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Cerro Resources NL 27 Jul 11

CJO

AUD \$0.26



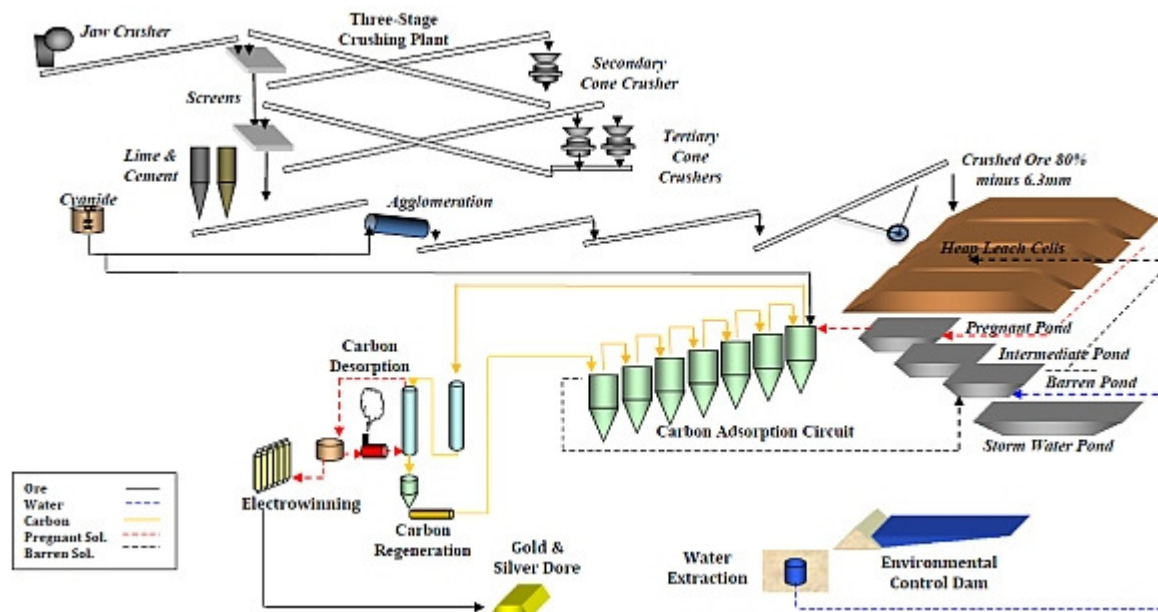
Cerro del Gallo on the DFS trail; not a time for investors to yawn

Cerro Resources NL has been quietly progressing its flagship Cerro del Gallo silver-gold mine (Cerro's interest 66%) in Mexico. Important activities underway include testing the processing parameters with ore to ensure maximum metal recovery. While activities appear to be less compelling for investors at Cerro, a programme of drilling has commenced at Namiquipa.

Cerro del Gallo is the company's major focus where activities to complete the definitive feasibility study (DFS) are well underway. A programme of 433 holes totalling some 114,000 metres has been completed at Cerro del Gallo. The drill programme has allowed the company to define a mineral resource for Cerro.

The Cerro del Gallo deposit has a current Canadian National Instrument 43-101 compliant mineral resource estimate of 4.5 million ounces of gold, 202 million ounces of silver and 1.4 billion pounds of copper.

Crushing occurs at the very front-end of processing, with testing indicating that better silver-gold recovery is possible from heap leaching a finely ground ore. A schematic of the stage one processing flow follows.



Current testing of the ore through the heap leaching process has resulted in a decision to insert high pressure grinding rolls (not shown in the above diagram) in the preliminary crushing process.

Under stage one processing Cerro del Gallo has a reserve of 32.2 million tonnes of proven and probable ore reserves showing 0.69 grams per tonne gold (g/t) and 14.8g/t silver.

The stage one resource will support a mine with an initial life of eight years. The plant will process 4.5 million tonnes per annum to produce some 450,000 ounces of gold and 532,000 ounces of silver. The plant would have an operating cost of US\$491 per gold equivalent ounce. The capital cost is estimated at US\$88 million.

