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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio:

In a Buying Mood

Performance Review - December 2011

Model Mining Portfolio

In a Buying Mood

- \+ Despite appearances to the contrary the gold price is still pretty healthy
- \+ Copper has proven to be quite resilient at its new level midway between $3 and $4 per lb
- \+ Stocks of base metals seem to have reached lows and buying to replenish is putting a floor under base metals' prices
- \+ Uranium blues seem to be diminishing the more distant the events of last March become
- \+ Some selective takeovers are putting cash in investors hands (e.g. Hathor, Quadra FNX)
- × Rare Earths are dead and resistant to any bounces in the broader metals group.
- × The financing drought worsens by the day

The Month That Was –

The mining sector now resembles a Civil War battlefield with a few wounded staggering around amongst the corpses, the shell holes and burnt out weaponry. It's grim out there. Valuations are off much more than the metals that underlie the various stock stories. If we take the admittedly deficient Gold Shares ETF (GDX) it is off 24.3% from its highs while the Gold SPDR ETF (the Physical Gold ETF) is off only 18.4%. This is made all the more poignant when one considers that the GLD had massively outperformed the GDX over recent years.

Dividends – Prying Open the Death-like Grip of Big Gold

Big Golds seem to have discovered religion and are seeing the light, finally, in paying their long suffering shareholders some dividends. Big Silver could take a leaf from their book and join the club.

We always get annoyed at the tacit sub-text to non-dividend payment by hugely cash-flow positive miners. This sub-text reads like "we know better how to spend this money than you do" and then they proceed to go out and blow it on over-priced and unjustified acquisitions. The best case of this is Kinross, a serial offender if ever there was one. On the day its Red Back acquisition (which we opposed) closed the stock was trading at $19. Now it is below $12. Even worse the much vaunted acquisition of Underworld Resources (a name that put us off upon first hearing it) is reputedly being unwound with the asset, *sotto voce*, up for sale. And these people know how better to spend their cash than we do? If the Red Back (and Underworld) money had been paid out as a dividend shareholders would be a lot happier than they are now. With any luck they would have put it into gold, via the Gold SPDR ETF, and seen their purchase go from $125 to $155 over the same period.

Iamgold (IAG) announced a 25% increase in its dividend in recent weeks taking the annual dividend to 25 cents a share, more than four times last year's 6 cents dividend. Earlier in December, Goldcorp lifted its dividend by 32%, the third increase in little more than a year. Barrick Gold pushed up its pay-out by a quarter in a Dickensian show of generosity to the Great Unwashed on its register.

Below can be seen the gold mining equivalent of Scrooge. Newmont comes out as the best of a bad lot.

Out of its TTM EPS of $4.39, it peeled off a measly $1.40 to the investors. A payout of around 33% of the EPS seems to be about the most that shareholders can hope for from this group though most are paying out less than 25%. Beyond the stinginess with earnings is the fact that most of these companies are also sitting on mountains of unspent cash. The parallels between this group and the upper echelons of the tech space (another coterie of dumb deal-doers) could not be more poignant.

Company	**Market Cap**	**P/E**	**Div. Yield %**
Yamana Gold, Inc.	10.37B	18.30	1.4
Gold Fields Ltd.	10.92B	40.37	1.8
Kinross Gold Corporation	13.30B	20.44	1.0
African Barrick Gold PLC	1.91	603.95	NA
Newcrest Mining Limited	24.32B	25.21	NA
Newmont Mining Corp.	30.56B	14.07	2.3
Goldcorp Inc.	36.72B	23.04	1.2
Centerra Gold Inc.	4.37B	9.90	NA
New Gold, Inc.	4.50B	14.18	NA
Franco-Nevada Corporation	4.71B	35.46	1.3
Barrick Gold Corporation	44.18B	10.59	1.3
Harmony Gold Mining Co. Ltd.	3.28B	43.36	0.6
Randgold Resources, Ltd.	5.96	2048.97	NA
IAMGOLD Corp.	6.08B	7.47	1.5
Agnico-Eagle Mines Ltd.	6.22B	52.41	1.6
AngloGold Ashanti Ltd.	79.67B	85.49	1.0
Eldorado Gold Corp.	8.04B	30.38	0.8
Compañia de Minas Buenaventura	9.75B	11.45	1.2

Source: Hallgarten & Co.

Beyond gold we can look at Hudbay. The company is full of cash (over $871mn at September end), it made a trailing twelve month 32 cts per share and still has no dividend. For ages it said it could not find anything to buy as the justification for not spending its cash mountain (which was over $900mn at one point) and still there was no dividend payout. This boils down to an even more bizarre attitude that might be posited as “we don’t know better than you what to do with the money but you aren’t having it, so go jump in the (Snow) Lake”. The stock is trading at just over 50% of its 12-month high. Enjoy!

