

MEXICO MIKE

Avino looks ready for a strong rebound

By Mike Kachanovsky

One of the attractions regarding the mining sector in Mexico is the rapid advancement from concept stage to production that many of the juniors have accomplished.



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This is in part due to the fact that there are many smaller past producing mines in the country, for which historic resources remain to be exploited, and significant exploration potential exists to define additional resources.

It is far easier to revive an old mine than to advance and develop a new project from the grass-roots level. In effect, investors get to move to the front of the line in Mexico, and often may pay a discount in market value for what amounts to an advanced prospect.

Avino Silver & Gold Mines Ltd. (ASM-TSX/VEN, \$1.60) is one company that not only fits the above description; it is one of the rare juniors to have maintained an ownership interest dating back to when the mine was last in commercial production.

The Avino Mine has a historical production record dating back to Spanish colonial times in the 1500s. A minority interest was acquired by Avino Silver Mines 27 years ago at a time Mexican mining law prevented foreign majority ownership of mining projects.

The mine ceased operations in 2001 due to weak metals prices that affected most of the smaller mines in the country. However, Avino seized the opportunity when Mexican mining laws were revised and increased its ownership stake in the project and now controls more than 88 per cent of the mine and surrounding property.

Like most historic mines in Mexico, despite a long production history at Avino, very little defined resources are proven up in advance of exploitation. However, investors like to see a large resource, compliant with current reporting requirements, under

management. So as economic conditions have improved to the point where these small mines are now once again returning to production, the company has opted to conduct exploration programs to increase the total resources of the project before resuming production at the mine.

Recent drilling programs have been completed to test for new mineralization at three zones that were previously in production. Avino successfully encountered new resource areas in each of these zones, down dip from the existing mine development.

The company also outlined a brand new discovery of high-grade mineralization in an area known as the San Gonzalo target. In September, Avino announced an impressive interval of 3.69 g/t gold, 1,037 g/t silver across 5.5 metres, as part of a series of assays from the exploration program. These results are a testament to the strong potential for the project as modern exploration techniques are employed.

The company plans to continue exploration work and to complete enough drilling to establish a new resource estimate for the project. Silver is the dominant metal of interest, but strong gold values are also present, along with by-product base metals such as copper, lead and zinc.

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While the drills are turning, however, work is also underway to refurbish and upgrade the mine and recovery plant, in anticipation of restarting operations. As the operator of the project for

many years, Avino management already has a data base relating to performance of the recovery plant, and it was noted that the efficiency of prior operations was relatively low.

Therefore, the company plans to make appropriate improvements in order to rapidly achieve optimum results when operations recommence. The mill is currently rated to handle about 1,000 tonnes per day.

Ensuring that all equipment is set to run with minimal downtime is one lesson that many other junior mining companies have already learned the hard way, so it is hoped that Avino will gain from that experience. An overhaul of the heavy equipment is planned.

In addition, the company will have to build an inventory of spare parts, and consumable reagents. A new tailings pond will also need to be constructed to allow for sustained resumption of mining. It is estimated that the work program could be completed within three months, once the decision to resume production is made.

Since the mine can be returned to production very quickly, one would expect that Avino would have achieved some recognition in the market and perhaps been rewarded with a higher share price. This has not been the case.

When investors have the opportunity to acquire an improving value story and pay a reduced price, it usually represents an optimum buying situation. I have been an aggressive buyer of many juniors during the slump.

The share structure for Avino is favorable, amounting to fewer than 25 million shares on a fully diluted basis. The current market capitalization is in the range of only \$30 million. The value of the infrastructure for the Avino Mine including the mill and recovery plant is estimated at more than \$40 million.

Considering the cash position of about \$6 million in the corporate treasury, and the growing mineral inventory from prior operations and current exploration

work, one can build a strong case that the company is extremely undervalued.

Most mines in Mexico, including the Avino Mine, are polymetallic and yield both precious and base metals. The spot market prices of most metals have been climbing on a year-over-year basis, but violent corrections are also part of the story.

As a result, investors are perhaps more cautious and even bearish towards the producers right now, even though the metals prices remain well above historical averages and appear to be headed higher.

I expect that at some point in the future, perhaps as early as next year, the market will begin to wake up to the discounted bargains that exist for producing miners.

Silver has been a laggard among the rising metals, and it is overdue for a breakout move that could trigger an explosive bull market for all juniors with silver leverage.

Rising silver prices would also lead to extremely profitable operations for most of the silver producers and support a higher market premium for these companies. Since silver represents the greatest resource value for Avino, one would expect the company to be a beneficiary of that sort of regime.

Avino shares have lost two-thirds of their value since the highs of 2006, and now recently put in a triple bottom at the \$1.50 level. It appears that all enthusiasm has been wrung out of this story on what may be the eve of a major run to establish new highs.

Presented with a minimal downside and strong upside potential, I waded in to add yet another emerging junior to the Mexico Mike Portfolio and buy \$10,000 of Avino Silver & Gold Mines.

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