

**SILVERCREST MINES INC.
(TSXV-SVL C\$0.64)**

Recommendation: SPECULATIVE BUY
12-Month Target: C\$1.40
Risk Rating: SPECULATIVE

INITIATING COVERAGE

SilverCrest Mines Inc. is a Canadian-based junior exploration and development company focused on acquiring and advancing gold-silver projects in the Americas. The Company's key asset, the 100%-owned **Santa Elena project**, is located in northern Mexico which is expected to start production in Q2/10.

- **Project Financing Risk – minimal:** The Company has arranged \$24.5 million in gold purchase and project debt facilities with **Sandstorm Resources Ltd.** (TSXV-SSL) and **Macquarie Bank Ltd.** to cover the estimated remaining capex and property payments of \$18 million.
- **Scheduling Risk – minimal:** A 3-stage crusher and Merrill Crowe plant have been built and are ready to be delivered to site.
- **Permitting Risk – nil:** A Change of Land Use Permit was approved in May 2008, followed by an Environmental Impact Assessment in August 2008. Secondary blasting and water permits are also now in-hand.
- **Ejido Risk – nil:** A 20-year surface rights agreement was signed with the local community in December 2007.
- **Upside – lots:** Four quartz-vein structures have been mapped on surface in the vicinity of the similarly hosted **Main** zone, and two are cited for drilling. The nearby **Cruz De Mayo** silver deposit offers further near-term upside to production, while the **Silver Angel** project, located a few kilometres to the north, provides longer-term potential. SilverCrest also owns the advanced **El Zapote** silver project in El Salvador (no value currently ascribed).

We are initiating coverage on SilverCrest Mines Inc. with a **SPECULATIVE BUY** recommendation and **12-month target price of C\$1.40/fd share**, based on a multiple of 1.0x our adjusted NAV.

Sector: MINING, GOLD & PRECIOUS MINERALS

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Company Statistics

Mkt. Cap (MM)	C\$37.99
Basic Shares o/s (MM)	59.37
Fully Diluted Shares (MM)	78.61
Cash (MM; 6/30/09)	C\$8.60
Wk. Cap (MM; 6/30/09)	C\$2.39
Current Debt (MM; 6/30/09)	C\$6.00
Tot. Res. - Au (000 oz)	664
Tot. Res. - Ag (000 oz)	61,605

Financial Estimates - FYE: Dec. 31

	<u>2010E</u>	<u>2011E</u>	<u>2102E</u>	<u>2013E</u>
Au Prod'n (oz)	11,647	45,293	45,293	45,293
Ag Prod'n (000 oz)	410	1,595	1,595	1,595
Cash costs (\$/oz GEO)	\$334	\$335	\$338	\$337
EPS	\$0.02	\$0.15	\$0.12	\$0.11
CFPS	\$0.03	\$0.21	\$0.18	\$0.18
P/E	NM	3.8x	4.9x	5.1x
P/CF	NM	2.7x	3.1x	3.1x

Adj. NAV \$1.20
P/NAV 0.5x



SilverCrest Mines Inc. is an exploration and development company focused on the Americas. The Company's main asset, Santa Elena, is located in northern Mexico and is expected to produce over 225,000 oz gold and nearly 4 million oz silver over eight years, starting in Q2/10.

COMPANY BACKGROUND

SilverCrest Mines Inc. was incorporated in 1973, under the name Equitable Mines Limited, and assumed its current form in 2003, in order to focus on the acquisition, exploration and development of silver opportunities in Latin America. In December 2005, the Company acquired the right to earn a 100% interest in what is now its flagship project, **Santa Elena**, located in Sonora state, Mexico. The option required staged payments totalling \$4 million (final payment of \$1.6 million and \$0.5 million worth of shares is pending federal registry of property title transfer). Secondary projects, all of which are 100%-owned or under option for 100%, include **Cruz de Mayo** and **Silver Angel**, both located near Santa Elena, and **El Zapote** in El Salvador.

Exhibit 1: Project Location Map



Source: SilverCrest Mines Inc..

THE SANTA ELENA PROJECT

OVERVIEW

The Santa Elena property is located 150 kilometres northwest of the state capital of Hermosillo and seven kilometres east of the local community of Banamichi. **Access and regional infrastructure are excellent**, as evidenced by the number of mines in the state, such as **Cananea**, among the world's largest copper mines, **La Heradura**, Mexico's largest gold mine, and **El Chanate**, among the world's lowest-cost gold mine.

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Exhibit 2: Santa Elena Location Map



Source: Metals Economics Group

Santa Elena is an historic producer, from dumps and old workings, with an estimated production of 100,000 tonnes grading 6-8 g/t gold and 70-100 g/t silver, including 45,000 tonnes from surface cuts during the early 1980s. Beyond this, the property was briefly explored in 2003 by Nevada Pacific Gold Inc. and in 2004, by Fronteer Development Group Inc. (TSX-FRG).

After acquiring the project in 2005, SilverCrest spent three years completing two phases of drilling, underground sampling and metallurgical testing on what is now known as the **Main zone**. In August 2008, the Company's efforts culminated in the completion of a positive independent technical report that confirmed the deposit's amenability to low-cost open-pit, heap-leach mining and processing techniques. SilverCrest then updated the project resources in February 2009, and it has since completed an internal optimization study to incorporate results from an additional 83 drill holes (completed in 2008, but not incorporated in published reserves) and for updated cost quotes. **SRK is in the midst of a full feasibility study that, we understand, is to be an audit of the Company's internal optimization study, with expectations for completion in late December 2009 or early Q1/10.**

2008 TECHNICAL REPORT

In August 2008, consultants Scott Wilson Roscoe Postle Associates Inc. completed a National Instrument 43-101 Technical Report on the Santa Elena deposit. The study essentially audited an internal prefeasibility study completed by SilverCrest earlier in the year that assessed the Main zone's amenability to open-pit, heap-leaching mining and processing techniques. We summarize the main operating data in the next table as they form the basis of our discounted cash flow model. Management further notes that it

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has addressed several issues identified in the technical report, such as the lack of adequate metallurgical tests and geotechnical studies. **Although the recently initiated independent feasibility study is incomplete, hence unavailable for review, we are not overly concerned because of the project's relative simplicity and the success of several projects in Sonora state with similar characteristics. We also refer the investor to our sensitivity tables toward the end of the report, in which we test our adjusted NAV and financial estimates to various commodity prices.**

Exhibit 3: Summary of 2008 Santa Elena Technical Report

Initial capex (MM)	\$20.35
Sustaining capex (MM)	\$15.00
Life-of-mine unit costs (\$/tonne)	\$15.34
Mining rate (tpd)	2,500
Mine life (years)	10.0
Stripping ratio (life-of-mine)	4.85-to-1
Probable Reserve (MM tonnes)	6.54
Gold grade (g/t)	1.61
Silver grade (g/t)	56.71
Recovery rates (life-of-mine)	
Gold	67%
Silver	34%
Life-of-mine production	
Gold (oz)	229,161
Silver (oz)	3,056,748
Notes:	
1. Capital cost estimate includes a contingency of \$2.2MM (15%) and working capital of \$3.2MM.	
2. Unit costs include a contingency of \$2/tonne.	
3. Life-of-mine production excludes 2 years of residual leaching.	

