

Mexico and The Sierra Madre Gold & Silver Venture Capital Fund

The **United Mexican States** known as **Mexico (Estados Unidos Mexicanos)** is a country located in North America, bordered at the north by the United States, and at the south by Guatemala and Belize, in **Central America**. It is the northernmost and westernmost country in Latin America, and also the most populous Spanish-speaking country in the world.

As the only Latin American country member of the OECD since 1994, **Mexico is firmly established as an upper middle-income country**. Elections held in July 2000 marked the first time since the 1910 Mexican Revolution that the opposition defeated the PRI and Vicente Fox of the National Action Party (PAN) was sworn in as President on 1 December 2000.

Current President is **Felipe Calderón Hinojosa**.

The following map presents the 31 Mexican states and highlights the typical non-official geographical organization of them:



According to the World Bank, Mexico ranks thirteenth in the world as regards GDP and has the fourth largest per-capita income in Latin America, following Argentina, Chile and Costa Rica.

It is firmly established as an upper middle-income country. Since the economic crisis of 1994–1995, **the country has made an impressive economic recovery**. According to the director for Colombia and Mexico of the World Bank, the population below the poverty level has decreased from 24.2% to 17.6% in the general population and from 42% to 27.9% in rural areas from 2000–2004.

Mexico has a **mixed economy** that recently entered the trillion dollar class. It contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. The number of state-owned enterprises in Mexico has fallen from over a thousand to fewer than one hundred in 2005. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. **Mexico is also the fourth largest oil producer in the world**.

Mexico has opened its markets to free trade like few other countries have done, lowering its trade barriers with more than forty countries in twelve Free Trade Agreements, including Japan and the European Union. The United States, however, remains Mexico's single largest trading partner, accounting for more than 85% of the country's trade. Government authorities anticipate that extending its free trade agreements to cover over 90% of its trade will lessen the country's dependence on the United States. The government is seeking to sign an additional agreement with Mercosur.

The standard of living in Mexico is higher than most of other countries in Latin America drawing people from places like Argentina, Brazil or Cuba to the country in search for better opportunities. With the recent economic growth, most middle- and high-income families live in single houses, commonly found within a walled village, called a *fraccionamiento*. The reason these places are the most popular

among the middle and upper classes is that they offer a sense of security, since most of them are within walls and have surveillance, and living in one also provides social status, due to the infrastructure of most of these villages. Swimming pools or golf clubs, and/or some other commodities are found in these fraccionamientos. Houses inside them tend to be of higher quality, and larger than other homes, most of them with at least three or four bedrooms and even maid quarters and laundry. However, the poorer Mexicans live a harsh life. Poverty is specially poignant in the countryside.

In the larger towns, hiring housekeepers or maids is not as common as in the past, but there are still many families that are willing to pay a person, generally a middle aged woman, to come help with the house chores once or twice a week. The gender roles for women in Mexico are generally strict, although this has lessened in the country's upper-classes influenced by Anglo cultural trends and some Mexican women are challenging patriarchal societal mores where males continue to practice "machismo", a major Latin American cultural norm (yet is stereotyped) of men are strong, self-reliant and aggressive.

Sierra Madre Occidental

is a mountain range in western Mexico and the extrem southwest of the United States, extending 1500 km from southeast Arizona (south and east of Tucson) **southeast through eastern Sonora, western Chihuahua, Durango, Zacatecas, Aguascalientes to Guanajuato**, where it joins with the **Sierra Madre Oriental** and the **Eje Volcánico Transversal** of central Mexico. These mountains are generally considered to be part of the much larger American cordillera.

The highest point is probably **Cerro Mohinora**, located at 25°57'N 107°03'W. Different sources cite its altitude as either 3250 m or 3300 m. However, other mountains at 26°03'N 106°25'W and 23°12'N 104°57'W are of very similar altitude and may possibly be higher.



The mountains are home to several **indigenous nations** speaking Uto-Aztecan languages, including the Tarahumara in the central portion of the range, and the Huichol in the southern part of the range.

