

## One cannot ignore exposure to the world's richest silver region

Cerro Resources NL has two geographical project bases at present in Mexico and Australia. The company is currently focussed on developing its **Cerro del Gallo** gold and silver project in the central state of Guanajuato, Mexico. While in Australia the company is advancing its Mount Philip iron project and Kalman base metals exploration project both near Mount Isa in QLD. The following figure shows the company's key project locations.



Cerro del Gallo is the company's key asset (Cerro's interest 64%). The tenement covers some 253 square kilometres within the central-southern segment of the world-class Mexican gold and silver belt.

In Australia, the company holds some 948 square kilometres of tenement near Mt Isa in Queensland. The tenement has three main mineralised targets: Mount Philip; Kalman and; Andy's Hill. The company's intention in Australia is to advance the projects to a stage where joint venture partners can be found or a corporate transaction take place.

The company recently purchased the Namiquipa silver tenement in the state of Chihuahua in Mexico. The company issued 30 million shares to Minera Tasmania SA de CV shareholders for the 100% interest. These shares are in escrow until March 2012. The following figure shows the location of the Namiquipa tenement.



The tenement covers approximately 4,400 hectares and includes the La Venturosa silver mine. La Venturosa was a site of underground mining for silver, lead and zinc, over a strike length of only 1,250 metres to a depth of only 250 metres. The region is rich in vein systems which are silver rich and gold poor, with substantial lead and zinc credits.

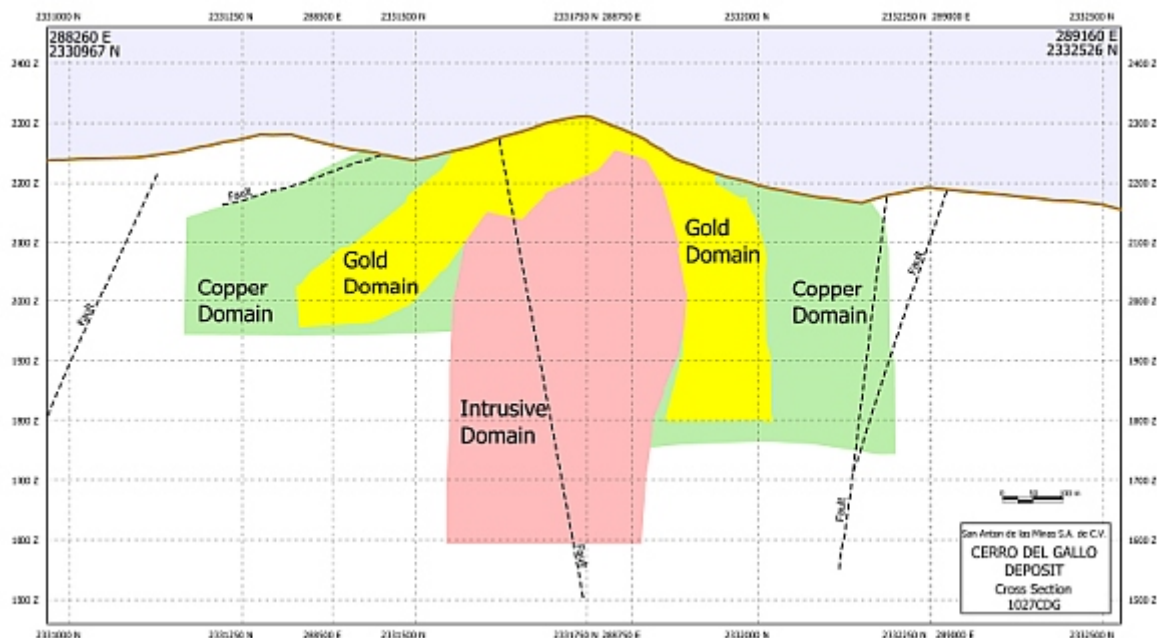
Turning to the Cerro del Gallo project, it has a significant mineral resource of some 4.5 million ounces of gold, 202 million ounces of silver and 1.4 billion pounds of copper. The following table shows the resource classification in measured, indicated and inferred.

