

### Avino Silver & Gold Mines Ltd.

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**Avino Silver & Gold Mines Ltd. (TSX-V: ASM)**



Source: [www.bigcharts.com](http://www.bigcharts.com)

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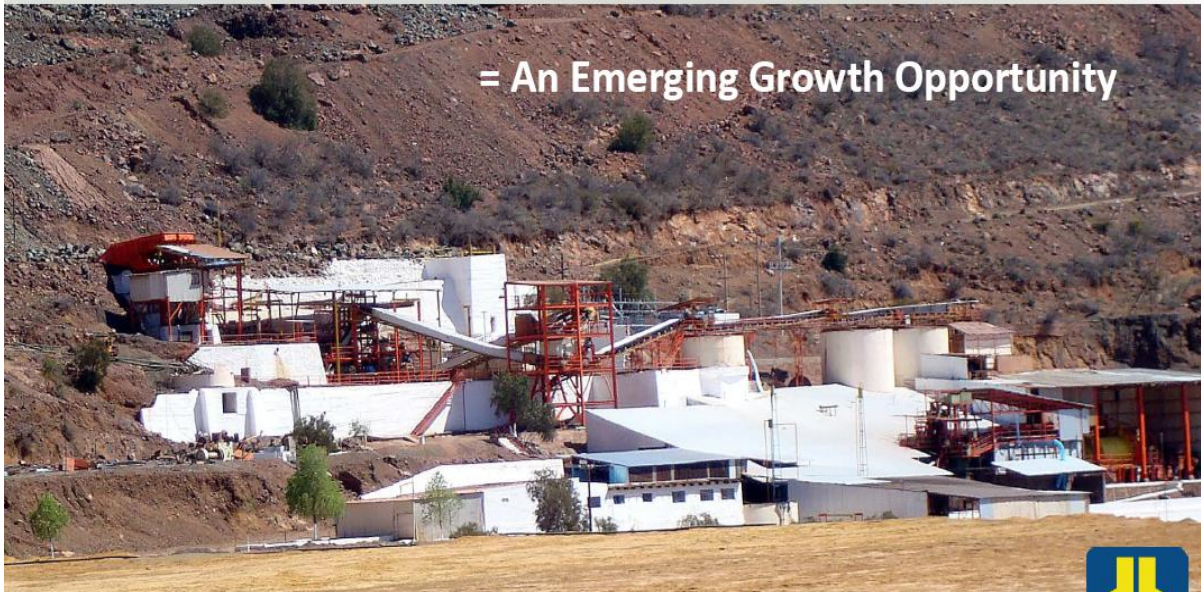
# SCORIS

## Avino Silver & Gold Mines Ltd.

December 7, 2010

### AN EMERGING SILVER PRODUCER

= An Emerging Growth Opportunity



Avino Silver & Gold Mines Ltd.



#### Quick facts

**Company:** Avino Silver & Gold Mines  
**Symbol:** ASM (TSX-V)  
**Shares O/S.:** 23 million (fully diluted 24.5 million)  
**Market Cap:** C\$50 million @ \$2.20 per share (not FD)  
**Resources:** 23 Moz silver (NI-43 101 compliant: 14.7 Moz Ag + 105 koz Au)  
**Cash:** C\$4.1 million, no debt, no hedge  
**Income:** Cash flow from ongoing 11,000 ton bulk sample  
**Production:** Commercial production to start in spring 2011 (1.2-2.0 Moz Ag-equivalents/year)  
**Webpage:** <http://www.avino.com/s/Home.asp>

## A. Introduction

Avino Silver & Gold Mines Ltd. is a junior silver company with a mine and mill in Durango, Mexico. The Company is led by David Wolfen, who has over 24 years of mining experience. Avino was founded in the 1960s by his father, Louis Wolfen, who is seen as a mining legend in Vancouver with over 50 years of experience (<http://www.avino.com/i/misc/LouWolfen.html>). Both of them are also directors on the board of Coral Gold, a company exploring for gold in Nevada, having outlined a resource of over 3 Moz Au. Coral Gold also has a Joint Venture with Barrick Gold on one of its properties.