Curiously enough the (supposed) conversion of the Big Golds to dividends coincides with real bargains lying around in the gold lower and middle tier. So we see that Big Gold made acquisitions when stocks were expensive and refused to pay decent dividends and now that bargains abound they are paying out more to shareholders. Hmmm, funny that…

The Portfolio Move

We would note that Adamus closed its merger with Endeavour Mining of Canada and thus has been switched over on the stipulated ratio in the Model Portfolio.

We would also note that the KGHM takeover of Quadra FNX puts a strategic stake in Capstone in KGHM's hands.

The Model Mining Portfolio had a valuation of $5.322mn on the 31st of November 2011 and now stands at USD$4.881mn which some USD$2.239mn is the net cash position.

Portfolio Changes

The pace of portfolio transactions picked up dramatically during the past month after a long lull. Bargains and new discoveries tempted to us to whittle down our cash mountain.

- Adding a Long position in Maya Gold & Silver to the Model Mining Portfolio. Purchased 400,000 shares in MYA.v at CAD 26 cts on the 16th of December 2011

- Covering our Eldorado Gold Short position in the Model Mining Portfolio. Purchased 20,000 shares in EGO at USD 16.32 per share on the 9th of December 2011

- Adding a Long position in Quaterra to the Model Mining Portfolio. Purchased 150,000 shares in QMM at USD 62 cts per share on the 9th of December 2011

- Adding a Long position in Canada Zinc to the Model Mining Portfolio. Purchased 120,000 shares in CZN.to at CAD 82 cts per share on the 9th of December 2011

- Adding a Long position in Canada Flourspar to the Model Mining Portfolio. Purchased 300,000 shares in CFI.to at CAD 36.5 cts per share on the 9th of December 2011

- Added a Long position in Silvercrest Mines to the Model Mining Portfolio. Purchased 70,000 shares of SVL at CAD$2.18 per share on the 2th of December 2011

- Selling our Long Position in Eagle Star Minerals in the Model Mining Portfolio. Sold 200,000 shares in EGE.v at CAD 9 cts on the 1st of December 2011

- Selling our Long Position in Goldgroup in the Model Mining Portfolio. Sold 150,000 shares in GGA.v at CAD$1.33 on the 1st of December 2011

- Selling our Long position in Timmins Gold in the Model Portfolio. Sold 60,000 shares in TMM.to at CAD $2.34 on the 1st of December 2011

- Adding a Long position in Geologix to the Model Mining Portfolio. Bought 400,000 shares at CAD 25 cts on the 1st of December 2011

Firstly the expellees…

We covered our Eldorado Gold (EGO) Short because the stock was initially added due to the look it had of being a China proxy. It rose and then fell and we decided to take our profits as the company has now ventured back into Brazil and is finally ramping up its Greek operation. The latter should be a winner ifGreece defaults and operating costs head south. However, just a few days later Eldorado announced its bid for European Goldfields, which sent EGO's stock tumbling (to as low as US$13.09, a twelve-month low) and we missed a sterling opportunity to cover even lower.

Our old favorite Timmins Gold committed a major *faux pas* in our view in appointing as CFO a blast from the past in the form of an ex-Gammon, ex-Nayarit and ex-Capital Gold "personality". If this is how one signals that one is next on the radar screen of the Wizard of Halifax we are unimpressed and exit the ship before it sails into those waters.

Eagle Star has fallen into micro doldrums from which it is hard to escape. We have decided to exit before it's too late. Financing at this level will be well-nigh impossible particularly in light of the massive commitment required for any iron ore project.
Goldgroup has crossed our target price after a healthy run-up and so we decided to take profits.

Geologix Explorations (GIX.to) – Fodder for Offtakers

This is the Second Coming of GIX to the Model Portfolio. It was originally added in June 2010 at 19 cts and then closed out at 63 cts in January 2011. The company's focus is on mineral exploration in Mexico and Peru, with its current primary project at the moment being the Tepal Gold-Copper Porphyry Project in Michoacán State, Mexico. Like so many junior explorers the stock was ground into the dirt by the 2008 slump and it has only recently started to get its house back in order. We had a conference call with the CEO, Dunham Craig, in recent weeks.

The Tepal property it must be confessed has a lowish grade in both the copper and gold portions which it compensates for in sheer size. It has an inferred resource of 72.7 million tonnes grading 0.49 g/t gold and 0.25% copper, for a contained 1.15 million ozs gold and 413 million lbs copper or 2.4 million oz. gold equivalent based on $700/oz. gold and $2.20/lb copper metal prices. Recent drilling is expected to move its inferred resource into the indicated category. According to the company the known resource remains open for possible expansion in multiple directions and holds numerous highly prospective targets that remain untested throughout the project area. One does not even really need to subscribe to the upside to like the sheer size of what the company has already, hence our repeated attraction to the stock.

