flow valuation (DCF) puts **IMPACT Silver** net asset value as follows:

NAV: CAD 1.80
P/NAV: 0.55x

The current share price does not reflect the company's future cash-flow from production. Current market capitalization of **IMPACT** prices their entire (unadjusted) silver resources at only \$5/ounce. This is rather on the higher side of our peer group. We are though recognizing the value of the company's successful drill program, which will increase NI43-101 resources substantially over the coming year.

We therefore see **IMPACT Silver** at the current price level of CAD 1.04 as a buying opportunity.

SILVERCREST MINES INC. (TSX: SVL)

[Home page SVL](#)
[Chart 3 years](#)

SHARES ISSUE / FULLY DILUTED	MARKET CAP
107.1M / 114.5M	CAD 278.43M
52 WEEK LOW / HIGH	CVE
CAD 1.55 to 2.96	363,761 (30-day)
RECOMMENDATION	RISK RATING
BUY	HIGH

**GROWING MEXICAN LOW COST SILVER AND GOLD PRODUCER:
 PRODUCTION IN 2012 OF 34,000 OUNCES GOLD AND 590,000 OUNCES SILVER. TO
 DOUBLE BY 2014!**

Business Summary

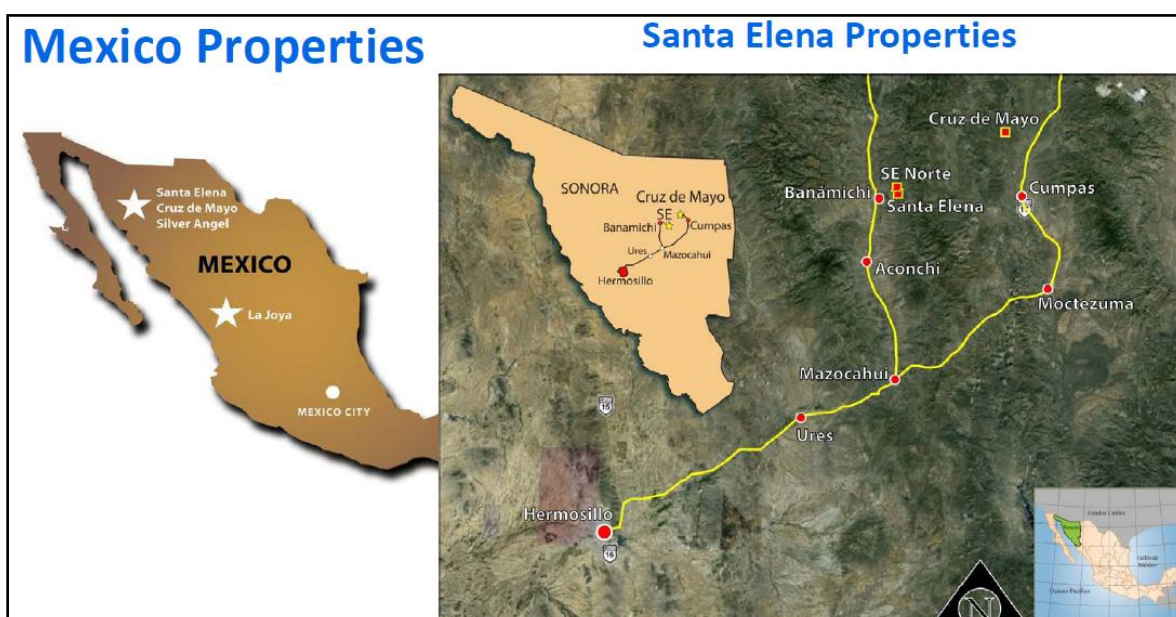
SilverCrest Mines Inc. is a Mexican precious metals producer with headquarters based in Vancouver, Canada.

SilverCrest's flagship property is the 100%-owned Santa Elena Mine, which is located 150km northeast of Hermosillo, near Banámichi in the State of Sonora, Mexico.

The mine is a high-grade, epithermal gold and silver producer, with an estimated life of mine cash cost of US\$8 per ounce of silver equivalent (55:1 Ag:Au).

SilverCrest is a low-cost producer with substantial upside. We expect resources to grow, both at its existing Santa Elena mine and in its La Joya property. Production could grow to over 6 million ounces of silver equivalent in three years.

Projects



Santa Elena, Sonora

Open pit heap leach production started in June 2011. In the first years parts of the production is used to repay financing done with Sandstorm and Macquarie. The mine is a high-grade, epithermal gold and silver producer. SilverCrest has managed to increase production at Santa Elena quarter by quarter. Q4 2012 produced 588,948 ounces of silver equivalent. Thanks to the good gold grades, the cash costs of silver production were at less than \$7.50/oz.