## B. The Avino Mine

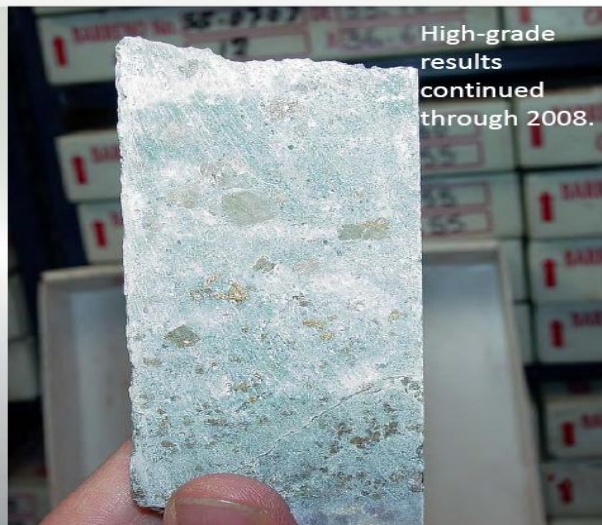
Avino's most important asset is the Avino Mine which lies in Durango, Mexico. This mountainous area has historically been described as the "Mountain of Silver" and was mined as an open pit mine as early as the 16th century. Being open pit, the higher grade ore at lower depths was never mined and is still there. Avino bought the property in the 1970s and, during the next 27 years, the mine was producing silver, gold, copper, and lead. When the price of silver dropped to US\$4/oz, the mine was uneconomical and eventually had to be shut down, which happened in 2001. Today, with silver prices well above US\$25/oz, the potential economics of this mine are brighter than ever. Avino used to mine from a vein called the "Avino vein", which is not included in the NI 43-101 it has. Avino has discovered a new vein on the property, called San Gonzalo, and this is the mineralization that Avino is planning to take into production. The Company believes that the original Avino vein still has roughly 3 million tons of mineralization with 100 g/t Ag, 0.5 g/t Au, plus some copper, which would give 9.6 Moz Ag and 48,000 oz Au plus copper.

The new San Gonzalo vein has 4.8 Moz Ag + 38,000 oz Au that is NI-43 101 compliant. There is an extra 9.9 Moz Ag + 67,000 oz Au NI-43 101 compliant in tailings. San Gonzalo has the potential to grow even further, and drill results not included in the NI-43 101 report are showing some exceptional grades. A news release in September shows values exceeding 5,500 g Ag/t over a short interval. There are also a lot of results showing 1,000-3,000 g/t Ag with 5-15 g/t Au.

**Photo #1: Drill Results from San Gonzalo**

### Drilling produced high-grade discoveries on the San Gonzalo Zone.

Hole #	FROM	TO	Width	Au	Ag (g/t)
Hole - 4	20.85	21.90	1.05	0.29	989.5
Hole - 6	280.65	280.90	0.25	0.47	2119.7
Hole - 10	154.30	154.65	0.35	5.143	992.3
Hole - 10	156.80	157.55	0.75	4.183	926.8
Hole - 12	165.65	166.40	0.75	22.902	1609.6
Hole - 16	48.60	49.05	0.45	6.171	1189.0
Hole - 23	296.10	297.60	1.50	15.771	1511.8
Hole - 24	115.80	116.60	0.80	16.320	2804.4
Hole - 24	116.60	117.25	0.65	10.491	5265.2
Hole - 27	233.65	234.10	0.45	10.630	1117.3