Resource Category	Tonnes millions	Au g/t	Ag g/t	Cu %	Au Moz	Ag Moz	Cu Mlbs
Measured	225	0.35	13	0.11	2.5	91	541
Indicated	236	0.19	10	0.11	1.4	72	546
<b>M &amp; I</b>	<b>461</b>	<b>0.27</b>	<b>11</b>	<b>0.11</b>	<b>3.9</b>	<b>163</b>	<b>1,087</b>
Inferred	166	0.11	7	0.10	0.6	39	356

The majority of the resource has been categorised as measured and indicated as a result of some 95,000 metres of drilling across 350 holes. This extensive drill program brings with it a greater degree of confidence in the mineralised deposit and allows for the ore to be categorised into a higher degree of certainty resource category.

The high silver grades in the resource more than compensates for the lower gold and copper grades. Also the site has good infrastructure on site and is located within a friendly mining jurisdiction.

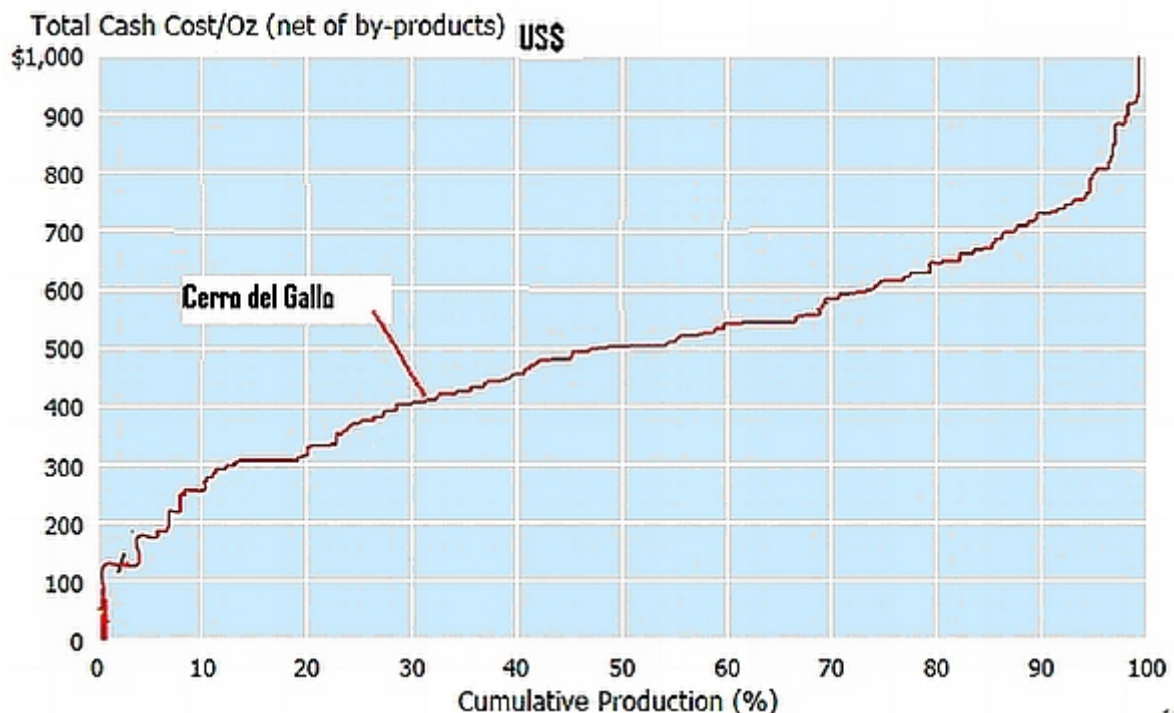
A scoping study on Cerro del Gallo found that the resource could support a 69.9 million tonne in-pit operation showing 0.66 grams per tonne (g/t) gold and 13.6g/t silver. The following figure shows a schematic cross section of the Cerro del Gallo deposit.