The company has produced two PEAs in recent times (2010 and then early in 2011) with the latter updating the former for the expanded resource. The PEA gives a mine life of 17-19 years but the company is thinking of rejigging the daily volume up to 35,000 tpd at the mill to increase the output and shorten the mine life. The capex is north of $300mn so quite an obstacle to surmount. It is felt that offtakers/refiners/traders will help fund the project while the rather disinterested equities market sits on its hands with regard to funding new base metals projects.

The company's second prospect was an earn-in with Riverside Resources called Libertad. Despite some promising intercepts from work done by GIX, the resource looked like it would come out too small (in the low hundreds of thousands of ounces) to be of interest and GIX thus returned the property to Riverside in recent weeks.

Our 12-month target price for Geologix this time around is 50 cts.

Canadian Zinc (CZN.to) – Rewarded for Persistence

Canadian Zinc Corporation has been on the radar screen for so long without ever moving that one wonders if it is really just a speck of dust on the glass. This Toronto-listed exploration company has hoed a long and trying row as it has attempted to get its Prairie Creek Silver mine in the Mackenzie Mountains of the Northwest Territories into production again. The Prairie Creek Mine is partially developed with an existing 1,000 tpd mill (pictured below) and related infrastructure.

The mine, which has a long history, is a silver and base metals property with substantial resources (from a NI 43-101 from Minefill Services Inc) of high-grade silver, zinc, and lead:

- Measured and Indicated Resources of 5,840,329 tonnes grading 10.71% zinc, 9.90% lead, 0.326% copper, and 161 g/t silver
- Inferred Resource of 5,541,576 tonnes grading 13.53% zinc, 11.43% lead, 0.514% copper and 215 g/t silver

Exposures of mineralized vein structures, which overly thicker strata-bound mineralization, both of which are included in the present resource, are known to occur over a distance of 16 kms through the property. This holds out the prospect of long-term production if the project can be got up and running.

In the history of tortured deposits, Prairie Creek has its own *Red Badge of Courage*. Originally mineralization was discovered at Prairie Creek in 1928 with limited work conducted on the property until 1966. Then exploration started to heat up under the ownership of Cadillac Explorations until in 1970, the property was optioned to Penarroya Canada under whose aegis underground development of Zone 3 was carried out, as well as bulk sampling and preliminary metallurgical test work. Cadillac terminated the option agreement with Penarroya later that year. Between 1970 and 1980 extensive underground development of Zone 3 at the 3,050 foot and 2,850 foot levels took place. In 1980, an independent feasibility study was completed and financing negotiations were completed with the infamous Hunt Brothers as they were in full throttle of their silver “corner” thus enabling Cadillac to acquire the 1,200 tpd Churchill Copper concentrator which was dismantled and transported to Prairie Creek.

By May 1982, the surface facilities were 90%-95% completed, and mine preparation work to produce an initial 500 tons per day had been finalized. A total of CAD$64 million had been expended on the project when the silver cornering effort blew up, the silver price collapsed and Cadillac was forced into bankruptcy, with the project, and all the other assets of the Hunt’s Procan, were tied up in litigation until 1990.

In 1991 Canadian Zinc (then known as San Andreas Resources Corporation) optioned to acquire a 60% interest in the property. The company began a 40,000 metres surface diamond drilling and an underground exploration program which expanded the inventory of known resources on the property. From that point on the company entered into what seemed like interminable environmental and First Nations discussions. It takes an almost Sisyphean IR effort to keep such a story in front of investors for as long as CZN has (hence the Hallgarten *Red Badge of Courage* award to the company). Though we had remained wary of putting it into the Model Mining Portfolio until the most recent events.

Then on the 8th of December 2011, the Mackenzie Valley Environmental Impact Review Board issued its verdict that the proposed development of the Prairie Creek Mine was not likely to have any significant adverse impacts on the environment or to be a cause for significant public concern. The Review Board has therefore concluded that an environmental impact review of this proposed development is not necessary and that the Prairie Creek Mine project should proceed to the regulatory phase for approvals.

The sudden turn in fortunes resulted in the opening of a financing opportunity that hitherto was not apparent in the Canadian markets where Zinc and Lead have largely become unwanted and unloved metals. Striking while the iron was hot the company launched a bought deal public offering which was hiked in size, as enthusiasm (there is a word seldom used in conjunction with a zinc miner) grew, to 7,610,000 units at CAD$0.67 per unit (one common share and one-half warrant exercisable at $0.90 per common share for a period of 24 months) for total proceeds of C$5,098,700. This then enthused participants in a concurrent flow-through issue of 3,175,000 FT Shares at C$0.75 for gross proceeds of up to C$2,381,250. On top of this there was a private placement of 15,000,000 at a price of C$0.67 for an amount of $10.05mn with the Chinese metals investment group, Shandong Zhongrun. The collection of over CAD$17mn in the current malarial financing market shows the advantages, that the positive news on the permitting front, have imparted.