Mining Industry

Mexico, **a country with a mining history which straddles almost 500 years**, still weighs amongst the world's largest metal producers. **It represents a major mineral exploration ground.**

Mexico consists of a large and elevated plateau flanked by two volcanic mountain ranges, the **Sierra Madre Occidental and Oriental**, which meet in the south forming the **Sierra Madre del Sur**. The much younger **Trans-Mexican Volcanic Belt** cuts from east to west through the plateau and boasts hundreds of young and sometimes active volcanic peaks, like **Popocatepetl, Colima and Pico de Orizaba** to the south of Mexico City. Narrow coastal plains are bordered by the abrupt sides of the volcanic ranges except in the southeast where the Yucatán Peninsula, a flat lying limestone plain, lies at the shore of the Gulf of Mexico.

MINING LEGISLATION

Under the Mexican constitution, minerals are part of the national patrimony.

The exploration, exploitation and beneficiation of the minerals will have preference over any other use for the land.

Except for hydrocarbons, radioactive materials and salt, which is formed by evaporation of brines from playas, **the law permits up to 100 percent private ownership in equity exploration, development and production of mineral substances.**

Exploration concessions are granted for six years and are not renewable. There are no limits for the mining concession surfaces. **Production concessions are awarded for 50 years and are renewable for a similar period.**

The Mexican offices of the law firm Baker and McKenzie have produced an overview of the legal framework that companies need to consider when obtaining mining concessions in Mexico.

Silver

Mexico is the world's second largest silver producer. Silver is produced both as primary silver and as a by-product of gold and base metal operations. **In 2005, Mexican silver mine production accounted for 92.3 million ounces (2,870 t), a 12% increase over the previous year.**

The major production states are **Zacatecas, Durango, Chihuahua, Guanahuato and Querétaro.**

In 2005, the Peñoles' Proano (Fresnillo) mine in Zacatecas ranked **as the world's second largest primary silver mine (33.93 Moz Ag)**. Other important mines are Tayahua (9th place – 4.30 Moz Ag) and Tizapa (12th place – 3.44 Moz Ag) of Mexico state. The main silver producing companies are Industrias Peñoles (world's 2nd largest producer), Grupo Mexico (the world's 6th largest producer), Industria Luismin, and First Silver Reserve Inc.

Gold

The majority of gold production comes from mines where gold is obtained as a co-product (silver and copper-gold mines) and by-product (polymetallic deposits).

Sonora, Durango and Chihuahua produce the majority.

The country's largest gold mine is La Herradura (produced 5.7 t Au in 2005) located on the Gulf of Cortez in the state of Sonora followed by La Cienega located in Durango.

In 2005 Mexico produced 31.5 tonnes of gold which represents a 28.8% increase over the previous year. Several projects are scheduled to be completed shortly or have already commenced commercial production so the figures will see an increase in 2006 and 2007. Amongst the companies that play a significant role in gold production are Industrias Penoles, Luismin and Dowa Mining.