The Phase II plan is underway. Production out of their new underground mine should commence in 2014. By then a newly constructed 3,000 – 3,500 tonnes per day mill should be ready for use, **adding more than 3 million ounces of silver equivalent per year.**

Expansion of the Santa Elena production will require an estimated funding of \$92M in 2013. This amount will be mostly financed through own cash and cash flow and partly through stream-financing with Sandstorm.

The company just announced results of further drilling at the Santa Elena Mine. One hundred and eleven holes of a revised planned 114 holes have been completed to re-categorize Indicated and Inferred Resources to Probable Reserves and expand current underground Resources.

Cruz de Mayo, Sonora

The 100%-owned Cruz de Mayo Project is located near the Santa Elena Mine in Sonora, Mexico. The Expansion Project contemplates the installation of a conventional milling and processing facility at the nearby Santa Elena mine. The facility will utilize mill feed from the Santa Elena open pit (Phase I), the Santa Elena underground (Phase II), and re-treatment of the material on the heap leach pads to recover residual silver and gold values (Phase IV). The Cruz de Mayo silver deposit (Phase III) is being considered for development with lower grade mineralization conceptually treated on site as a heap leach operation with the potential to ship high grade mineralization to the nearby Santa Elena proposed processing facility.

A Pre-Feasibility Study should be available within the next couple of months.

La Joya, Durango

The La Joya Property is located approximately 75 kilometres southeast of the city of Durango, Mexico in a prolific mineralized region which currently supports several mining operations including Grupo Mexico's, San Martin Mine, Industrias Penoles, Sabinas Mine, Pan American Silver's, La Colorada Mine and First Majestic Silver's, La Parrilla Silver Mine. Access and infrastructure near the property is considered excellent.

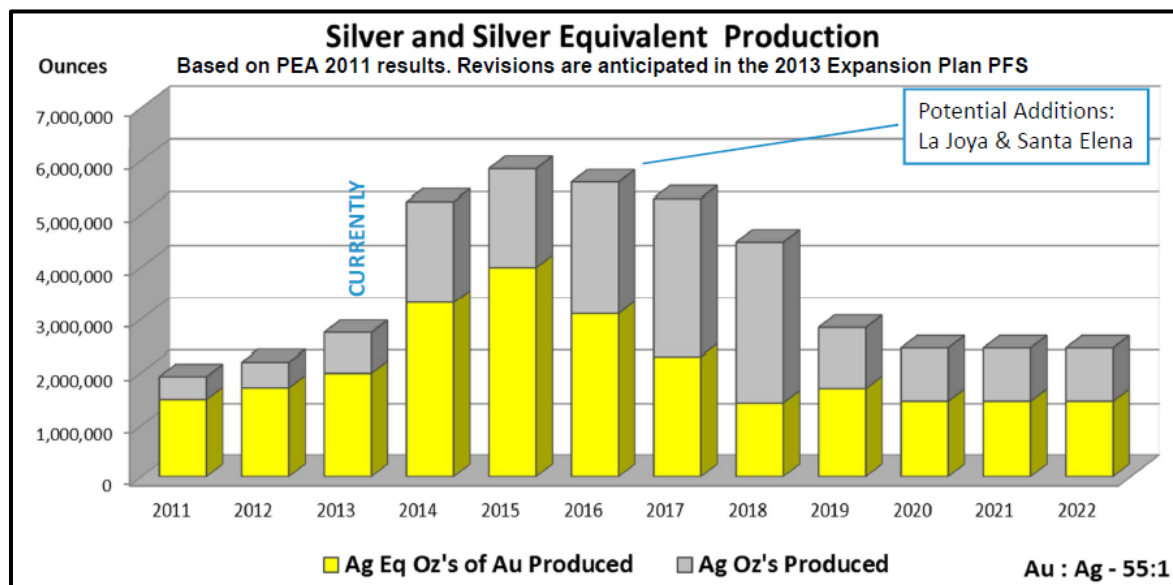
On January 29, 2012 SilverCrest Mines published an updated resource estimate for the La Joya Property. The updated Inferred Resources are summarized as;

- Cutoff grade of 15 gpt silver equivalent (Ag Eq*, Global Case): 198.6 million ounces Ag Eq
- Cutoff grade of 30 gpt Ag Eq (Base Case); 159.8 million ounces Ag Eq
- Cut-off grade of 60 gpt Ag Eq (High Grade Case); 100.8 million ounces of Ag Eq
- Cut-off grade of 0.05% WO₃; 75.1 million pounds (35,700 tonnes) of tungsten

The Company believes that the 60 gpt Ag Eq portion of the deposit with an estimated tonnage of 27.9 million tonnes grading 112 grams per tonne Ag Eq constitutes a priority area to be examined as a potential "Starter Pit" for initial conceptual operations that will be examined in the Preliminary Economic Assessment (PEA) to be commenced shortly. The La Joya Property has excellent potential for additional resources with the deposits being open in most directions. Further infill and expansion drilling is recommended to increase and convert resources from Inferred to Indicated.