In line with our widely-aired belief that one cannot be too overweight zinc in view of an upcoming supply crunch in the metal we have added a Long position in CZN to the Model Mining Portfolio with a 12-month target price of CAD $2.

Quaterra Minerals (QMM) – price reduced for quick sale

This company is also on its second go-around in the Model Mining Portfolio. It was originally added at inception in May 2009 at a price of US 67cts and then covered in January 2010 when we sold two-thirds of the position at $2.05 and the balance one month later much lower at $1.42. Recently we went on a joint mine tour to visit the Yerington region assets of Entrée Gold and Quaterra and discussed what we saw in a recent note focused on the Yerington potential from the perspective of Entrée Gold's assets.

This encounter with Quaterra after a long lull prompted us to review where the company was and where it might be going. When we first bought into it, the company was dramatically inexpensive in light of its numerous assets. Most of the assets are still the same with the point to note being that the once important Uranium prospect in Arizona now being "damaged goods" due to its proximity to the Grand Canyon where exploration bans have been instituted. This was not of much interest to us anyway; however we believe the major *faux pas* in recent times was the failure to spin off the 50%-owned Nieves silver asset in Mexico when the market for silver was hot in March/April of 2011. Instead the oft-criticised hoarding tendency of the company was evident and the opportunity to capitalize on the asset was lost. Something could still be done but it would be at a much lower price.

The good development at the company was getting the environmental expiation at Yerington. Even though QMM had nothing to do with the past sins of operators of the two former mines there, the company had long been held up waiting for official word that it would not be held liable. This came through late in 2010 and the company went into overdrive with a drilling campaign to provide it with a basis for producing a modern resource statement and a scoping study to move the mine(s) forward.

Quaterra has been readmitted to the Model Mining Portfolio as its valuation has fallen to levels which do not reflect the potential of Yerington, let alone Nieves and some of the other assets. Our 12-month target price for Quaterra is $1.20.

Canada Flourspar (CFI.to) – a French sponsor transforms the Outlook

Fluorspar is scarcely the word on everybody's lips and in fact hardly gets a mention despite its economic importance and the grip that China has had on supplies in recent years. Our previous interaction with mineral was in relation to some rather unique REE deposits in New Mexico that occurred in concurrence with Fluorspar. Recently we met with the CEO of Canada Fluorspar and discussed the developments there which prompted us to add a position to the Model Mining Portfolio.

Fluorspar is used in the production of hydrofluoric acid which is the primary feedstock for the manufacture of virtually all organic and inorganic fluorine-containing compounds including fluoropolymers and fluorocarbons. Some examples are anesthetics, non-stick coatings, and fire retardant clothing. It is also used in the production of electronic components, aluminum, and steel. The international market consumes approximately 5.6 million tonnes of Fluorspar per annum with an estimated value of US $1.6 billion.

Canada Flourspar is developing a large fluorspar project in St. Lawrence in Newfoundland. This involves the reactivation of past-producing underground fluorspar mines, expansion of an existing mill, construction of a new tailings management facility and a new deep-water marine terminal in the outer St. Lawrence Harbour for the export of a fluorspar concentrate product. The project is anticipated to produce between 120,000 and 180,000 tonnes of fluorspar filtercake concentrate per year.

Somewhat typically of the mining space the parochialism is manifested in the reaction (or lack thereof) to the company's announcement that it had teamed up with Arkema of France to move forward its mine reactivation. Arkema (formerly the chemicals division of Total) is one of France's leading chemicals producer with operations in more than 40 countries, 14,000 employees and 8 research centers, generating annual revenue of €5.9 billion.

Arkema made an initial investment of CAD$15.5 million in mid-2011 acquiring 9.9% of CFI (10.3 million common shares at $0.75 per share or twice the current stock price) and a further 10% of the common shares (10.4 million subscription receipts at a price of $0.75 each) which on conversion would give Arkema a total of 19.9% of CFI. The second investment tranche consisted of CAD$68mn injected into a partnership owned equally by CFI and Arkema. CFI contributed the mining rights and permits related to the Blue Beach mine, Tarefare mine, the mill facilities and the tailings pond needed to produce fluorspar.

In a case of it “never raining but pouring” in August the government of Newfoundland and Labrador announced a $17 million repayable “contribution” to CFI to set in motion its fluorspar mine.