For an initial capital cost of US\$82.13 million the operation would have a heap leaching capacity of four million tonnes of ore per annum. The production costs are estimated to be US\$422 per ounce of gold, with the mine expected to produce one million ounces of gold and 11.3 million ounces of silver over a mine life of 14 years. Production is expected to commence by the September quarter 2012.



With a cost of production of US\$422 per ounce of gold Cerro del Gallo will fall in the lower half of the cost curve. The following figure shows the gold cost curve.



With the price of gold currently trading around US\$1,400 per ounce, Cerro del Gallo would generate high operating margins and cashflow if it were a producing mine today.

The company is currently in the midst of completing a full feasibility study on the proposed heap leaching operation at Cerro del Gallo. The aim of the study is to optimise the pit design and site layout to maximise the ore body and grade. The ore will undergo further metallurgical testing and all environmental impact studies will be concluded. The completed study is due shortly.

In addition to the large open pit deposit at Cerro del Gallo there are a number of low sulphide epithermal targets that have only been partially tested. The company will carryout additional drilling to evaluate a number of these targets over the course of 2011. The following figure shows the Cerro del Gallo site.

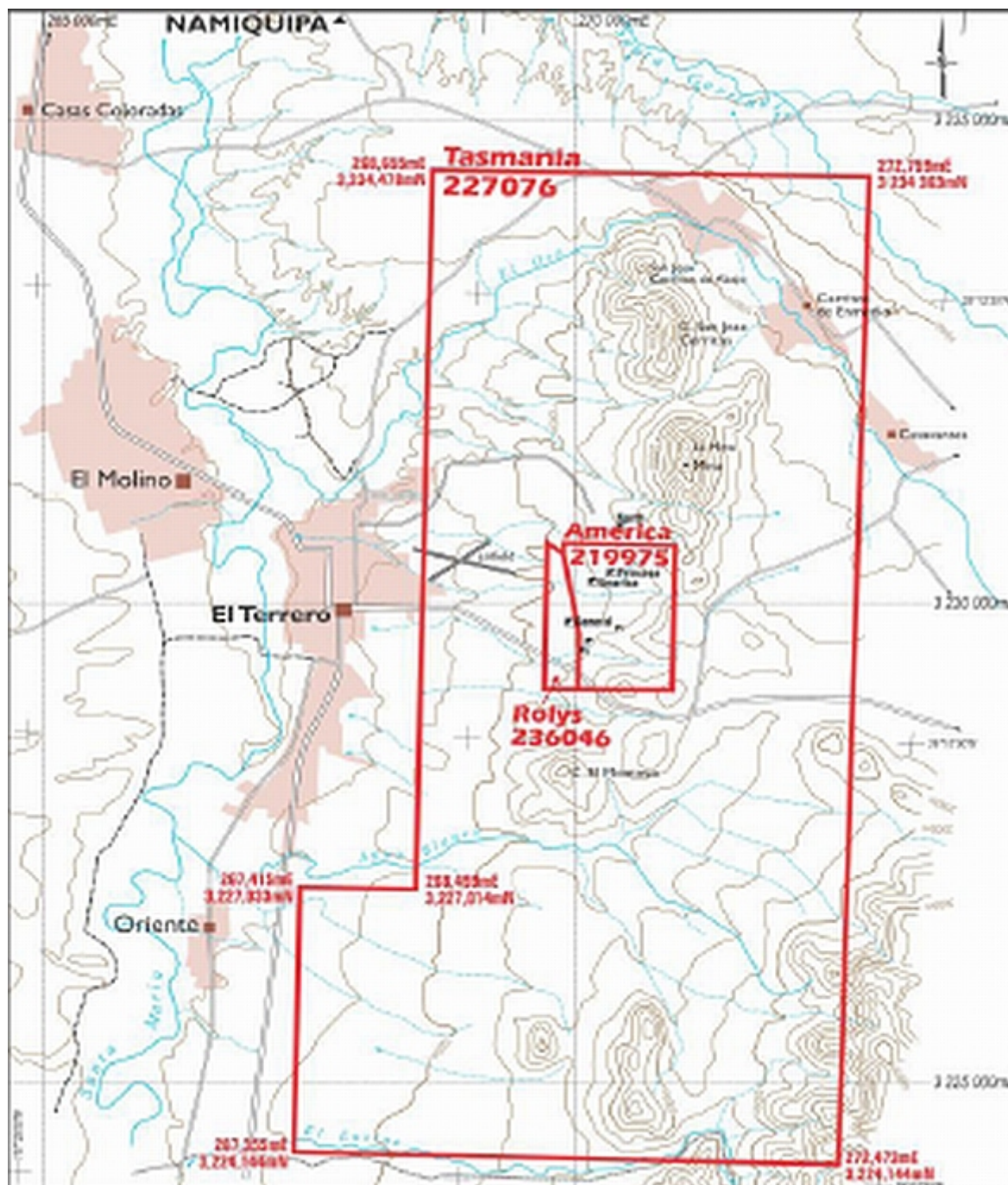