Production Summary

Silver Crest sold totally 588'300 ounces of silver and 33'800 ounces of gold (2.47 million oz. of silver equivalent) with average cash costs of \$8.05/oz. in 2013.



Future Production

Santa Elena Production – Expansion Plans:

- Develop Underground Resource
 - 2013 Decline ramp, UG development and Drilling
 - 2013 Construct 3,000 tonnes per day conventional mill
 - Early 2014 Mill feed from Open Pit and Underground
- Cruz de Mayo Development
 - Pre Feasibility underway
 - Early 2015 Open-pit Ag resource for Heap Leach & SE Mill feed

The Company is targeting 2013 year end for the completion of the new mill facility with commercial production expected in the first quarter of 2014.

Resulting in increasing current production of 2.4 million ounces of Ag Eq to 4 million ounces of Ag Eq in 2014.

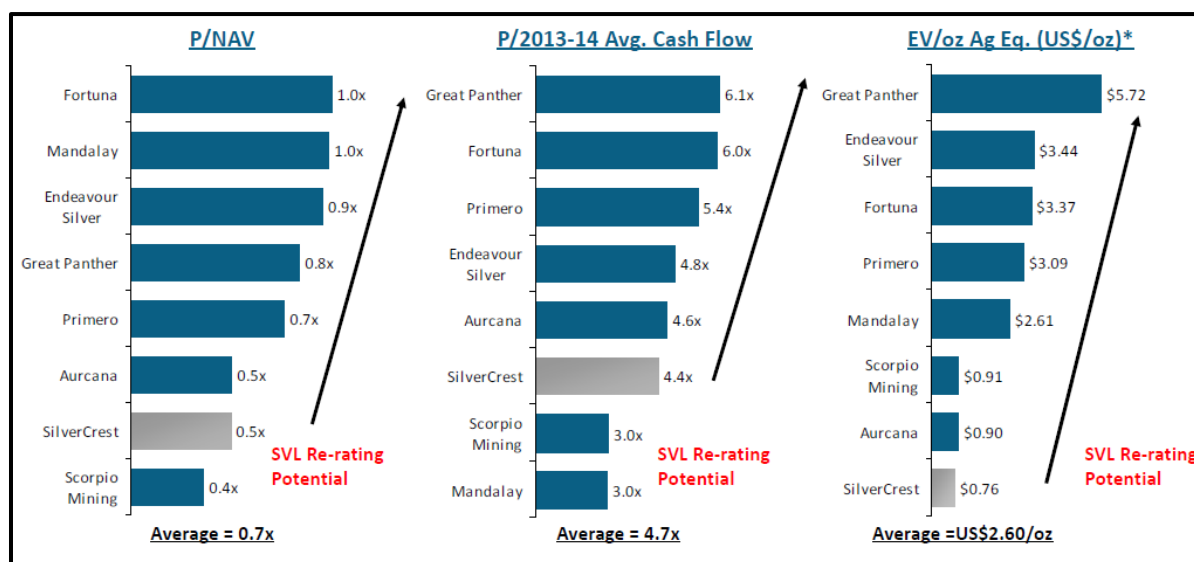
The potential future production on the La Joya project is not reflected in the production estimates. A Preliminary Economic Assessment (PEA) will shed light into that potential this year. The current resource base of La Joya is already above 100 million ounces of silver equivalent.

Resources

Reserves & Resources	Conversion	Probability	Tonnes	Grade oz/t	AgEq oz	Ag oz adjusted
Reserves						
Proven	100%	100%	-	-	-	-
Probable	100%	90%	3'459'200	2.8071	21'694'900	19'525'410
Resources						
Measured	80%	90%	-	-	-	-
Indicated	80%	50%	2'132'100	2.7363	9'165'010	3'666'004
Inferred	80%	10%	134'644'000	0.8489	222'634'640	17'810'771
Total					253'494'550	41'002'185
Market Cap. / oz.					0.92	5.70

The ongoing exploration program shows substantial upside: thus adding more ounces to Santa Elena and expanding its life-of-mine (LOM). SilverCrest's La Joya project located in the State of Durango provides substantial upside.

Valuation



SilverCrest Mines increased its earnings per share from \$0.11 (2011) to \$0.32 per end 2012.