It is rare to find a deal (excepting Donner Metals) that is well-funded and scarcely dilutive which gets a mine functioning in relatively short order with a major as an off-taker. For those reasons we have added Canada Flourspar to the Model Mining Portfolio with a 12-month target price of $1.00

Maya Gold and Silver (MYA.v) – past producer in a novel location

Never let it be said that an exotic location scares us off. When we first were introduced to Maya a couple of months back, our first reaction was to think it another Mexican precious metals play amongst the numerous supplicants seeking attention. However the company’s name is a misnomer twofold for neither is its focus Central American nor does it have any gold to speak of. Instead this Montreal-based company has as its attention centred on Morocco in North Africa where it has several past producing properties, in partnership with a State mining entity. Morocco has been a site of mineral production for thousands of years, but our only previously encounter with the potential was in looking at the historical Manganese production there in the 1930s.

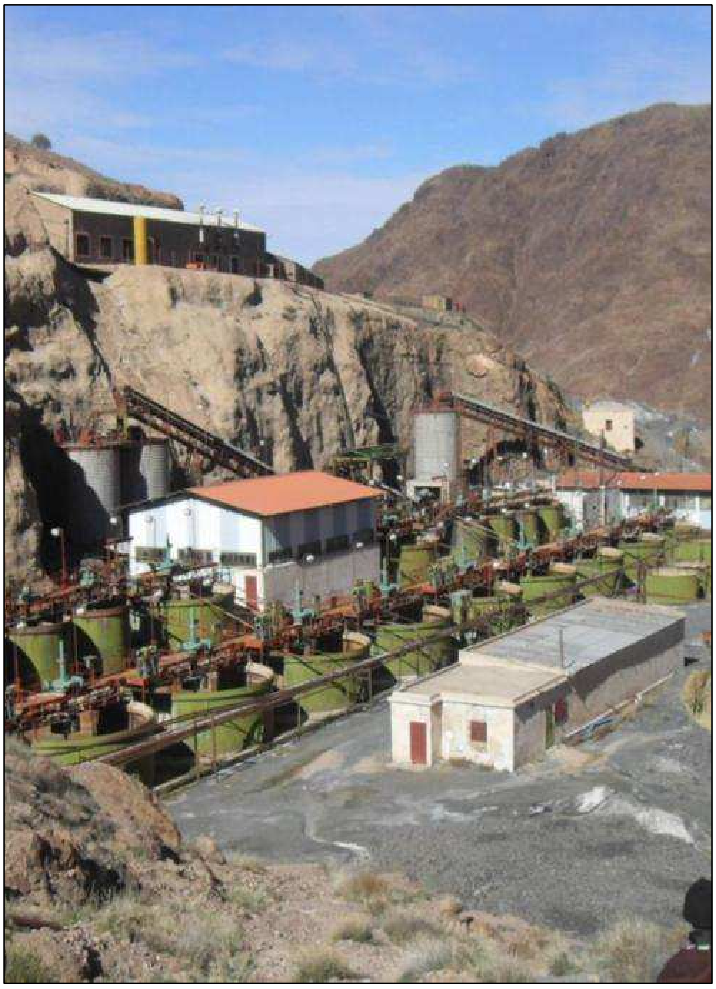
Maya’s assets though are mainly silver (Zgounder and Amizmiz) in the first instance but with further exposure in secondary properties to Tungsten and Moly.

The story with Zgounder dates back to March 2011, when the Moroccan government entity, *L’Office National des Hydrocarbures et des Mines* (ONHYM), launched an international tender in order to rehabilitate and develop the Zgounder silver project located in the Anti-Atlas mountains of central Morocco.

ONHYM is a state-owned company responsible for the promotion of the mining and oil activities of the Kingdom of Morocco. ONHYM pursues four fundamental objectives: the intensification of mining and oil exploration, the development of partnership, the research of technical excellence and the establishment of a culture of performance.

ONHYM awarded the mine to Maya, after the international tender was decided, and in September 2011 Maya entered into a joint venture with ONHYM to acquire 85% of the Zgounder silver deposit (via a Moroccan subsidiary, of which ONHYM would hold a 15% net carried interest). As part of its offer to the ONHYM, Maya and SGS Canada prepared a comprehensive program to further explore the property, develop infrastructure and restart the underground operations of the deposit.

The silver deposit is located 150km south of Marrakech and approximately 250km east of the major port city of Agadir. It is accessible via gravel road and covers some 16 square kilometres.



The Zgounder mine (pictured at the left) was kept on a care and maintenance basis by the ONHYM since operations were shutdown in 1990 as a result of the weak silver price. The normally arid climate of the Anti-Atlas has helped keep the mine's plant and equipment in generally good condition.

The existing cyanidation plant was originally designed to process 75-80,000 tonnes per annum.

The historical production, in the period 1982 to 1990 was reported to be 500,000 tonnes grading at 330 g/t Ag yielding 5.9mn ounces of silver.