The San Luis Rey epithermal system is located to 3.6km south of Cerro del Gallo. The vein system is known to extend for approximately 500 metres. Some 1,768 metres has been drilled in the system from 13 drill holes.

Given the prospective nature of the region these systems hold a great deal of potential for additional silver discoveries. Significant intercepts have included 4.6 metres showing 428g/t silver and 3.4g/t gold and six metres showing 243g/t silver and 1.7g/t gold. Certainly, the silver grades intersected are substantial as are some of the gold grade intercepts. **We have no doubt the tenement will reveal future resource upgrades as the company continues to carryout exploration.**

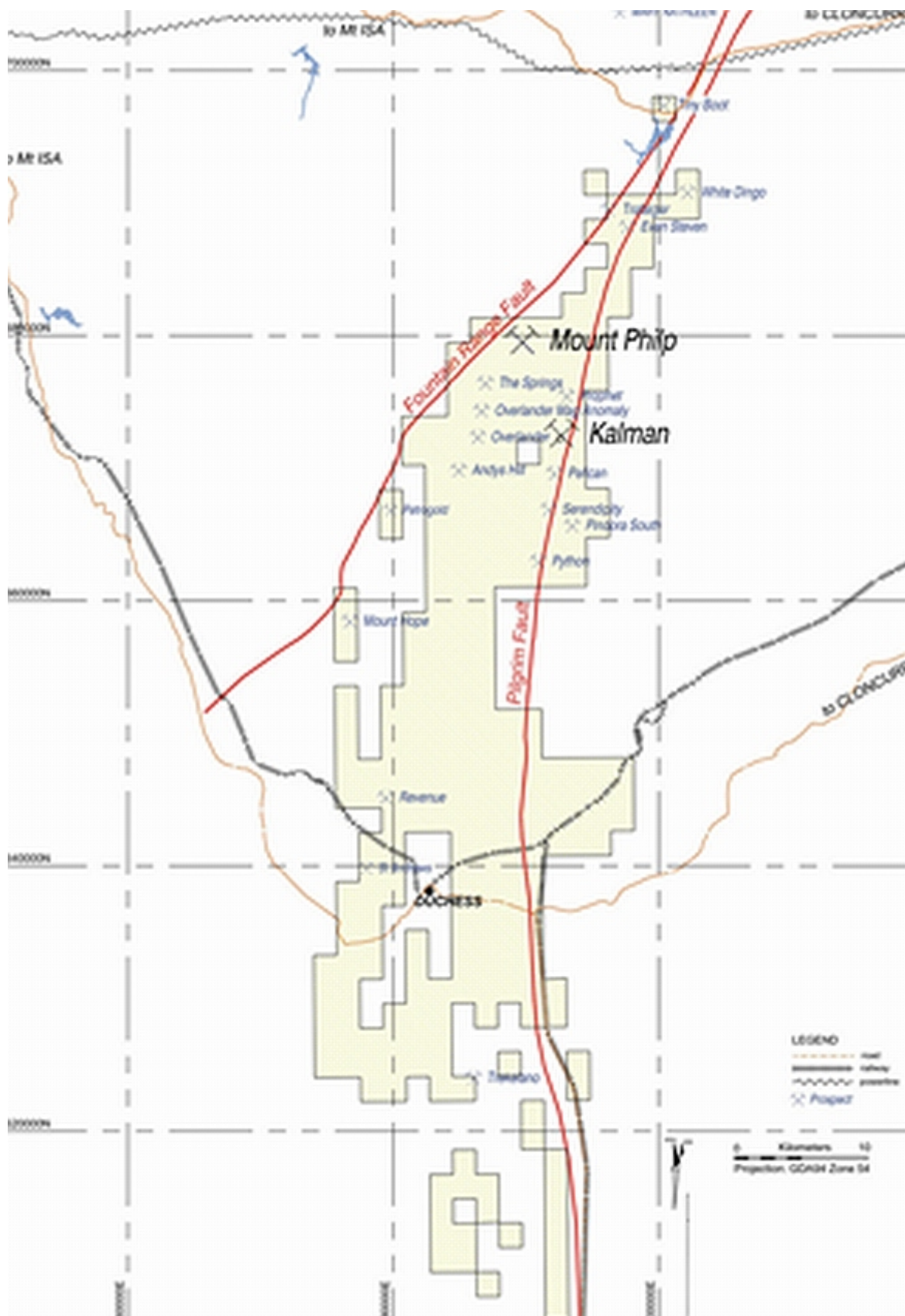
The Namiquipa Project consists of the Tasmania Concession, the America Concession and the Rolys Concession. The following figure shows the Namiquipa tenement.



