

## **As the world's second silver producer, Mexico could also emerge to important gold producer**



As the world's second silver producer, next to Peru, with an output of 92.3 million ounces in 2005 (14.5% of global output), **Mexico** has not developed as a major gold producing country yet, with most current production of gold being a by-product or co-product from ores that are mined primarily for their silver or base metal content.

The country ranked fourth on the list of Latin America's gold producing countries in 2005 with an output of 30.6 tonnes (approximately 980,000 ounces) still, less than 7% of total Latin American gold production. Mexico's gold production declined in the last few years due to the closure of mines that had reached the end of their operational lifecycle after a profitable operation of many years.

But, gold production will probably increase substantially within the next few years, as new deposits are discovered and known near-surface deposits which can be exploited by open pit and heap-leach technology are developed. Most Mexican vein deposits, however, are strongly zoned, and mineralization of economic value tends to occur in deep, vertical oriented deposits not well suited to surface mining methods.

**Industrias Peñoles**, one of Mexico's largest industrial conglomerates, and with an output of 47.4 million ounces the world's largest silver producer, produced 376,091 ounces of gold in 2005 (approximately 38% of Mexico's total gold output) of which 146,115 ounces of gold from its La Ciénega underground mine in the State of Durango, which is Mexico's richest gold mine with an average of 8.2 grams per ton (accounting for 39% of Peñoles' gold production) in 2005 and 183,687 ounces of gold from its La Herradura open pit mine in the State of Sonora.

La Herradura (owned 50% by Peñoles and 44% by Newmont Gold), that started production in 1998, is Mexico's largest gold mine, accounting for 49% of Peñoles' gold production in 2005.

### **Exploration**

At **Peñoles'** La Ciénega underground mine a new 422-metre deep shaft was completed in November 2004, part of a mine expansion program, which advanced 78% in the year. Full capacity operations began in the second quarter of 2005, which will increase gold production 23% annually to 164,890 ounces. Total project investment is budgeted at US\$ 21.2 million.

Regional exploration in Durango, near La Ciénega, identified a new high-grade area with indicated geological resources of 600,000 equivalent gold ounces.

For La Herradura a further leaching pad expansion was completed in the fourth quarter of 2004 at a US\$ 2.5 million investment, which will increase content production by 2.0%. The fifth stage of the leaching pad was completed in the fourth quarter of 2005.

Ongoing exploration in the La Herradura corridor is identifying additional reserves for this mining unit.

At El Saucito near the Fresnillo district in Zacatecas, the first phase of exploration identified geological resources of more than 1.0 million equivalent gold ounces. Investments were US\$ 16.8 million, including sinking of a shaft and initial construction of a 2,240 metre long ramp.

In March 2005, Peñoles sold the Mezcala Gold Project in Guerreo to Goldcorp (G - TSX) in a US\$ 70 million transaction. Peñoles believed that the potential growth of Mezcala, a joint venture with Newmont Gold, was limited by its location between ore deposits already owned by the acquirer.

In February 2006, **Agnico-Eagle** (TSX - AEM) confirmed its US\$ 65 million acquisition of the Pinos Altos Gold Project in Chihuahua, after a period in which it had been granted exploration rights.

The identified exploration rights at this site did not meet the expected mine size in accordance with Peñoles' investment criteria (a minimum metal content in reserves of 100 million ounces silver, 2 million ounces of gold, 1 million tons of zinc, or 400,000 tons of copper).

While **Hecla Mining's** (NYSE-HL) San Sebastian Mine operations, which produced 17,160 ounces of gold in 2005, have reached the last year of its reserve life, exploration efforts are in full swing on the prospective property in the Saladillo Valley, where the San Sebastian mine is located.

In the State of Sonora, a drilling program on the Noche Buena Gold Property has shown encouraging results. A decision on whether to mine the deposit could be made this summer.

With the acquisition of Western Silver Corp., **Glamis Gold** (GLG - TSX) was provided with the Peñasquito Project, located in Zacatecas. A feasibility study completed in November 2005 detailed a 17-year mining operation with proven and probable reserves of approximately 4.9 million ounces of gold, 308 million ounces of silver, 3.9 billion pounds of zinc and 1.8 billion pounds of lead.

Glamis is currently updating the feasibility study to accommodate a larger resource and a higher mill throughput. The revised feasibility study is expected to be available by late August 2006.

**Gammon Lake Resources** (TSX-GAM) has a 100% interest in the Ocampo Gold-Silver Project, located in the State of Chihuahua. The Company has been actively exploring the Ocampo Mining District since 1999, greatly advancing the Project toward gold-silver production that commenced in the first quarter of 2006.

A positive feasibility study was completed in November 2004 for phase one development of the Ocampo Project, demonstrating extremely robust economic potential.

Annual production is expected to average 270,000 ounces of gold-equivalent (170,000 ounces of gold and 6 million ounces of silver) over the first seven years of mining at a cash cost of YS\$ 154,74 per gold-equivalent ounce. Production from the first year of operation is anticipated to exceed 300,000 gold-equivalent ounces.

Gammon Lake also holds an equity interest of 26% in **Mexgold Resources** (TSX.V-MGR), which has the objective to expand the project resource of its El Cubo Mine, located in the Guanajuato Mining District to over 2 million ounces of gold-equivalent.

**Alamos Gold** (TSX-AGI) has put its 100% owned, fully permitted Mulatos Gold Mine in Sonora State into production and has constructed an open-pit, heap leach gold mine. The deposit contains over 3.0 million ounces of gold in the measured and indicated category.

Phase I mining has focused on the Estrella pit, which contains over 1.4 million ounces of recoverable gold. The gold recovery plant delivered 25,100 ounces of gold to carbon in the first quarter of 2006. The Mulatos Mine is expected to produce between 140,000 and 150,000 ounces of gold this year at cash operating costs between \$ 210-225 per ounce.

**Minefinders'** (TSX-MFL) Dolores Project is a development stage gold-silver project with a proven and probable reserve of 1.95 million ounces of gold and 104 million ounces of silver.

A favourable feasibility study for the Project was completed in June 2005 and construction of an 18,000 tonne per day open pit, heap leach mine at the Project has been approved.

Minefinders completed a financing in April 2006, which provided US\$ 78 million net to the treasury, and with \$ 30 million cash on hand and a \$ 100 million debt financing, the Company expects to be well financed to build and operate the Dolores Mine.

All permit applications have been completed. Mine construction is scheduled to begin in the second quarter of 2006.