Source: Scott Wilson Roscoe Postle Associates Inc.

RESERVES AND RESOURCES

Santa Elena is described as a low-sulphidation epithermal deposit, associated with an easterly trending structure that crosscuts the host Tertiary-aged felsic volcanic units. The 1,200-metre long structure is characterized by banded quartz veins, stockwork and local brecciation. Secondary splays and northwesterly structures appear to have influenced mineralization at intersections along a northwesterly trend, forming a high-grade shoot that plunges shallowly to the east. Grades in these shoots can exceed 500 g/t silver and 30 g/t gold, but given that they are still poorly understood, they were capped at 300 g/t and 12 g/t, respectively, in the block model.

Drilling to date has outlined the **Main zone** over a strike length of 800 metres and down to a depth of 500 metres below surface. Oxidation occurs as deep as 400 metres below surface, enabling the use of low-cost heap-leaching processing methods. The deposit is exposed at surface, so little pre-stripping is required, but stripping ratios are moderate to high over the life of the mine (4.85-to-1), mainly reflecting the necessity of a major pushback in Year 5 of commercial operations (at an estimated cost of

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\$11 million). SilverCrest may nix the pushback, should it be proven economically and technically feasible to convert to an underground and conventional milling scenario while concurrently recovering residual material from the pads. **Four near-parallel structures with geochemical signatures similar to Santa Elena offer additional scope for expansion in the vicinity of the proposed mining area with further drilling.**

We summarize the reserve and resource estimates in the next table, noting that the former estimate excludes results from 83 holes drilled in 2008 and is based on a cutoff grade of 0.5 g/t gold, using metal prices of \$765/oz gold and \$11.95/oz silver. The open-pit resource estimates incorporate the 2008 drilling results and are exclusive of reserves. We also provide the Company's estimate of resources potentially amenable to underground mining methods, because of the potential for conversion to an underground mine prior to the necessity of the pit pushback. We have not assessed the project on that basis, but assign value to the underground resource by applying a discounted metal-multiple approach. For indicated resource, we apply \$50/oz gold and \$0.83/oz silver; for inferred resource, we apply \$25/oz gold and \$0.42/oz silver. (We typically apply \$75/oz to indicated resources and \$50/oz to inferred resources, but we feel a 50% discount is warranted in this case, due to of the conceptual nature of the underground potential at Santa Elena. The 60-to-1 gold-to-silver price-multiple simply reflects Jennings' long-term gold and silver prices of \$900/oz and \$15/oz, respectively).

Exhibit 4: Reserves and Resources

	Tonnes	Metal Grades (g/t)		Contained Metal (oz)	
		Gold	Silver	Gold	Silver
Open Pit					
Probable Reserves	6,541,950	1.61	56.70	338,630	11,925,660
Indicated Resources	2,161,240	2.75	170.2	191,086	11,826,458
Inferred Resources	<u>3,258,800</u>	<u>1.11</u>	<u>76.2</u>	<u>116,298</u>	<u>7,983,711</u>
Total	5,420,040	1.76	113.68	307,384	19,810,169
Notes:					
1. Reserves are exclusive of resources; are based on a cutoff grade of 0.5 g/t Au; and assume a gold price of US\$765/oz, a silver price of US\$11.95/oz silver and an exchange rate of 10.58.					
2. Resources are based on a cutoff grade of 0.5 g/t Au-eq., using metal prices of US\$765/oz gold and US\$11.95/oz silver.					
Underground					
Indicated Resources	1,084,390	2.10	127.60	73,214	4,448,651
Inferred Resources	<u>1,350,080</u>	<u>1.94</u>	<u>121.50</u>	<u>84,208</u>	<u>5,273,852</u>
Total	2,434,470	2.01	124.22	157,422	9,722,502
Notes:					
1. Estimates are inclusive of open-pit resources, but based on a cutoff grade of 1.75 g/t Au-eq., using US\$850/oz gold and US\$12/oz silver. A minimum mining width of 2 metres was also assumed.					
2. Recovery rates are assumed to be 94% for gold and 80% for silver					

Source: SilverCrest Mines Inc.

PERMITTING AND DEVELOPMENT SCHEDULE

SilverCrest obtained its Change of Land Use permit in May 2008 and its Manifestacion de Impacto Ambiental permit (equivalent of an Environmental Impact Assessment) in August 2008. These represent two key permits for mine construction and operation in Mexico. More recently, the Company has secured secondary blasting and water permits.

Detailed Engineering is complete, and key construction contracts are in the final stages of negotiation. Both a 3-stage crushing system and Merrill Crowe plant have been purchased and built. Delivery is awaiting completion of site works, with project construction expected to be complete in Q1/10, followed by the first gold pour in Q2/10 and commercial operations in late Q3 or early Q4/10.

More recently, SilverCrest exercised its option to acquire a 100% interest in the project. Registry of the title with the Mexican authorities is expected in the next two weeks, following which management expects to start drawing down on its royalty and project debt facilities.

PROJECT FINANCING

In May and June, SilverCrest secured the necessary funds to cover the remaining capex with **Sandstorm Resources (TSXV-SSR)** and **Macquarie Bank Ltd.** The former deal is structured as a gold purchase agreement and the latter as a typical project debt facility, with attached hedging requirements.

Gold Purchase Agreement: Sandstorm has agreed to pay \$12 million upfront and issue 3.5 million shares (priced at C\$0.40 per share), in return for the right to purchase 20% of future gold production from Santa Elena, at the lesser of \$350 per oz, subject to a 1% annual increase starting in Year 3 of commercial operations, or prevailing spot prices. Sandstorm has the right to extend the agreement if the underground option is pursued. Should that turn out to be the case, Sandstorm would be required to cover 20% of the associated capex in return for the right to 20% of future gold production, at a cost of \$450 per oz (again, subject to a 1% annual increase), or prevailing spot prices. Both deals exclude by-product silver production.

