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SilverCrest Mines (SVL-V)

Updated Coverage

Third time's the charm? We hope so. This is the third time an extended review of SVL has graced the pages of the Journal. The first one went well until a couple of central American governments spoiled the party. SilverCrest's management regrouped and moved to much more welcoming Mexico. The second review was prompted by stepped up exploration, particularly at the Cruz de Mayo project. That went reasonably well but did not display the potential for rapid resource increases that Santa Elena now is. The first review actually preceded a 500% gain in the share price and the price held up well after the second one until silver flat lined for a while. This time around both gold and silver are strengthening and SVL seems to have the targeting figured out at Santa Elena. Equally important is the Santa Elena is generating very good oxide gold grades. Gold is simpler and more predictable to produce in heap leach. Notwithstanding the company name it's the gold numbers that really brought us back. Drilling should continue for a couple of months and it looks like SVL has a good chance of quietly putting together a resource in the million ounce gold equivalent range. That, plus an expected production decision should pay off and reward the diligent persistence of SilverCrest's management team and its shareholders.

Strong Buy for continued drill hole reporting from Santa Elena and an expected positive development decision.

Overview

SilverCrest Mines has been followed in these pages for a while and was the subject of a couple of earlier reviews. We've added another now because of the heavy news flow from Santa Elena and an expected positive production decision this quarter.

SVL has had problems with politics in a couple of Central American jurisdictions but things are going much more smoothly in Mexico. The company's fortunes really turned around when it released a surprisingly strong

43-101 resource at Santa Elena late last year.

New testing is underway at Santa Elena, with initial results twice as thick and at twice the grade of the established resource. And, new results indicate underground potential can be added to the current open pit calculation. In addition to Santa Elena, work continues on the large Cruz-Angel silver trend, located just 20 miles away with a resource calculation expected any day. SVL continues to hold the El Zapote silver-zinc resource in El Salva-

dor. We do not assign a value to it since that country has not been handing out mining permits. If that changes, it will be a bonus but the value driver for the foreseeable future will be Santa Elena.

With two drills turning and new results that indicate room for a lot of expansion and, particularly, strong gold grades, SVL has room to move in the rejuvenated precious metals markets.

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Corporate Summary

after several years of operation. The last financing took place in late 2006 at \$0.95 and about half of that is still in the treasury. If SVL makes the positive production decision we anticipate it will need more funds. SVL will decide when the time comes what the debt/equity mix will be but a small heap leach operation should have a capital cost low enough (\$20 million or so) that development need not mean a lot of dilution.

SVL traded sideways through most of the summer before getting knocked down during the debt debacle. It started moving up on (for it) strong volumes when it started releasing results from the current phase of drilling at Santa Elena. There is some overhead resistance in the \$1.10-1.15 range but one or two more sets of good drill results should deal with that. There are no in the money warrants, etc to deal with for several months.

Management

SilverCrest is headed by President **Scott Drever** who was a part of Dome Mines when it merged to become Placer Dome, and headed Blackdome Mines in the late 80s when became a gold producer from its namesake gold mine in British Columbia. He also steered International Antam while it became a small scale gold producer in Indonesia. Drever knows what it takes to get a mining operation going.



Drever's partner and SilverCrest's COO and head of exploration is **Eric Fier**. Fier worked with Pegasus Gold as Chief Geologist, as well as with Newmont Gold and Eldorado Gold at both exploration and development levels.

The third member of the triumvirate that founded SilverCrest is CFO **Barney Magnusson** who worked at mine

developers High River Gold, Dayton Mining and Brohm Mining.

The board is rounded out independent directors George Sanders, a financier with broad capital market and corporate experience and Graham Thody, retired managing partner in a Chartered Accountancy firm.

Project Summary

The company's primary focus has been to outline a resource base that can move to production with a low development cost, and leverage the company into a mid-tier scale output.

SilverCrest's three Mexican projects are in northwestern Sonora, clustered 150 km northwest of the state capital at Hermosillo. Two of them had small deposits established by past operators that SVL is growing and advancing. The projects are near very good local infrastructure,

Quick Facts

(amounts in \$US)

SilverCrest Mines Inc.

Listed: **TSX-V: SVL**
Pinksheets: STVZF
Frankfurt: C5W

Share Issue: 34.7 MM; 45 MM

Insiders: 4.5 million

Share Float: 25 MM

Working Capital:

\$4 Million, \$12 MM Fully Diluted

52 Week High-Low: \$1.50- 0.55

Recent Price: \$1.09

3 mo Av Daily Volume: 100,000 shs.

Phone #: 1-866-691-1730

E-mail: info@silvercrestmines.com

Website:

<http://www.silvercrestmines.com>

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with roads, power and water sources on or near all of the properties.

As importantly, because they are near each other there is also a potential for district scale operational savings as new resources are outlined. SVL's Mexican portfolio is in the western, silver enriched portion the Sierra Madre Occidental trend.

These projects are typically focused along vein like structural zones that have historically been mined from underground as high-grade deposits. Adjacent to the veins are broad "halos" of lower grade gold and silver values that modern techniques can profitably recovery.

comp **SANTA ELENA**

SilverCrest acquired Santa Elena near the end of 2005, and has wasted no time in improving it. This 8000 acre project was the site of past mining before the Mexican revolution in 1910, and again briefly in the 1980s.

The Santa Elena deposit was mined underground on four levels. Most of the workings remain accessible, though SVL is working towards an open pit concept.

When SVL acquired Santa Elena it had an historical resource estimate of about 100,000 ounces of gold and 3 million ounces of silver or about 8 million silver equivalent ounces.