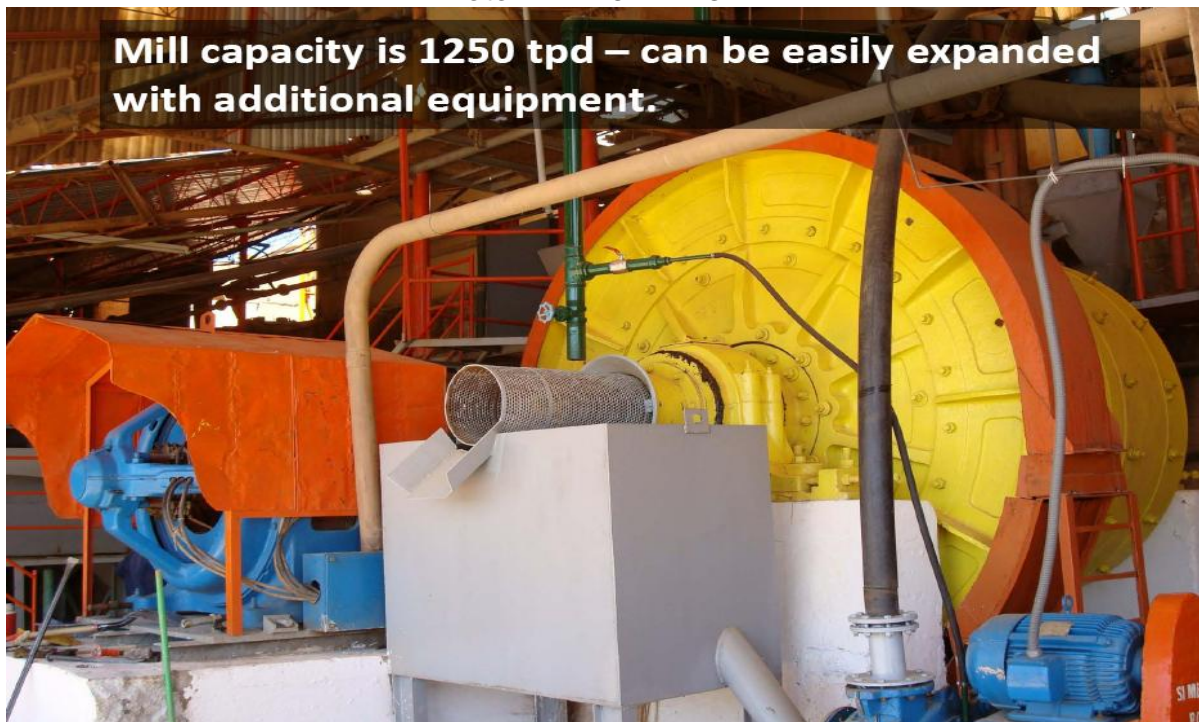


## C. Mill and Production

Avino has a mill with a total capacity of 1,250 tpd. Refurbishment of the mill was made during 2008-2010 as part of the goal to run a modern production facility. Avino intends to start with a 250 tpd operation, with the possibility to expand to 1,250 tpd. The last couple of months the mill has been fed with bulk material from the original Avino-vein to optimize the silver extraction process.

The NI 43-101 Technical Report shows an average grade of 320 g/t Ag for San Gonzalo. However, considering the drill results, there is a good chance the grades will be even higher, perhaps as high as 500-600 g/t. The ongoing bulk sample will show what the grades will be from San Gonzalo. Recovery tests of the ore have shown values above 90%.

**Photo #2: The Avino Mill**



Using the numbers from the NI 43-101 Technical Report, the production will be ~900,000 Ag, plus 4,500 oz Au per year, corresponding to ~1.2 Moz Ag equivalent. Using the grades from the drill results, the figures become ~1.5-1.8 Moz Ag, plus ~5,000 oz Au per year, corresponding to ~2.0 Moz Ag equivalent. Putting that into perspective with the Company's current market cap of only C\$50 million and, comparing with other producing silver companies, that market cap seems under-valued. As shown in Calculation Exercise on page 5, the coming cash flow from San Gonzalo will be significant. Also of interest when comparing to other juniors is that the infrastructure surrounding the Avino mine is valued at US\$40 million.

The last time Avino was in production, mining the original Avino vein, cash costs were ~US\$4.00/oz. Avino calculates that cash costs at San Gonzalo will be US\$6.00-8.00/oz. Other costs are believed to be US\$1.00-3.00/oz, so the total production costs will be around US\$7.00-11.00/oz. A more exact number will come once the bulk sample is processed and evaluated.

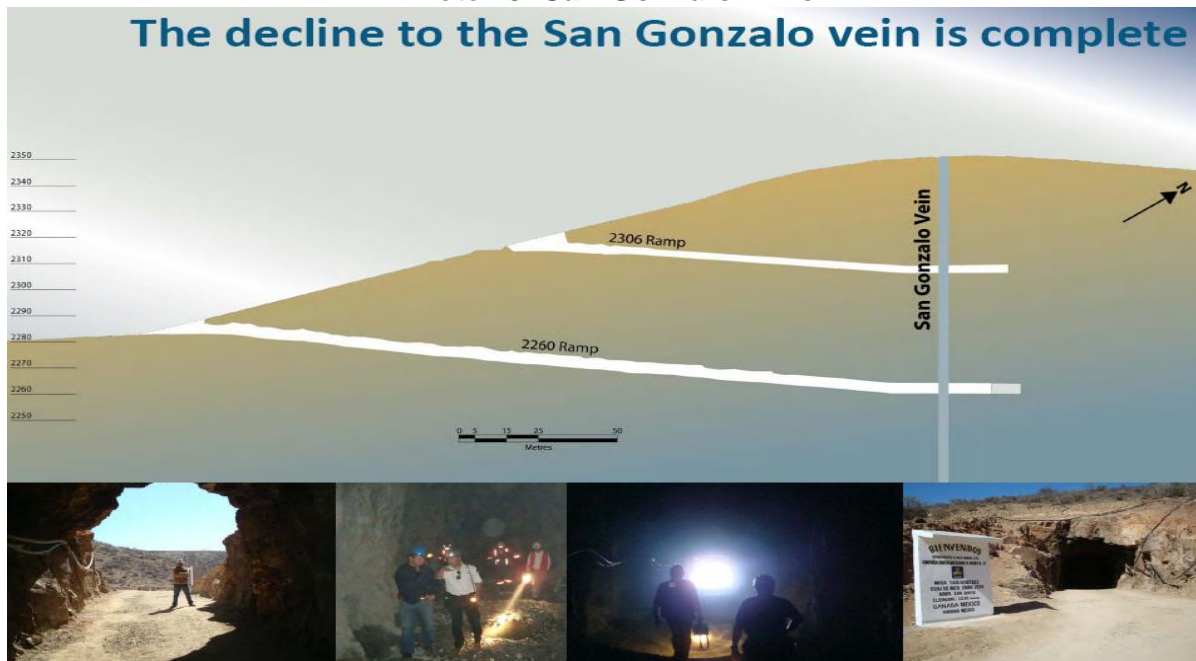
## ***Ongoing bulk sampling and the deal with MRI Trading***

Right now Avino is mining an 11,000 ton bulk sample from San Gonzalo. It is about half-way done and, in 1-2 weeks, the Company should have all the ore in stope. Subsequently, it will be transported to the mill for processing. The reason for the bulk sample is to understand production costs and the grades, and to optimize the recovery from the mill. If everything looks good, Avino probably will start commercial production in the spring next year.