Project Debt Facility: Macquarie Bank has agreed to provide a \$12.5 million project loan, bearing annual interest at the US\$ London Interbank Offer Rate (LIBOR) plus 6%, prior to 50% repayment, and LIBOR plus 5.5%, following 50% repayment. The bank also provided a bridge loan to cover the final property acquisition costs, that bears interest at LIBOR (C\$) plus 7.5% per annum and is repayable out of the project debt facility. As part of the loan agreement, SVL had to sell forward 55,000 oz gold at an average price of \$926.50/oz (4,746 oz in 2010; 23,947 in 2011; 15,308 in 2012 and 10,999 in 2013). The hedge is not subject to margin requirements. Macquarie is also entitled to up to 5 million warrants having an exercise price of C\$0.90 per share, expiring three years after closing, but agreed to cancel existing warrants that were priced at C\$1.30 per share and scheduled to expire in July 2010. The earlier warrants were issued in July 2008 as part of a C\$3 million credit facility that was provided to complete the internal feasibility study. That loan is also repayable from the project debt facility, leaving approximately \$7 million for actual capex requirements, exclusive of interest payments.

OPERATING AND FINANCIAL ESTIMATES

We summarize our operating, financing and metal price forecasts in the next table. Our production and cost estimates are based on the technical report, conservatively adjusted for the use of average reserve grades and the achievement of commercial operations in Q4/10 commercial. **We will revisit our assumptions when details of the optimization study are released.**

With respect to metal prices, forecast realized gold prices reflect the weighted average of Jennings' price forecasts and contractual prices with Sandstorm and Macquarie. Since silver is excluded from both the project financing deals, project silver prices reflect Jennings' price forecasts.

Exhibit 5: Summary of Commodity Price, Operating and Financial Estimates

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Jennings' Au Price	\$1,000.00	\$937.50	\$900.00	\$900.00	\$900.00	\$900.00	\$900.00	\$900.00
Sandstorm Au Price	\$350.00	\$350.00	\$353.50	\$357.04	\$360.61	\$364.21	\$367.85	\$371.53
Hedged Au Price	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>	<u>\$926.50</u>
Realized Au Price (\$/oz)	\$825.30	\$811.32	\$804.07	\$801.01	\$792.12	\$792.84	\$793.57	\$794.31
Jennings' Ag Price (\$/oz)	\$16.00	\$15.63	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Gold Production (oz)	7,803	30,346	30,346	30,346	30,346	30,346	30,346	30,346
<i>Sandstorm (20%)</i>	1,561	6,069	6,069	6,069	6,069	6,069	6,069	6,069
<i>Debt facility hedge</i>	4,746	23,947	15,308	10,999	0	0	0	0
<i>Unhedged portion</i>	1,497	330	8,969	13,278	24,277	24,277	24,277	24,277
Silver Production (oz)	135,380	526,477	526,477	526,477	526,477	526,477	526,477	526,477
Cash costs (\$/GEO)	\$334	\$335	\$338	\$337	\$336	\$336	\$337	\$337
EPS	\$0.02	\$0.15	\$0.12	\$0.11	\$0.10	\$0.08	\$0.08	\$0.08
CFPS	\$0.03	\$0.21	\$0.18	\$0.18	\$0.19	\$0.18	\$0.18	\$0.18
Shares fully diluted (ITM)	78.61	78.61	78.61	78.61	78.61	78.61	78.61	78.61

Note: Realized gold price reflects weighted average of hedged and unhedged production, thus excludes \$12 million upfront payment from Sandstorm, which equates to \$264/oz based on our operating projections. At this point, it is unclear as to how SilverCrest will account for this payment on its financials.

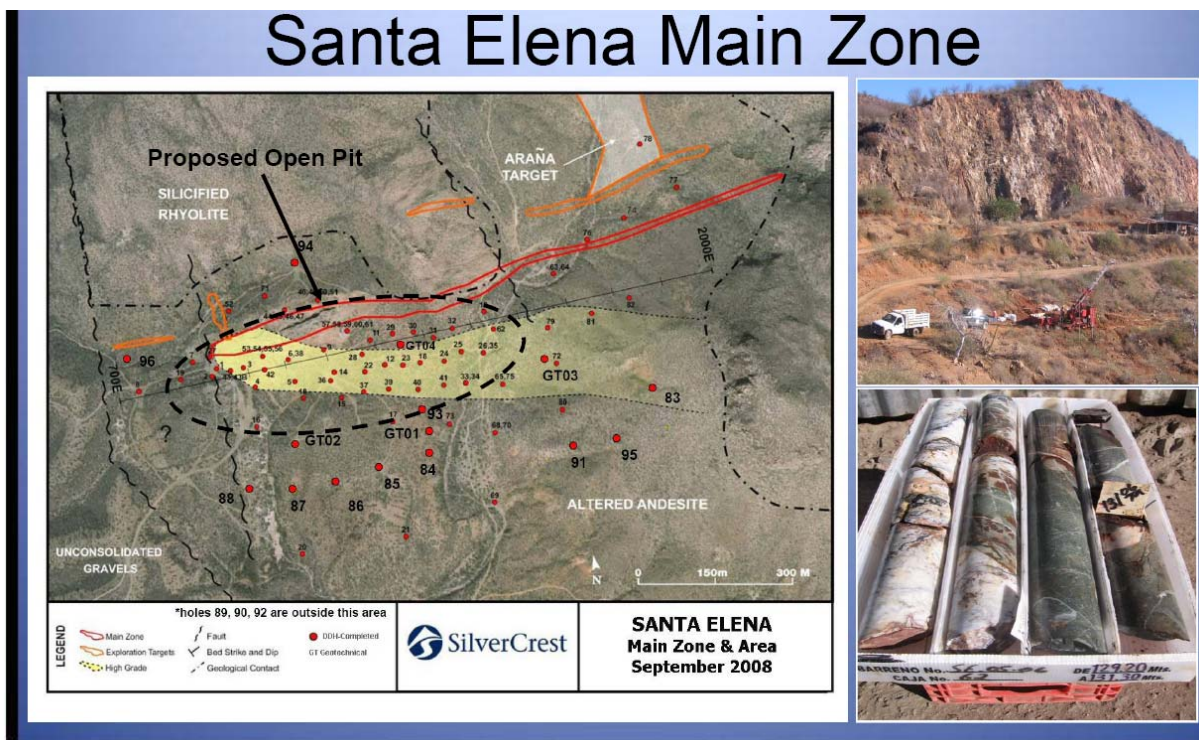
Source: Jennings Capital Inc.

EXPLORATION UPSIDE

Beyond the Main zone, SilverCrest has identified four vein structures at surface in the surrounding vicinity. Drilling on two of these is scheduled to begin in the coming weeks.

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Exhibit 6: Santa Elena Main Zone



Source: SilverCrest Mines Inc.