CMT (the former owner) had performed a program of reserve extension between 2000 and 2003. It yielded a total resource of 16mn ounces Ag. They also came up with a non-NI 43-101 estimate of the geological potential of the likely extensions of the ore body exceeds 45Moz. The former owner also reported that the newly discovered North Zone exhibited higher silver grades and narrower widths thereby providing further exploration targets.

A historical Resource dating from 2004 estimates:

- 582,000 tonnes at 361 g/t Ag (150 g/t Ag cut-off) - (7.5M ounces)
- 500,000 tonnes at 125 g/t Ag [surface tailings] – (2.2M ounces)

As these resource numbers are not NI 43-101 compliant, Maya is not treating the historical estimate as current mineral resources or mineral reserves.

Also, based on previous work, ONHYM had estimated (at a cut-off grade 150 g/t Ag):

- Proven reserves: 120,000 tonnes at 500 g/t Ag
- Probable reserves: 195,000 tonnes at 360 g/t Ag
- Possible reserves:267,000 tonnes at 300 g/t Ag

It is Maya's intention to commission an independent NI 43-101 technical report at a later date.

The overall budget allocated to the transaction for the first 24 months is CAD$20.5mn, which includes the initial cash payment, exploration, infrastructure development in addition to mine and site rehabilitation. ONHYM will retain a 3% royalty on sales.

Zgounder is not Maya's first exposure to Morocco as it already had been working for several years on its Amizmiz greenfield project and the Azegour mine.

The Amizmiz gold property covers 80 square-kilometres, and is situated about 60 kilometres south of Marrakech. Gold was discovered on the property in 1999. Previous works on Amizmiz project have highlighted more than fifty gold and silver occurrences and four types of precious metals mineralization. Thus far, between 2009-20011, Maya has spent CAD$3.4mn on exploration with the result that the deposit has a Total inferred resource of 342,094 ounces (819,769 tonnes at an average grade of 12.98 g/t Au) which would rank it as high-grade by almost any measure in this day and age of thin gruel on the grade front in most new discoveries. Curiously the company feels that Azegour salvage could be of use in moving towards production at Amizmiz i.e. reusing ball mill, flotation cells, pumps for the mill.

In March 2011, Maya picked up a 100% interest in the Azegour mine and its associated mining permit covering 16 sq kms. The Azegour permit lies directly south of the Amizmiz property and is a past-producing mine containing some quantities of molybdenum, copper and tungsten that could be sold in a form of concentrate. It was shut down in 1971 due to weakness of price of these metals. Total exploration costs spent by the previous owners were in the order of CAD$4.5mn, including infrastructure (which account for CAD$1-2mn. The property has never been investigated for gold and silver.

The company has also added an asset called Imiter Bis to its portfolio which is in close proximity to the currently producing Imiter mine (10th largest in the world).

The attraction at Maya is its first mover status in a country that, though not new to mining, is not one in which Western mining companies have recently done anything. In light of the country's good infrastructure and, hitherto, receptiveness to Western tendencies, it should be even easier to operate here than some of the "starter countries" in Africa. We have a 12-month price target of CAD 80 cts for Maya.

Silvercrest (SVL.v) – an overlooked producer

The very name of this company is destined to create confusion being scrambled in our mind with Silvermex and Eaglecrest while its ticker can easily be addled with that of the Silver ETF (SLV). We recently had the opportunity to meet with the company in San Francisco and the story was definitely meritorious of being added to the Model Mining Portfolio in light of the severe pullback in the price of silver (which has helped our Short position in the aforementioned Silver ETF). The company's market capitalization is just under $200mn at the current time.

SilverCrest's flagship property is the 100%-owned Santa Elena Mine, located 150km northeast of Hermosillo, 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 anticipates that the 2,500 tonnes per day facility should produce an average of approximately 800,000 ounces of silver and 30,000 ounces of gold per full production year from the open-pit heap leach operation.

Source: Silvercrest

The current resource of the company at Santa Elena is not all that large but tends to be one of those companies that focus on production rather than hunting out ever bigger resources that then never produce anything. In the company's view the current mine is more of a gold producer than a silver producer by value, thus making the company's name somewhat of a misnomer, at least for the moment.