THE FUTURE OF MINING IN MEXICO

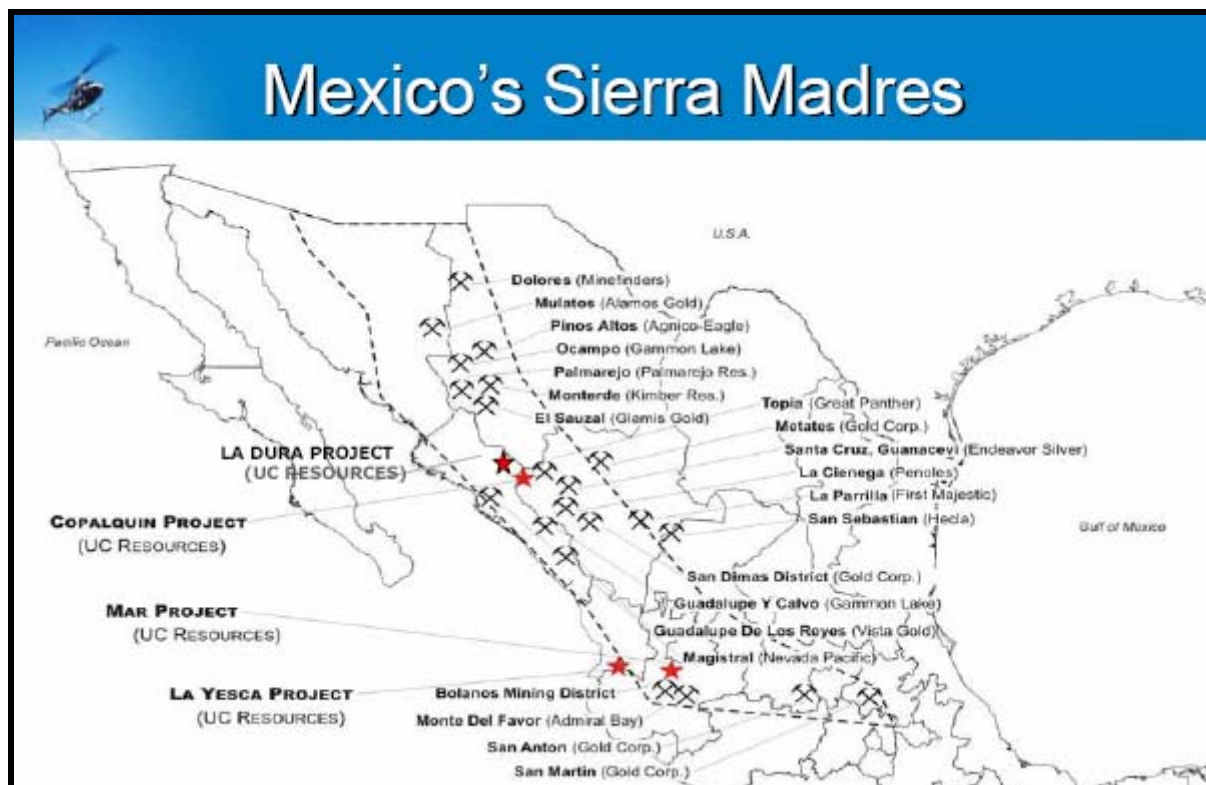
As with everywhere else in the world, mining in Mexico is subject to commodity price cycles. As in any other country where mineral substances heavily contribute to the GDP, Mexico's mining sector has greatly benefited from the current mining boom.

With copper, molybdenum, silver, zinc and oil prices at all-time highs, the stage is set for a major push in exploration, development and production.

Political and financial stability, legal security for investors and its location next to one of the worlds top importers of resources are all positive factors impacting Mexico's mining industry today.

However, one must also consider the highly unionized nature of its mining and metallurgical workers, a lack of potable water and possible socio-economic issues generated by low wages and under-employment as possible road blocks to the continued prosperity of the industry.