SVL focused much of its ef-

orts at Santa Elena in 2006, completing drill campaigns and a program of underground sampling. When that was completed, SilverCrest commissioned a new independent 43-101 resource study. The effect was dramatic, with the new calculation showing an increase of 300% in gold and silver resources from the first 9 months of work.

Drilling returned up to 17.6 metres at 4.3 g/t gold & 151 g/t silver, and 28.3 metres at 2.6 g/t gold & 82.9 g/t silver. Sampling within the old workings returned up to 4.7 metres at 30.4 g/t gold & 278 g/t silver, and 11.6 metres at 3.3 g/t gold & 91 g/t silver.

You've probably noted that this "silver mine" has a lot of gold in it. We have no problem with that. Gold heap-leaching has a three decade history, and gold has higher and more predictable heap leach recoveries. The gold grade by it self is strong for this deposit style. Strong enough to carry the project even before allowing for the silver output.

The drill program now underway at Santa Elena includes infill drilling in the existing resource area to move it to a "measured" category. With this in hand final costing for a production decision can be completed. Barring an unexpected change from past results, this should be enough to move the project to the development category.

Initial results from the expansion testing, where the high-grade vein material still in place, are very strong. They not only indicate an expansion of the pittable resource, they confirm a potential to extend an operation into a high-grade underground phase.

Highlights from Phase II drill results recently released include:

10.9 metres of 3.3 g/t gold & 139 g/t silver (35.6 ft of 0.1 oz/ton au & 4 oz/ton Ag);

21.4 m of 2.21 g/t gold & 172 g/t silver; and

21.2 meters of 2.84 g/t gold & 101 g/t silver.

The latter two holes also contained sections of 3 metres with 9.9 g/t gold & 320 g/t silver (10 ft of 0.29 oz/ton Au & 9.3 oz/ton Ag), and 3 meters with 12.7 g/t gold & 203 g/t silver.

These are strong underground grades and firmly establish that the deposit's high-grade potential was not restricted to the mined out area. High-grade testing can generate a much quicker resource expansion than has been the case to date. This could mean a rapid doubling of the resource. That is "why now" - before the market re-prices the stock.

We expect Santa Elena to be fairly inexpensive to develop

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as a mining operation. It is well situated within an area of strong general and mining infrastructure. Northwest Mexico, the country's growth area, is very welcoming of foreign investment. And SilverCrest's results compare very favourably with similar mining situations.

During last year's field visit I (David) noted a number of as yet to be tested target areas. At surface they appear to be "sinter zones" which are usually found near the top of epithermal systems like Santa Elena. New high grade zones, if they exist, will be subsurface in these areas and will be tested with drilling. These would have been the project's "plan B". With the main trend now working out so well, these represent further potential to expand the resource base, and exploration leverage for SVL's market.

On top of this, the nearby Cruz de Mayo-Angels projects offer potential savings from a regionally based operation.

CRUZ DE MAYO

Cruz de Mayo is 30 kilometers northeast of Santa Elena. It has a limited history of providing flux to a local smelter, a high silica rock, purchased in this case on the basis of paying for recovered silver.

Drill testing of the main El Gueriguito zone in the 1970s generated an estimate of 2 million tonnes @ 150 g/t silver & 0.4 g/t gold (about 8 million silver equivalent oz). SVL has carried out two drill

campaigns at Cruz de Mayo, and will produce an independent resource calculation shortly, that includes a new zone on trend from El Gueriguito.

SilverCrest's initial results did not seem to match past results from the same area. After investigating the problem with the help of its outside lab, SVL management concluded a different assay technique, known as "four acid digestion", was needed. This technique, which also better emulates the heap-leach process, had been used to upgrade at least one other deposit in the area that is now about to begin production.

Re-assaying using four acid assaying has significantly improved results, and given an initial indication the deposit could be heap-leached.

The Cruz de Mayo zones are typical in having core high-grade surrounded by a lower grade halo, and they dip at almost exactly the slope of the ridge that encloses them which should help keep mining costs low.

The new on-trend zone discovered by SVL included a "discovery hole" with **59 metres of 111 g/t silver (193 ft of 3.2 oz/ton)**, that included a 7.5 m of 489 g/t silver (24 ft of 14.3 oz/ton), and sections of over 1000 g/t silver. This is a very strong result. Nearby holes confirm that this new zone has a potential as either a large low grade zone, or a smaller but

lower cost high-grade core zone.

SVL completed Phase II drilling and these results are being incorporated into an independent resource study. Based on the larger area drilled and thicker intersections, the Cruz de Mayo 43-101 resource could show a large increase over the current 9 million ounce silver resource.

Whether this new zone will be able to generate its own heap-leach operation, and at what scale, will come down to how readily the silver can be recovered. We think the high-grade core at least offers potential to add material to a regional resource based on an operation at Santa Elena. That has not been factored into the SilverCrest valuation by the market.

The "**Angels**" regional target extends for 14 km away from the Cruz de Mayo deposit. Though it is still a grass roots project, it is an extension of a known system and that by itself will aid its exploration. There are a number of small former producing mines along this trend but there is little information about them. SVL does consider this are important and as the more advanced project are brought along, it will offer speculative appeal to keep the market interested.

EL ZAPOTE (EL SALVADOR)

El Zapote is a good project

with a mineable resource of 3 million tonnes @ 150 g/t silver, 0.18 g/t gold and 1/25% zinc. Unfortunately, El Salvador has become a difficult area to operate thanks to a highly active anti-mining NGO contingent. SilverCrest may

get its mining permit in El Salvador which will be a huge bonus, be we prefer to value it on Mexico alone and leave El Zapote as a "lottery ticket" that might magnify returns.

There are other companies

active in El Salvador that are working through the permitting process. Should they be successful the value of El Zapote, either as an in-house project or saleable asset, would dramatically increase.

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