Avino has a signed deal with MRI Trading AG (<http://mritrading.ch/>) from Switzerland. MRI Trading will buy both the bulk sample concentrate and the concentrate as a result of ongoing commercial production.

Avino will submit a provisional invoice to MRI Trading, its value being calculated by using data covering weight, moisture, minerals and assays. MRI Trading will pay 90% immediately but, to verify the valuation, it will have the option to take another sample on arrival to the port and make a comparison of the two. If there is a discrepancy, Avino will have the possibility to dispute, and instruct an independent assayer to validate the test. In such case, the average prices of the metals one month following the shipment are being used to establish the final price. MRI Trading will then pay the remaining 10%.

**Photo #3: San Gonzalo Mine**



## **D. Share Structure and Financing**

Avino has a tight share structure and a reluctance to dilute the share base. There are 23 million shares outstanding (fully diluted 24.5 million). No further financing is necessary to bring San Gonzalo into production. Sprott Asset Management recently chose to invest US\$3 million in Avino, a strong and positive endorsement. The largest shareholders in Avino are the Wolfen family and two private investors out of New York. The rest of the float is held by approximately 2,000 different shareholders. Avino has C\$4.1 million in cash.

## E. Visions

Avino is considering putting the original Avino vein into production because they have the mill capacity to do it. However, Avino management is taking a sensible approach and the decision to expand will only be made after San Gonzalo shows positive cash flow. With ~10 Moz silver left in the Avino vein, the added production from this could be considerable.

There is a video interview here (<http://www.avino.com/i/misc/DavidMorgan.html>) that David Morgan made with David Wolfin. They talk a bit about the capacity of the mill and the potential for larger production.

## F. Other Project Areas

Avino has other areas in British Columbia and Yukon with some encouraging results (<http://www.avino.com/i/pdf/NR-Apr0510-EagleVein2009Drilling.pdf>). But the reason for our interest in Avino is the mine in Mexico. Further information on Avino's other properties is available on the Company's website (<http://www.avino.com/s/Projects.asp>).

## G. Calculation Exercise

The following rough calculations give a good indication of the potential for producing cash flow from San Gonzalo. The calculations use an annual production of 1.2 - 2.0 Moz Ag equivalent, with a total production cost in the range of US\$7.00 – US\$11.00 per oz, and a silver price of US\$25.00 per oz:

### **For 1.2 Moz Ag:**

Costs of US\$7.00/oz -> 1.2 Moz x (25-7) = US\$21.6 million

Costs of US\$11.00/oz -> 1.2 Moz x (25-11) = US\$16.8 million

### **For 2.0 Moz Ag:**

Costs of US\$7.00/oz -> 2.0 Moz x (25-7) = US\$36.0 million

Costs of US\$11.00/oz -> 2.0 Moz x (25-11) = US\$28.0 million

Although the calculations show a wide range, a better perspective should be given after the ongoing bulk sample has been evaluated. Taking a simple average of the above figures gives ~US\$25.6 million. A growing silver junior should at least have an earning multiple of 4-5 times (probably higher). That makes the current market cap of C\$50 million look cheap, especially if there is confirmation of our view that the price of silver, currently around US\$30.00/oz, is going a lot higher in the coming years (C\$1.00 = ~US\$1.00).

## H. Risks

There are certain risks combined with a resource junior company like Avino, such as:

- The silver price
- Delays in production start
- The land risk in Mexico
- Avino is a junior miner with all the risks associated with being a small mining company.

## I. Conclusions

Avino Silver & Gold Mines Ltd. appears to be on the verge of bringing in considerable cash flow from San Gonzalo next year. The share structure is tight and the Company is conservative when it comes to dilution of the shares through private placements. Avino has a good resource base and a mill that can be expanded from the initial 250 tpd up to 1,250 tpd.

Avino has been in production for a long time. The Company has the know-how to make San Gonzalo a successful silver mine.

We think that Avino is an excellent choice to get exposure to a rising silver price.



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**Photo #4: The entrance to the San Gonzalo mine**



## FIVE-YEAR STOCK CHART



Source: [www.bigcharts.com](http://www.bigcharts.com)