The Sierra Madre Gold & Silver Venture Fund Sicav plc



Investment Policies

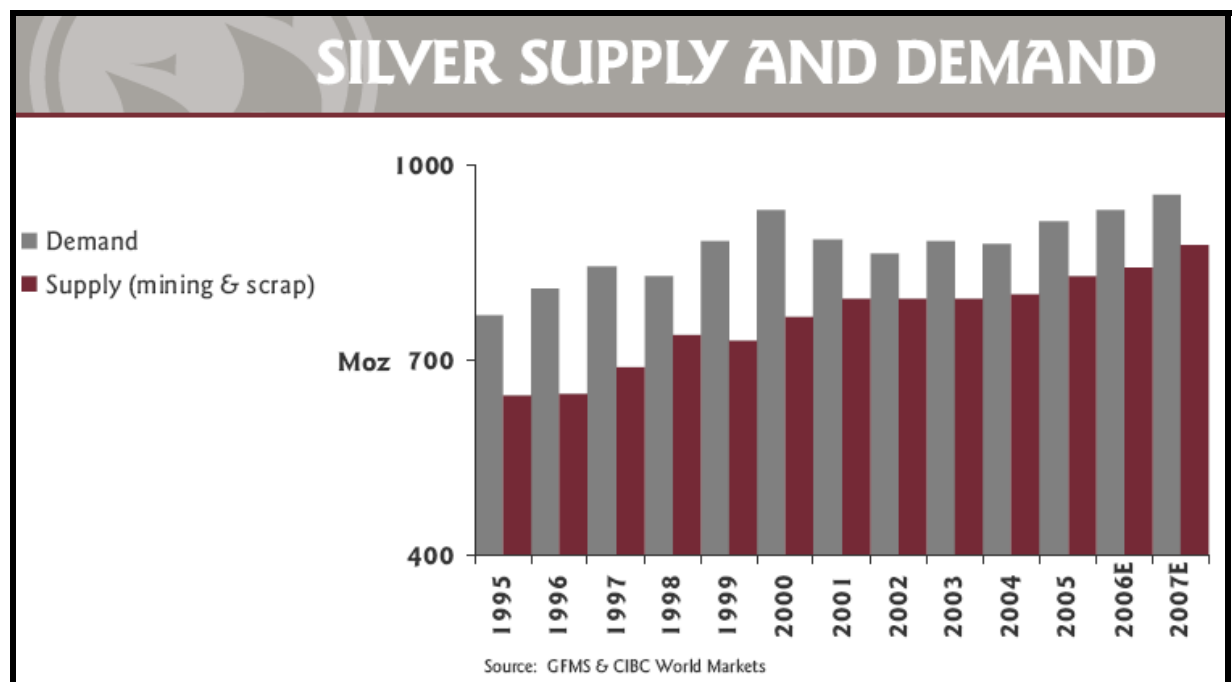
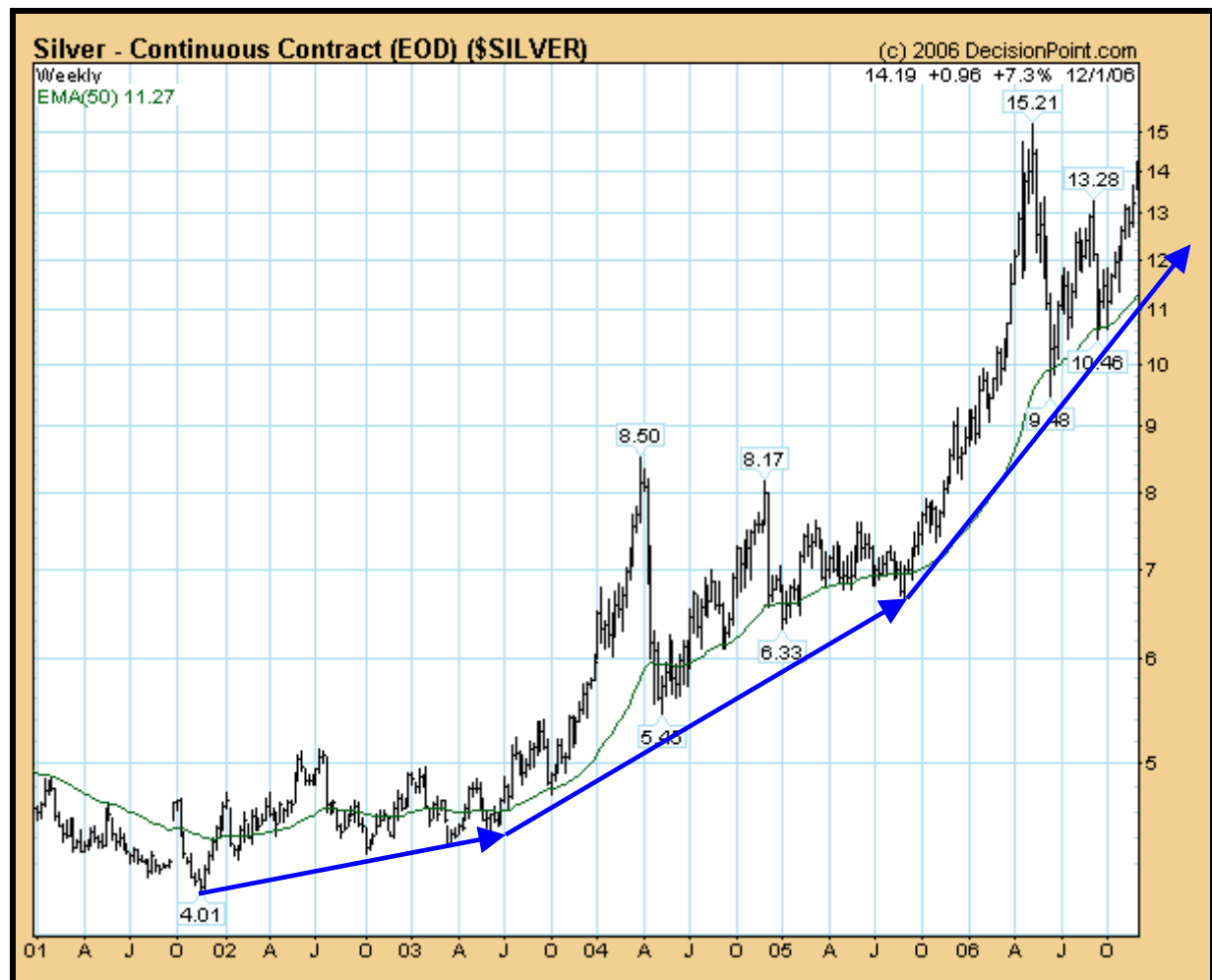
- The Fund will seek to achieve capital gains by investing at least **75% of the assets** of the Fund in **listed and tradable** securities of **junior gold & silver exploration, mining and production companies** operating in the **Sierra Madre Gold and Silver Belt of Mexico**.
- Capital gains may also be achieved by investing up to **25% of the assets** of the Fund in **unlisted and non-tradable** shares of private metal exploration, mining and production (or near-production) companies of the **Sierra Madre Gold and Silver Belt of Mexico**.