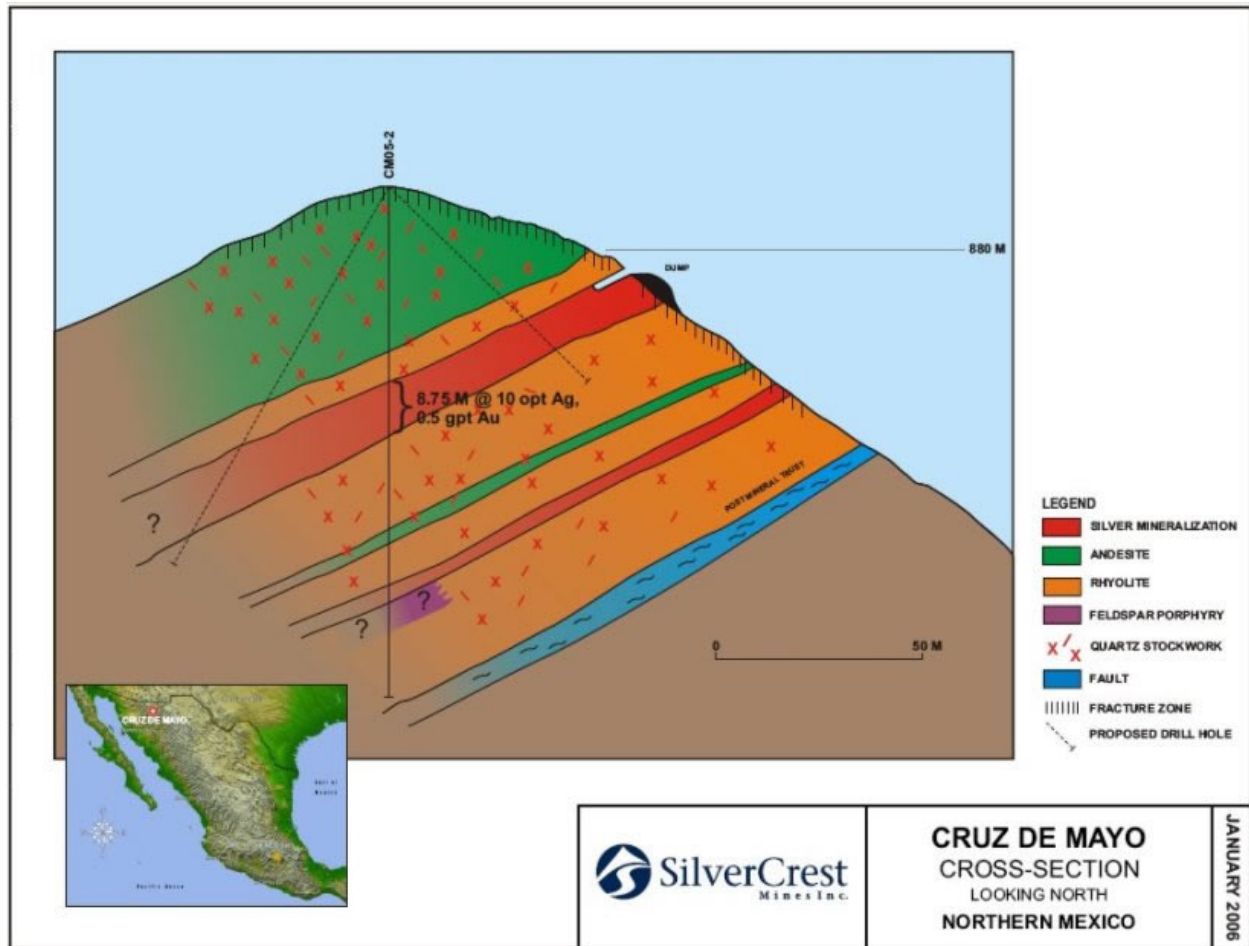
THE CRUZ DE MAYO PROJECT

Cruz de Mayo is located 35 kilometres from Santa Elena and covers 453 hectares. SilverCrest owns 100% in 434 hectares and has the right to acquire the remainder for cash payments totalling \$120,000 and a 2.5% net smelter return royalty (1% can be repurchased for \$1 million).

Unlike Santa Elena, Cruz de Mayo is silver-rich and nearly devoid of gold, otherwise it is geologically similar to Santa Elena, being described as a low-sulphidation epithermal system and located in the **Basin and Range Province**. The property also was an historic producer, with estimates from dumps and old workings putting past production at 10,000 tonnes grading 150 g/t silver and 0.5 g/t gold. Other than the pre-revolutionary activities, the property was drill-tested in the 1970s and 1980s by a Toronto-based company named Tormex Development Inc., prior to SilverCrest's involvement.

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Exhibit 7: Cross-Section of Cruz De Mayo Deposit