**Given that 14.4 million ounces of silver has been produced from the La Venturosa Mine from what appears to be superficial mining, the tenement remains highly prospective for silver in our opinion.**

Fresh drilling on the Namiquipa tenement is expected to commence during April 2011. We look forward to the results when these are released to the market.

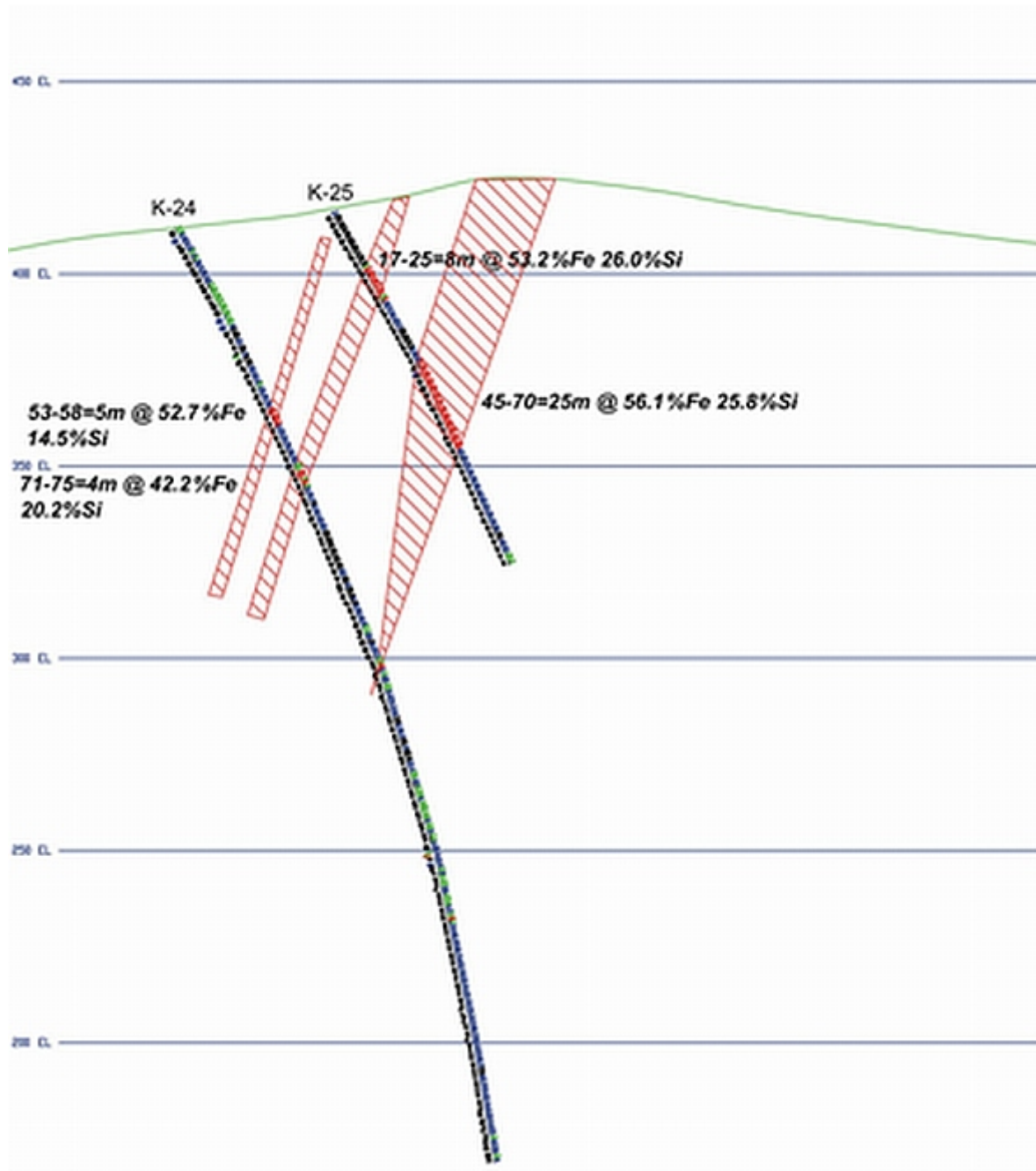
**We consider, as does the company, that Mexico is the main game to drive shareholder value going forward.** The company's Australian assets may have potential in them. In our opinion however, these assets will require major exploration work to be carried out, to ascribe other than minor value to them. The following figure shows the Mount Philip and Kalman sites.



Looking at Mount Philip the company's iron project, both rock sampling and RC drilling have identified the existence of iron along a 3.5 kilometre strike. Some of the better intersections were 25 metres showing

56.1% iron and 34.6% silica and eight metres showing 53.2% iron and 26% silica. The deposit could be considered as lower grade due to the high silica content.