Venture capital investments are what the dictionary would define as **an exciting but often hazardous undertaking**. While they represent a high degree of risk, they offer at the same time exceptional capital gains potential as above chart of **Alamos Gold** displays.

The **Sierra Madre Gold & Silver Venture Capital Fund** offers the investors the possibility to participate in a portfolio of carefully selected exploration and/or production companies, all active in the **Sierra Madre Gold & Silver Belt** with similar capital appreciation potential as the one depicted above. As exploration is a **hazardous undertaking by definition**, a **wide selection of different companies** reduces this risk of such an investment while maintaining the capital gains potential.

The Fund also offers a unique possibility to invest in non-listed securities with the intention to exchange the shares of such companies against listed shares of foreign mining companies which seek an exposure in the Sierra Madre Gold and Silver Belt of Mexico.



The Sierra Madre Gold & Silver Venture Fund offers an excellent possibility to participate in the present **commodity bull market** with its exposure primarily to silver and gold companies active in the **second biggest gold producer country of the world – Mexico.**

The Sierra Madre Gold & Silver Venture Capital Fund SICAV PLC (the “Fund”)

is a collective investment scheme organised as a multi-class investment company with variable share capital under the laws of the Republic of Malta, on the 19th September 2006 and licensed by the Malta Financial Services Authority (the “MFSA”) under the Investment Services Act, 1994 as a Professional Investor Fund (“PIF”).

IMPORTANT INFORMATION

PIF's are Non-Retail collective investment schemes, accordingly the protection normally arising as a result of the MFSA's investment and borrowing restrictions and other requirements for retail schemes do not apply.

Investors in PIF's are not protected by any statutory compensation arrangements in the event of the fund's failure.

The Fund is organized under the laws of Malta as an investment company with variable Share capital (SICAV) pursuant to the Companies Act 1995 and the Fund is licensed by the MFSA as a PIF.

The MFSA has made no assessment or value judgement on the soundness of the Fund or for the accuracy or completeness of statements made or opinions expressed with regard to it.

The Investment Manager and Directors of the Fund, whose names appear in the Offering Memorandum under the sections headed 'The Investment Manager' and 'Fund Directors and Fund Secretary' are the persons responsible for the information contained in the Offering Memorandum.

December 2006