Our own discounted cash-flow valuation (DCF) puts SilverCrest Mines' net asset value as follows:

NAV: CAD 4.00
P/NAV: 0.55x

The current share price does not reflect the company's future cash-flow from production, nor does it value its current silver equivalent resources adequately. The model does not take into consideration any potential production from the La Joya project. Current market capitalization of SilverCrest prices their entire (unadjusted) silver resources at only \$1/ounce.

We therefore see SilverCrest Mines at the current price level of CAD 2.52 as a buying opportunity.

Addendum

FIRST MAJESTIC SILVER CORP. (TSX: FR / NYSE: AG)

[Home page FR](#)

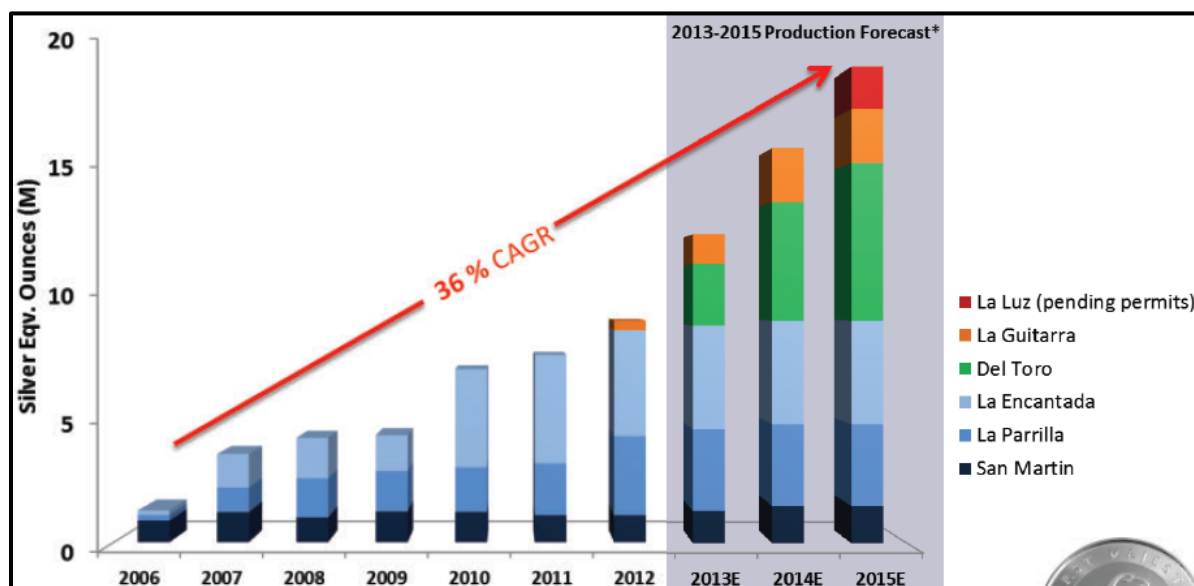
[Chart 3 years](#)

SHARES ISSUE / FULLY DILUTED	MARKET CAP
116.8M / 121.7M	CAD 1,944M
52 WEEK LOW / HIGH	CVE
CAD 12.26 to 24.18	710,469 (30-day)
RECOMMENDATION	RISK RATING
BUY	AVERAGE

MID-TIER, HIGH-GROWTH MEXICAN SILVER PRODUCER: PLANS TO INCREASE PRODUCTION TO OVER 15 MILLION OUNCES OF SILVER IN THE NEXT TWO YEARS

First Majestic Silver calls itself “The World’s Purest Silver Producer”, as 91% of its production is silver. The company operates 5 producing silver mines with 8.3 million ounces of silver production in 2012 with average cash costs of \$9.10/oz. For 2013, the production target is set at 11.1-11.7 million ounces of silver. The company’s goal is to achieve annualized production of 16 million ounces of silver by the end of 2014.

As of end of 2012 First Majestic Silver had \$112M of cash and cash equivalents on its books.



FIRST MAJESTIC SILVER IS NOT A JUNIOR PRODUCER ANY MORE. THE COMPANY REMAINS OUR FAVOURITE SILVER PRODUCER IN MEXICO.

Please contact us by phone or e-mail if you wish to subscribe to our quarterly update of this report.

Andrew Portmann

Peter Zihlmann

are the fund managers of The Timeless Precious Metal Fund and The Sierra Madre Gold & Silver Venture Capital Fund. These funds invest exclusively in junior mining companies. Our team has over ten years of experience in this sector.

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Disclosures

We, Andrew Portmann and Peter Zihlmann, certify that the views expressed in this report accurately reflect our personal beliefs about these companies and that we have not and will not receive compensation directly or indirectly in connection with our specific recommendations or views contained in this report.

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