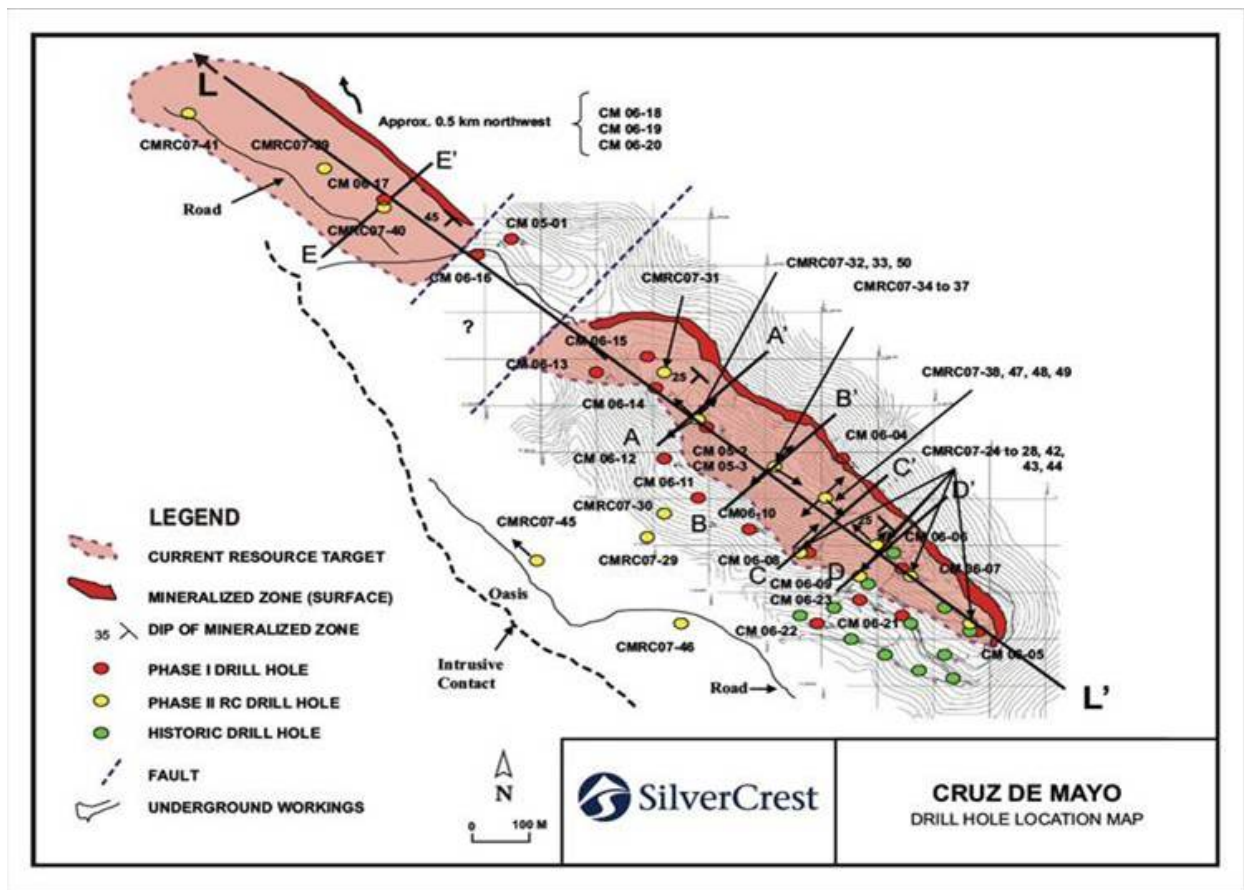


Source: SilverCrest Mines Inc.

To date, SilverCrest has drilled 50 holes on the property to outline an **Indicated Resource** of 1.14 million tonnes grading 64.11 g/t silver and an **Inferred Resource** of 6.06 million tonnes grading 66.50 g/t silver. As we noted, the resource is located near-surface, hence may be amenable to low-cost open-pit mining methods and possibly amenable to processing at Santa Elena. **Mineralization also remains open to the north and down dip, offering potential for expansion, and high-grade shoots occurring at the intersection of cross-cutting faults may also improve the project's overall scope.** Limited metallurgical tests suggest the deposit yields better recoveries than Santa Elena, averaging nearly 56% in preliminary bottle rolls. That said, we think that the project provides a good second exploration project upon which to grow resources in the mid-term. **At this point, we have decided to value the project using a metal-multiple approach, applying \$0.83/oz to the indicated resources and \$0.42/oz to the inferred resources.**

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Exhibit 8: Drill Location Map of Cruz De Mayo Deposit



Source: SilverCrest Mines Inc.

THE SILVER ANGEL AND EL ZAPOTE PROJECTS

The 100%-owned **Silver Angel** project entails two mineral concessions consisting of 11,561 hectares, located in Sonora State, in the northern Sierra Madre Range. That said, the project remains at an early stage of exploration and was placed on hold in 2008, following the receipt of mixed results.

The **El Zapote** project is SilverCrest's only non-Mexican asset, being located in El Salvador. The Company owns a 100% interest in the project, subject to a sliding-scale royalty and local private ownership of the surface rights. Although a resource has been outlined, we ascribe zero value to it because of the ongoing uncertainty surrounding the government's views on mining. In December 2008, **Pacific Rim Mining Corp. (TSX-PMU)** announced that it was commencing international arbitration proceedings for monetary damages against the government, under the Central America-Dominican Republic-United States of America Free Trade Agreement. The sought-after damages reflect regulatory indecision associated with the Company's Environmental Impact Statement on the **El Dorado** gold-silver project. The study was submitted in October 2006 and is a required step for conversion from an exploration licence to an exploitation licence.

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Exhibit 8: Summary of El Zapote Resources

	<u>Tonnes</u>	<u>Metal Grades (g/t)</u>		<u>Contained Metal (oz)</u>	
		<u>Gold</u>	<u>Silver</u>	<u>Gold</u>	<u>Silver</u>
Indicated Resources	1,925,200	0.19	177.70	11,760	10,999,056
Inferred Resources	<u>1,086,400</u>	<u>0.18</u>	<u>101.60</u>	<u>6,287</u>	<u>3,548,752</u>
Total	3,011,600	0.19	150.25	18,048	14,547,808

Source: SilverCrest Mines Inc.

BALANCE SHEET AND RECENT FINANCINGS

On June 30, SilverCrest had cash of \$8.6 million and working capital of \$2.4 million, including short-term debt of C\$6 million. The debt was arranged with Macquarie Bank, to fund the internal feasibility study and to cover the final payment due to the underlying Santa Elena property owner. Repayment is due from the Project Loan facility, which remains subject to final documentation and other conditions.

In June 2009, SilverCrest completed a private placement consisting of 12.65 million units priced at C\$0.50 per unit, for gross proceeds of C\$6.3 million. A unit consisted of one share and one half warrant, with a full warrant being exercisable at C\$0.65 per share until October 2010. Net proceeds are earmarked for exploration and working capital purposes. **Jennings Capital Corp.** acted as an agent in the financing.

The next table summarizes the currently outstanding options and warrants.

Exhibit 9: Summary of Outstanding Options and Warrants

<u>Options O/S</u>	<u>Strike</u>	<u>Value (C\$MM)</u>	<u>Expiry</u>
505,000	\$0.75	\$0.38	6-Jan-10
100,000	\$0.96	\$0.10	15-Aug-11
725,000	\$0.70	\$0.51	28-Sep-11
225,000	\$1.39	\$0.31	7-Jan-13
850,000	\$1.27	\$1.08	27-Mar-13
850,000	\$1.03	\$0.88	14-Jul-13
200,000	\$0.45	\$0.09	8-Jan-14
<u>925,000</u>	<u>\$0.50</u>	<u>\$0.46</u>	22-Jul-14
4,380,000	\$0.87	\$3.80	
<u>Warrants O/S</u>	<u>Strike</u>	<u>Value (C\$MM)</u>	<u>Expiry</u>
1,586,288	\$1.40	\$2.22	12-Sep-10
1,194,817	\$1.40	\$1.67	19-Sep-10
759,000	\$0.65	\$0.49	25-Oct-10
6,325,000	\$0.65	\$4.14	25-Oct-10
<u>5,000,000</u>	<u>\$0.90</u>	<u>\$4.50</u>	8-Jun-14
14,865,105	\$0.88	\$13.02	

Source: SilverCrest Mines Inc.