Santa Elena & Cruz De Mayo

Resources	Tonnes	Au Grade	Ag Grade	Contained Au	Contained Ag
		g/t	g/t	Troy oz	Troy oz
Santa Elena Indicated	6906000	1.62	77.4	359300	17194000
Santa Elena Inferred	6198000	0.78	53.4	155200	10631000
Cruz de Mayo Indicated	1141000	0.06	64.2	2300	2353400
Cruz de Mayo Inferred	6065000	0.07	66.5	13300	12967100

Total Indicated	8047000	1.40	75.5	361600	19547400
Total Inferred	12263000	0.42	59.8	168500	23598100

based on US$1,000/oz of gold and $18/oz of silver, cut-off grade of 0.38 g/t gold equivalent at applied metallurgical recoveries. Inclusive of Santa Elena open pit Indicated Resources that have been converted to Probable Reserves which are stated below. Adjusted and depleted for 2010 mine production.
**** based on a silver cut-off grade of 30 g/t. This is presented in the 2007 Fier and Wallis Technical Report**
source:

The company has a second project coming on in the La Joya property. This will be predominantly silver, however mine plans are still a long way off.

The main negative at Silvercrest is its hedging which is a result of a financing agreement with Macquarie Bank (and Sandstorm). This has proven to be financially onerous in the short term with a charge of $2.4mn in 1Q11, $3.5mn in 2Q11 and $6.5mn in 3Q11. The company still needs to deliver 42,846 ounces of gold between now and 2014 to extinguish this obligation. Despite this earnings have started on an upward trend since commercial production was attained in the June quarter of 2011. The first quarter of production provided a net profit of $701,000 while earnings in the September quarter were $2.2mn. Production is also on an escalating path with 2012 production expected to be 32,000 oz Au & 450,000 oz Ag.

The company has over $30mn in the bank and we would hope some exit scenario from the hedging is being pondered. We have added the company as a Long position to the Model Mining Portfolio with a twelve month price target of $2.80.

Parting Arrow

And if you think you have it bad then spare a thought for the “Lucky Country”. Australian mining companies are struggling into New York these days like refugees from a war zone as they come marketing to hard-nosed investors. What gives? The broader Australian economy survived the events of 2008 very well and managed to sustain a property bubble, only bettered by that of Vancouver, and yet Australian miners today present a very sorry sight indeed. To say that financing is tight is an understatement, it is non-existent. At least the Canadian mining space can come up with microfinancings and flowthroughs, the Australian miners are reduced to rattling their cups in ever more distant locales to rustle up a widow’s mite to keep their shows on the road. The problem seems to be two-fold. The property boom has ground to a halt and thus its cash (and collateral) generation possibilities are now mined out for an equity market that was sophisticated and yet insular and the Chinese factor has been dampened down by accident or design.

Three decades back the Australian miners of a certain stature regularly went to London, and to a lesser extent New York, to include a component of international investors in their deals. The demise of the foreign offices of Australian brokers coincided with the rise of almighty superannuation schemes in Australia which provided a burgeoning source for domestic funding of deals. We had been amazed in recent years to encounter Australian early stage copper explorers, without a resource, with $300mn market caps or potash companies in super-exotic locations with $600mn market caps. The same companies in the overcrowded and cynical (though prone to faddishness) Toronto market would have a sub-$100mn and sub-$50mn market cap respectively at that stage of the exploration lifecycle. Despite the supposed bad times, these companies have valuations that are still probably at double what they would have had in Toronto at their peaks. And yet no money is forthcoming for future activities but the valuation still stay up (though not as elevated as their once ebullient shareholders might like).

The other factor that has turned sour has been the Chinese buying spree which was most evident in iron ore, but had also manifested itself in base metals to a greater degree than it ever did in Canada. That this should go off the boil was almost inevitable as credit tightened up in China, as the government there chose a smaller group of champions that would be allowed to do these overseas adventures and as the number of sectors the Chinese were allowed to buy into was restricted by the Australian government and public opinion. There had been too many rejections for the Chinese to feel welcome any more (not that we weren't in line with blocking attempts to "buy the farm"). However, it is somewhat ironical that as the market elevator nears the bargain basement level, the Chinese are resurfacing on some of their past abandoned deals and reviving their offers to a wholly more enthusiastic seller base amongst shareholders who feel like they have been through the wringer. Two recent examples of this are China Guangdong Nuclear Power Corp's revived move on the AIM-listed Kalahari Minerals, which controls Extract Resources the ASX-listed owner of uranium properties in Namibia (thus triggering a bid also for the latter) and the reactivated bid by Wah Nam for iron-ore prospector, Brockman Resources, which had previously faded through lack of acceptances. This time they are both likely to be knocked over in the rush of sellers.

How the worm has turned….