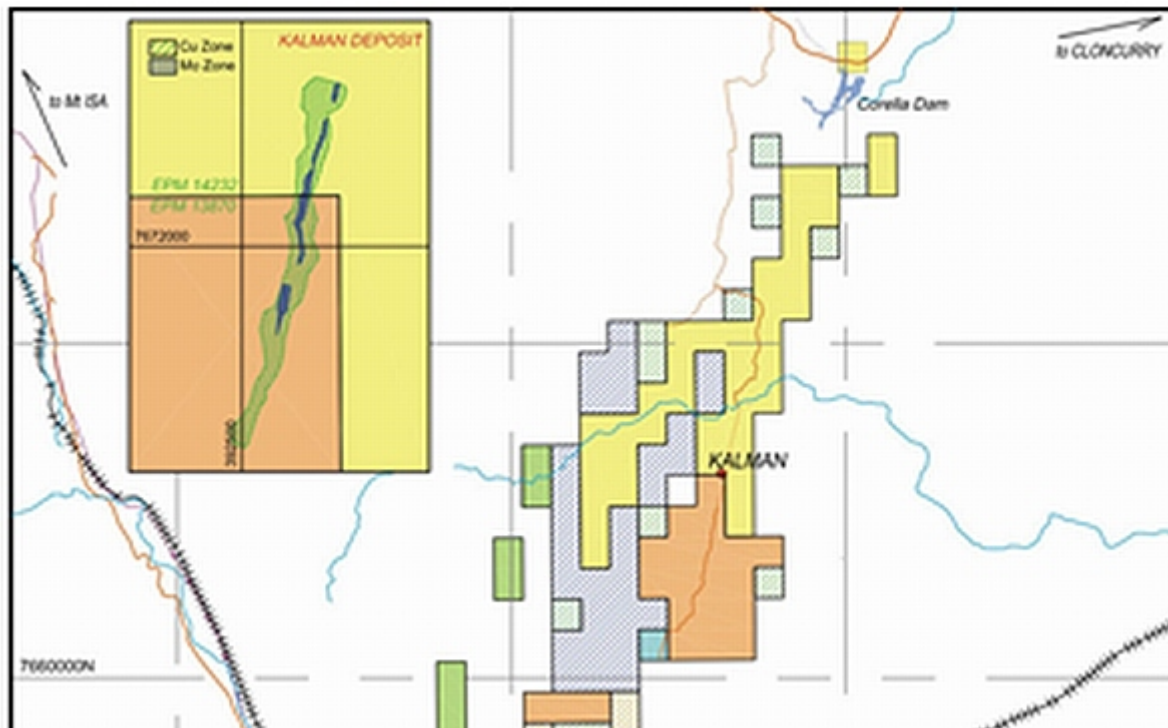
The outcropping at Mount Philip is estimated to contain 4.2 million tonnes of ore showing 37% iron and 39% silica, with showings of phosphorous, manganese and titanium. The following figure shows a schematic of the Mount Philip iron deposit.



Mount Philip is in its infancy when it comes to exploration. **At this stage of the project's development, we are of the opinion the deposit requires something extra before we would consider it viable.**

Kalman is the company's molybdenum, rhenium, copper and gold project and like Mount Philip is in its early exploration infancy. The company is still amalgamating permits for minerals and making application for the same over the tenement area. The following figure shows the Kalman site.





Kalman has a resource of 60.8 million tonnes of ore showing 0.32% copper, 0.05% molybdenum, 1.19g/t rhenium and 0.15g/t gold. The resource is classified as inferred based on historical data including outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability.

Again, we are of the opinion the deposit will require considerable exploration to expand and quantify the mineralised ore body found to date. **We consider the region has the potential for major mineralised ore bodies. However, its pedigree is not assured.**

Of the Australian assets Kalman appears to hold the greatest potential. We do hold the opinion that the activities in Mexico will be the engine to create future shareholder value, with the Australian assets adding possible bonus value at some future time.



Cerro Resources found solid support at the confluence of the 50 day moving average and 50% Fibonacci retracement level to bounce higher. Overhead resistance is located at the February high of 28.5 cents. The broader term trend is to the upside, thus we would favour a topside break. Once the 28.5 cents high is cleared, we would expect the commencement of a new leg higher to follow. The next upside target is towards the 34.7 cents, being the 161.8% Fibonacci extension.

**A good time to buy an emerging producer is prior to it scoring runs and the share price rallies. Now is the time to consider Cerro Resources NL. The stock is still speculative in nature but we expect positive news flow out of Mexico and a growing silver resource going forward will act as the catalyst for value.**

**Cerro Resources NL is recommended as a speculative buy for all Members.**

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## Snapshot CJO

### **Cerro Resources NL**

**Latest Closing Price: \$0.295**

Primero Mining Corporation is a Canadian based gold and silver producer with a mining operation in Mexico. Primero's San Dimas mine currently produces some 90,000 to 100,000 ounces of gold and 6.0 to 6.5 million ounces of silver per annum. Following the successful merger with Cerro Resources, the yet to be developed Cerro Del Gallo silver project in Mexico now forms part of the company's development and exploration portfolio. The merger with Cerro Resources forms the first part of Primero's plan to become a leading mid-tier gold and silver producer in the Americas. The Cerro Del Gallo silver project compliments the existing development and exploration opportunities the company already has at both its San Dimas mine and its Ventanas gold and silver project also in Mexico.

**Market Capitalisation:\$175m**

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