KEY VALUATION RISKS

- **Political Risk – Average:** SilverCrest mainly operates in Mexico, in areas widely known for mining and exploration. Foreign investment is encouraged and welcomed, with 100% ownership rights and competitive tax rates. The Company has also signed a 20-year agreement with the local Ejido, reducing its risk to such external disruptions as have occurred at other projects in Mexico and caused significant development delays.
- **Operational and Commodity Price Risks – Average:** Like all mining companies, SilverCrest is subject to fluctuations in commodity prices, particularly gold and silver, and operational issues, such as unforeseeable development delays, shutdowns, unexpected environmental issues, deleterious metal recoveries and cost inflation. These risks are further exacerbated by the fact that the Company is still in the development stage, hence does not currently produce any operating cash flow.
- **Financial Risk – Average to High:** SilverCrest has arranged \$24.5 million in external project financing with Sandstorm Resources and Macquarie Bank, but both deals remain subject to various factors, including final documentation. Discussions with management suggest to us that the funds are likely to be made available in the coming weeks, but until such time, this presents a potential risk to the project's development and the Company's financial viability. Furthermore, SilverCrest remains at risk to unforeseeable factors, such as scheduling delays or cost over-runs, and since it does not generate any internal cash flow, any negative surprises such as these could have a material impact on the Company's ongoing concern, not to mention prevent its ability to repay the bridge loans with Macquarie Bank. Other potential financial risks could include the inability to raise additional financing in the equity or debt markets, should these become necessary to secure.
- **Exploration Risk – Average:** Like all mining companies, SilverCrest must replace mined reserves to maintain operations beyond their estimated life. That said, reserves are currently sufficient to support planned throughput rates for eight years, given the Company significant breathing space to advance its exploration prospects, but there is no guarantee of success. The nearby Cruz de Mayo and Silver Angel projects offer exploration upside as well, but each is at an earlier stage of development than Santa Elena.

SENSITIVITIES

The next three sensitivity tables underscore the relative insensitivity of our adjusted NAV, 2011 EPS and 2011 CFPS to gold and silver prices, except in extreme cases. **That said, what we find particularly encouraging about the tables is the indication of good profitability even in cases of extreme pullbacks of both commodities. For instance, even at a gold price of \$700/oz and a silver price of \$7/oz, the stock still trades at a notable discount to NAV.** We further note that only SVL's attributable gold production is adjusted for difference gold prices, so the financial sensitivities still account for hedged gold production. As is demonstrated in Exhibit 11 and 12, our estimated 2011 EPS and CFPS are insensitive to the movement in gold price. Gold sales that will fully participate in the spot price are expected to increase from 330 ounces estimated in 2011 to 8,969 ounces in 2012, 13,278 ounces in 2013 and 24,277 ounces per year as the debt facility hedging is removed.

Exhibit 10: Sensitivity Table – Adjusted NAV (discounted at 5%)

		Gold Price (\$/oz)								
		\$700	\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100
Silver Price (\$/oz)	\$7.00	0.77	0.81	0.86	0.90	0.95	0.99	1.03	1.08	1.13
	\$9.00	0.83	0.87	0.92	0.96	1.01	1.05	1.10	1.14	1.19
	\$11.00	0.89	0.93	0.98	1.02	1.07	1.11	1.16	1.21	1.25
	\$13.00	0.95	1.00	1.04	1.08	1.13	1.17	1.22	1.27	1.32
	\$15.00	1.01	1.06	1.10	1.14	1.19	1.24	1.29	1.33	1.38
	\$17.00	1.07	1.12	1.16	1.21	1.25	1.30	1.35	1.40	1.45
	\$19.00	1.13	1.18	1.22	1.27	1.32	1.37	1.41	1.46	1.51
	\$21.00	1.19	1.24	1.28	1.33	1.38	1.43	1.48	1.53	1.57
	\$23.00	1.25	1.30	1.35	1.40	1.45	1.49	1.54	1.59	1.64

Exhibit 11: Sensitivity Table – 2011E EPS

		Gold Price (\$/oz)								
		\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100	\$1,150
Silver Price (\$/oz)	\$7.00	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
	\$9.00	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
	\$11.00	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
	\$13.00	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
	\$15.00	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
	\$17.00	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
	\$19.00	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
	\$21.00	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18
	\$23.00	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19

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Exhibit 12: Sensitivity Table – 2011E CFPS

		Gold Price (\$/oz)								
		\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100	\$1,150
Silver Price (\$/oz)	\$7.00	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
	\$9.00	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
	\$11.00	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18
	\$13.00	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.20
	\$15.00	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
	\$17.00	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
	\$19.00	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
	\$21.00	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
	\$23.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

RECOMMENDATION

SilverCrest Mines Inc. is an undervalued and relatively unknown emerging junior gold-silver producer that is fully financed to production at its Santa Elena project. Although reserves are relatively small, we consider the Company's potential for expansion to be good. Both Santa Elena and Cruz De Mayo provide longer-term exploration upside in the form of their relatively early stage nature of regional exploration, as does the greenfield Silver Angel project. We view the more advanced El Zapote silver project in El Salvador as a "free option" on potential for future production growth, given that country's current views toward mining.

We are initiating Coverage on SilverCrest Mines Inc. with a **SPECULATIVE BUY** recommendation and **12-month target price of C\$1.40 per fully diluted share.**

COMPARABLES

We compare SilverCrest Mines Inc. with several other silver-focused companies in Appendices A and B. The first table summarizes explorers and developers and clearly shows that the Company is trading at a significant discount to the group. The second table shows SVL to trade at an even greater discount to producers, though this is to be expected, particularly in the case of the larger producers. That said, we think the comparison suggests good potential for a re-rating of the stock when production is achieved at Santa Elena.