Mining Model Portfolio as at: 28-Dec-2011

	Security	Date of original rec.	Currency	Price Avg.	Price Current	Portfolio Weighting	Increase in Value	12-mth Target Price
	Long Equities							
Various Large/Mid	Thompson Creek Metals (TC)	01/15/10	USD	9.85	6.79	8.8%	-31.0%	$20.00
	Capstone Mining (CS.to)	05/29/09	CAD	2.32	2.70	3.8%	16.4%	$5.00
	Platinum Group Metals (PLG)	02/11/10	USD	2.02	0.88	2.7%	-56.4%	$3.80
	Revett Minerals (RVM.to)	11/15/10	CAD	3.15	4.80	5.7%	52.4%	$5.00
	Industrial Minerals (IDM.ax)	04/14/11	AUD	0.21	0.13	0.2%	-38.2%	$0.80
	Uranium Participation Corp (U.to)	10/20/10	CAD	7.01	5.35	3.9%	-23.7%	$9.00
	Silvercrest (SVL.v)	12/02/11	CAD	2.18	1.77	3.6%	-18.8%	$2.80
	Quaterra Resources (QMM)	12/09/11	USD	0.62	0.55	2.5%	-11.3%	$1.20
	Entrée Gold (EGI)	10/24/11	USD	1.61	1.16	3.5%	-28.0%	$3.50
	Labrador Iron Mines (LIM.to)	08/20/10	CAD	4.61	5.10	3.8%	10.6%	$7.50
	Yukon Nevada Gold (YNG.to)	07/20/10	CAD	0.34	0.25	2.2%	-25.8%	$1.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	01/15/10	USD	7.04	6.69	2.0%	-5.0%	$11.00
	Canadian Zinc (CZN.to)	12/09/11	CAD	0.82	0.66	0.0%	-19.5%	$2.00
	Nyrstar (NYR:BT)	09/28/09	Euros	7.69	5.98	5.4%	-22.2%	$13.00
	ZincOx (ZOX.L)	10/26/10	GBP	39.25	52.81	3.7%	34.5%	£68.00
	Donner Metals (DON.v)	09/26/11	CAD	0.20	0.20	2.9%	0.0%	$0.45
	Tamerlane Ventures (TAM.v)	05/13/11	CAD	0.29	0.11	0.8%	-62.1%	$1.00
Gold Producers	Adamus Resources (ADU.ax)	10/22/09	AUD	0.44	0.72	5.5%	63.6%	$1.20
	Golden Band Resources (GBN.v)	04/13/10	CAD	0.28	0.24	0.7%	-14.3%	$0.65
	Norton Goldfields (NGF.ax)	03/13/11	AUD	0.18	0.18	5.5%	0.0%	$3.00
	Atna Resources (ATN.to)	09/24/11	CAD	0.85	0.86	3.0%	1.2%	$2.40
	NWM Mining (NWM.v)	11/29/10	CAD	0.10	0.08	2.4%	-20.0%	$0.36
Gold Explorers	Oromining (OGR.v)	12/03/10	CAD	0.39	0.14	1.2%	-64.1%	$1.32
	Lion One (LIO.v)	05/13/11	CAD	1.20	1.05	3.1%	-12.5%	$2.70
	Geologix (GIX.v)	12/01/11	CAD	0.25	0.27	3.2%	8.0%	$0.50
	Cerro Resources (CJO.v)	05/01/09	CAD	0.08	0.11	3.8%	30.6%	$0.30
Other Juniors	Malaga (MLM.to)	12/15/09	CAD	0.14	0.12	0.7%	-14.3%	$0.60
	Canada Flourspar (CFI.to)	12/02/11	CAD	0.37	0.40	3.5%	9.6%	$1.00
	Maya Gold & Silver (MYA.v)	12/09/11	CAD	0.26	0.28	3.3%	7.7%	$0.80
	Reed Resources (RDR.ax)	12/15/09	AUD	0.59	0.29	1.7%	-50.4%	$1.80
	Northern Minerals (NTU.ax)	06/09/11	AUD	0.73	0.37	1.6%	-49.3%	$1.50
	Cap-Ex Ventures (CEV.v)	05/13/11	CAD	0.92	0.93	3.3%	1.1%	$1.50
	UCore Rare Matels (UCU.v)	08/20/10	CAD	0.40	0.34	2.0%	-15.0%	$0.70
	NET CASH					**2,239,819**		
	Short Equities							
						Weighting		
Shorts	US Gold (UXG)	05/01/09	USD	2.34	3.04	19.2%	-29.9%	$1.70
	Gold SPDR ETF (GLD)	11/15/10	USD	133.93	151.67	9.1%	-13.2%	$115.00
	St Elias Mines (SLI.v)	06/09/11	CAD	1.79	1.90	3.4%	-6.1%	$0.80
	Silver ETF (SLV)	02/24/11	USD	31.09	26.53	4.0%	14.7%	$27.00

Current Cash Position	**2,239,819**
Current Liability on Shorts Not Covered	**(677,341)**
Net Cash	**1,562,478**
Current Value of Bonds	**0**
Current Value of Long Equities	**3,319,446**
TOTAL VALUE OF PORTFOLIO	**4,881,924**

Important disclosures

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