APPENDIX A: COMPARISON OF SILVER DEVELOPMENT/EXPLORATION COMPANIES

Company	Ticker	Last (C\$/shr)	S/O (MM)	M/C (C\$ MM)	Project	Status	Stake	Location	Tot. Con. Au Resc. (000 oz)	Au Grade (g/mt)	Tot. Con. Ag Resc. (000 oz)	Ag Grade (g/mt)	Tot. Attributable Ag-eq (000 oz)	(%) Ag	Mkt. Cap. \$/oz Ag-eq.
Aquiline Resources	AQI-T	\$3.52	76.0	267.5	Calcatreu	Feas	100%	Argentina	902	2.46	8,427	23.0	62,547	13%	
					Pico Machay	Expln	75%	Peru	581	0.73	0	0.0	26,145	0%	
					Navidad	Expln	100%	Argentina	0	0.00	753,691	116.6	753,691	100%	
								1,483		762,118		842,383	90%	\$0.32	
Arian Silver	AGQ-V	\$0.07	258.0	16.8	San Jose	Scoping	100%	Mexico			42,779	99.4	42,779	100%	
					Tepal	Expln	100%	Mexico	1,158	0.45			42,779	0%	
													42,779	0%	\$0.39
Bear Creek	BCM-V	\$2.65	57.0	151.1	Corani	Expln	100%	Peru			361,777	40.0	361,777	100%	
					Santa Ana	Expln	100%	Peru			119,902	47.0	119,902	100%	
								0		481,679		481,679	100%	\$313.59	
Kimber Resources	KBR-T	\$0.66	62.0	40.9	Monterde	Expln	100%	Mexico	1,218	0.84	54,106	37.2	127,186	43%	\$0.32
MagSilver Corp.	MAG-T	\$5.74	49.0	281.3	Juanicipio	Expln	44%	Mexico	566	0.83	189,000	276.4	98,102	85%	\$2.87
Minco Silver Corp.	MSV-T	\$1.89	31.0	58.6	Fuwan	Feas	90%	China			158,786	181.1	142,907	100%	\$0.41
Mines Management	MGT-T	\$2.95	23.0	67.9	Montanore	Permitn	100%	U.S.A.			231,180	68.0	231,180	100%	\$0.29
Oremex Resources	ORM-V	\$0.17	50.0	8.3	Tejamen	Expln	100%	Mexico	22	0.03	47,520	65.4	48,840	97%	\$0.17
Orko Silver	OK-V	\$0.87	108.0	94.0	La Preciosa	Expln	45%	Mexico	189	0.26	135,160	185.0	65,925	92%	\$1.43
SilverCrest Mines	SVL-V	\$0.64	59.4	38.0	Santa Elena	Expln	100%	Mexico	646	1.68	31,736	82.5	70,498	45%	
					Cruz de Mayo	Expln	100%	Mexico			15,321	66.1	15,321	100%	
					El Zapote	Feas	100%	El Salvador	18	0.19	14,548	150.2	15,631	93%	
								664		61,605		101,449	61%	\$0.37	
Ventura Gold	VGO-V	\$0.27	137.0	37.0	Inmaculada	Expln	70%	Peru	478	4.00	16,624	139.0	31,713	37%	\$1.17
Notes:													Excl. Max and Min	\$0.84	
1. Equivalents based on Jennings' LT price forecasts of \$900/oz gold and \$15/oz silver.													Excl. SVL	\$0.90	
2. Forex assumption: 1.1096															

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APPENDIX B: COMPARISON OF SILVER PRODUCERS

9-Sep-09	Ticker	Price (\$/share)	Shares (MM)	Mk. Cap. (MM)	Net Debt (MM)	EV (MM)	P&P Res. Ag-eq. (000oz)	Tot. Res. (000oz)	EV/P&P (\$/oz)	EV/Tot. Res	Cash (MM)	Debt (MM)
Hochschild Mining	HOC.LN	\$5.48	307.4	\$1,685	\$243	\$1,927	111,386	260,129	\$17.30	\$7.41	\$58.9	\$301.6
Endeavour Silver	EDR-T	C\$3.05	52.0	C\$159	(\$6)	\$137	9,209	40,555	\$14.91	\$3.39	\$6.9	\$0.8
Fresnillo	FRES.LSE	\$12.09	717.2	\$8,669	(\$175)	\$8,494	656,840	1,929,880	\$12.93	\$4.40	\$174.6	0
Excellon Resources	EXN-T	C\$0.41	257.0	C\$105	(\$1)	\$94	9,236	32,158	\$10.21	\$2.93	\$1.0	\$0.0
Pan American Silver	PAA-T	C\$25.30	87.0	C\$2,201	(\$37)	\$1,953	265,810	218,379	\$7.35	\$8.94	\$37.3	\$0.0
Coeur d'Alene	CDE-N	C\$20.97	75.0	\$1,573	\$294	\$1,866	342,251	474,050	\$5.45	\$3.94	\$79.7	\$373.3
Polymetal	PMTL.LSE	\$8.90	315.0	\$2,804	\$312	\$3,116	708,227	1,027,549	\$4.40	\$3.03	\$4.1	\$316.4
Hecla Mining	HL-N	\$4.39	236.0	\$1,036	(\$30)	\$1,006	184,637	394,139	\$5.45	\$2.55	\$72.0	\$42.2
First Majestic Silver	FR-T	C\$2.68	82.0	C\$220	(\$17)	\$182	44,303	245,791	\$4.10	\$0.74	\$20.8	\$4.0
Fortuna Silver Mines	FVI-V	C\$1.40	92.0	C\$129	(\$29)	\$87	24,506	109,205	\$3.57	\$0.80	\$31.2	\$2.1
Genco Resources	GGC-T	C\$0.35	65.0	C\$22	\$0	\$20	12,008	184,613	\$1.69	\$0.11	\$1.5	\$1.5
US Silver	USA-V	C\$0.16	254.0	C\$41	(\$2)	\$35	20,977	47,214	\$1.67	\$0.74	\$2.1	\$0.4
Revelt Minerals	RVM-T	C\$0.10	111.0	C\$11	\$3	\$13	12,400	306,300	\$1.06	\$0.04	\$3.3	\$6.3
Silvercorp Metals	SVM-T	C\$5.09	162.0	C\$825	(\$51)	\$694		217,058		\$3.20	\$54.0	\$2.9
Great Panther	GPR-T	C\$0.92	87.0	C\$80	\$3	\$76		22,247		\$3.40	\$1.9	\$5.2
							Excl'd. Max & Min		\$6.52	\$2.82		
SilverCrest Mines	SVL-V	C\$0.64	59.37	\$38.0	(\$2.3)	\$35.7			\$1.11	\$0.35	\$7.8	\$5.4

Note:
Ag-eq. contained ounces based on \$15/oz Ag and \$900/oz Au. No base-metal credits considered.
Cash and debt estimates reflect most recent balance sheet reports, adjusted for subsequent events, where known.

APPENDIX C: SUMMARY OF FINANCIAL ESTIMATES

	H2/09E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Realized Au price (W.A.)		\$825.30	\$811.32	\$804.07	\$801.01	\$792.12	\$792.84	\$793.57	\$794.31	\$795.05
Jennings' Ag Price		\$16.00	\$15.63	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Gold Production (oz)		7,803	30,346	30,346	30,346	30,346	30,346	30,346	30,346	6,657
<i>Unhedged portion</i>		1,497	330	8,969	13,278	24,277	24,277	24,277	24,277	5,326
Silver Production (oz)		135,380	526,477	526,477	526,477	526,477	526,477	526,477	526,477	115,494
Cash costs (\$/GEO)		\$334	\$335	\$338	\$337	\$336	\$336	\$337	\$337	\$337
Income Statement (\$MM)										
Gold Revenue		\$6.44	\$24.62	\$24.40	\$24.31	\$24.04	\$24.06	\$24.08	\$24.10	\$5.29
Silver Revenue		\$2.17	\$8.23	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$1.73
Gross Revenue		\$8.61	\$32.85	\$32.30	\$32.20	\$31.94	\$31.96	\$31.98	\$32.00	\$7.03
Opex		\$3.49	\$13.56	\$13.56	\$13.56	\$13.56	\$13.56	\$13.56	\$13.56	\$2.98
G&A	\$1.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Stock-based Comp	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Depreciation		\$0.74	\$4.77	\$5.17	\$5.61	\$7.26	\$7.73	\$7.96	\$8.16	\$2.04
EBIT	(\$1.00)	\$2.38	\$12.51	\$11.56	\$11.04	\$9.11	\$8.66	\$8.46	\$8.28	\$0.01
Interest payments	\$0.50	\$0.88	\$0.64	\$0.40	\$0.14	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EBT	(\$1.50)	\$1.50	\$11.87	\$11.16	\$10.90	\$9.11	\$8.66	\$8.46	\$8.28	\$0.01
Taxes	\$0.00	\$0.00	\$0.09	\$2.06	\$2.12	\$1.40	\$2.22	\$2.37	\$2.32	\$0.00
Net Income	(\$1.50)	\$1.50	\$11.78	\$9.10	\$8.77	\$7.71	\$6.45	\$6.09	\$5.96	\$0.01
Shares fully diluted (ITM)		78.61	78.61	78.61	78.61	78.61	78.61	78.61	78.61	78.61
EPS		\$0.02	\$0.15	\$0.12	\$0.11	\$0.10	\$0.08	\$0.08	\$0.08	\$0.00
CFPS		\$0.03	\$0.21	\$0.18	\$0.18	\$0.19	\$0.18	\$0.18	\$0.18	\$0.03
Cash flow from operations	(\$1.50)	\$2.24	\$16.55	\$14.27	\$14.38	\$14.98	\$14.18	\$14.05	\$14.12	\$2.05
Capex	(\$8.00)	(\$8.25)	(\$0.50)	(\$2.50)	(\$2.25)	(\$7.00)	(\$1.50)	(\$0.50)	(\$0.25)	(\$0.25)
Sandstorm advance payment	\$12.00									
Macquarie debt (repaid)	\$6.50	(\$3.00)	(\$3.00)	(\$3.00)	(\$3.50)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Free CFE	\$9.00	(\$9.01)	\$13.05	\$8.77	\$8.63	\$7.98	\$12.68	\$13.55	\$13.87	\$1.80

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APPENDIX D: MANAGEMENT AND BOARD OF DIRECTORS

J. Scott Drever, President and Director

Mr. Drever has 40 years of international experience in mineral exploration and development and mining operations. He has served as an executive officer and director of a number of public companies listed on the TSX and the TSXV including the Dome Mines Group, Placer Dome Ltd., Blackdome Mining Corporation and Goldsource Mines Inc. Mr. Drever has extensive experience with international mining corporations in corporate management, strategic planning and corporate development.

N. Eric Fier, Chief Operating Officer

Mr. Fier has over 20 years of international experience in a senior capacity including exploration, acquisition, development and production of numerous mining projects in Honduras, Mexico, Chile, Brazil and Peru. His experience includes project evaluation and management, reserve estimation and economic analysis, as well as operations management. Mr. Fier has been Chief Geologist with Pegasus Gold Corp., Senior Engineer and Manager with Newmont Mining Corporation and Project Manager with Eldorado Gold Corporation.

Barney Magnusson, Chief Financial Officer

Mr. Magnusson has over 25 years of experience as a senior officer and director of three mining companies that have developed producing mines: Dayton Mines Inc. project in Chile, High River Gold Mines Ltd. project located in Manitoba, Canada and Brohm Resources Inc. project located in South Dakota, USA. Mr. Magnusson is experienced in corporate finance and public company management and has dealt extensively with the investment community. He has often worked as part of active management teams responsible for structuring and building rapidly expanding companies.

Graham C. Thody, Director

Mr. Thody is a member of the British Columbia Institute of Chartered Accountants, as well as the Canadian Institute of Chartered Accountants. He has also served as a Director and Executive Member of the Lions Gate Hospital Foundation, as well as Chairman of their Finance Committee. Mr. Thody was a Partner of Nemeth Thody Anderson, Chartered Accountants, of Vancouver, BC, from 1979 to 2007. His practice focused on audits of reporting companies, participation in the Initial Public Offering process, corporate mergers and acquisitions, as well as domestic and international tax matters. He is currently a director of several reporting corporations involved in mining exploration and development throughout North, Central and South America.

George W. Sanders, Director

Mr. Sanders is a mining entrepreneur with over 25 years in mining and exploration finance experience. He is also a Director of Bitterroot Resources Ltd. and Goldcliff Resource Corporation. Mr. Sanders spent over 15 years as a registered representative and precious metals specialist with the investment firm Canaccord Capital Corporation and its predecessor companies. He has held Corporate Development positions with Richmond Mines Ltd., Consolidated Cinola Mines and Shore Gold and provides SilverCrest Mines with a solid base in corporate finance and investor relations.

Bernard Poznanski, Corporate Secretary

Mr. Poznanski is one of the founding partners of Koffman Kalef, a law firm specializing in business law. Mr. Poznanski acts for a wide variety of companies listed on the TSX, the TSXV, the AMEX and NASDAQ. He has particular expertise in dealing with mining and technology companies and handling companies with international projects. Mr. Poznanski also acts as a director or officer of various publicly-listed companies.

Jennings Capital Inc. Research Disclosures

Company	Ticker
SilverCrest Mines Inc.	TSXV-SVL

I, **Stuart McDougall**, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

Note: *This is our initiating coverage report on SilverCrest Mines Inc.*

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Stock Ratings

Speculative Buy: The stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months; however, there is material event risk associated with the investment.

Buy: The stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months.

Hold: The stock is expected to provide a total return of 0% to 10% over the current trading price over the next 12 months.

Sell: The stock is expected to provide a negative total return over the next 12 months.

Risk Ratings

Low/Average Risk — Stocks with less volatility than the market as a whole, with solid balance sheets and dependable earnings.

Above Average Risk — Stocks with more volatility than the market. Financial leverage is considerable but not threatening, earnings are more erratic, or other quality concerns regarding accounting, management track record, and similar issues.

Speculative — Stocks of unproven companies or ones with very high financial leverage, suspicious accounting, or with other significant quality concerns. A speculative risk rating implies at least the possibility of financial distress leading to a restructuring.

Distribution Ratings: Out of approximately 62 stocks in the Jennings Capital Inc. coverage universe, the ratings distribution is as follows:

BUY	40%
SPECULATIVE BUY	50%
HOLD	6%
RESTRICTED	2%
UNDER REVIEW	0%
SELL	2%

Revised Monthly

Security Abbreviations: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares); MV (multiple voting shares).

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NOTES:



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