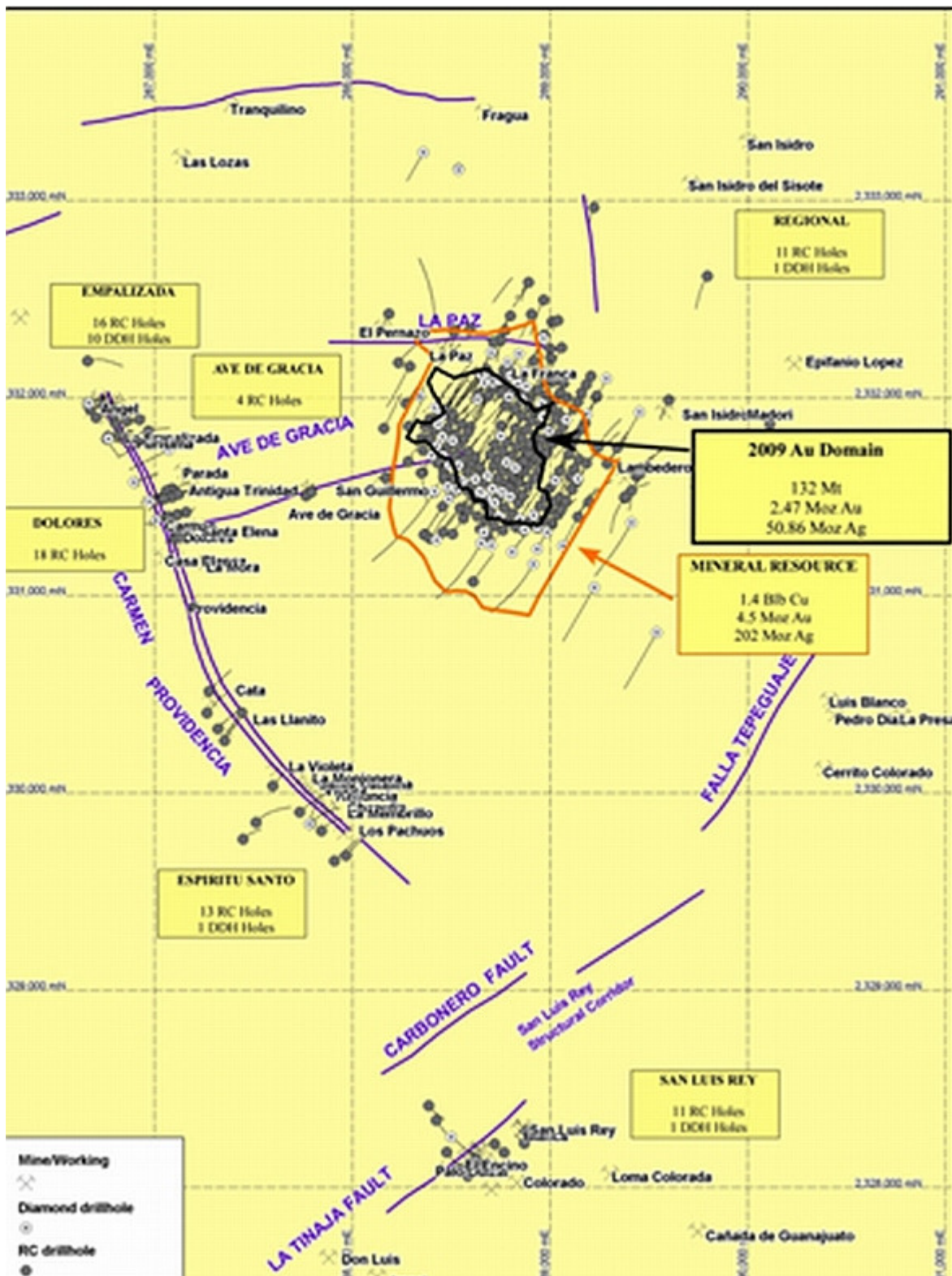
Through the DFS, the company is currently testing the heap leaching process with the inclusion of a carbon-in-leach or stage two upgrade. Upgrading the leaching process will add an additional 45 million tonnes of measured and indicated resource to Cerro del Gallo.

The optimising of the leaching process will improve the investment matrix of the proposed plant. Annual processing will increase to 7.5 million tonnes per annum and increase production to 682,000 ounces of gold and 4,730,000 ounces of silver. Operating costs would as a result of the additional leaching process, rise to US\$541 per ounce of gold equivalent ounce. The life of the mine would also step-out to 14 years. The additional capital cost is expected to be US\$83 million.

Production from Cerro del Gallo is scheduled to commence in 2012/13. A decision to mine will be made in the December 2011 half. Along with the decision to mine the company will be seeking permitting and project funding during the December 2011 half.

We view the potential plant upgrade as adding an additional future value steam to the Cerro del Gallo project and shareholders.

Not only is the Cerro del Gallo project moving toward production, the site does continue to hold exploration upside potential. The following figure shows the Cerro del Gallo site.

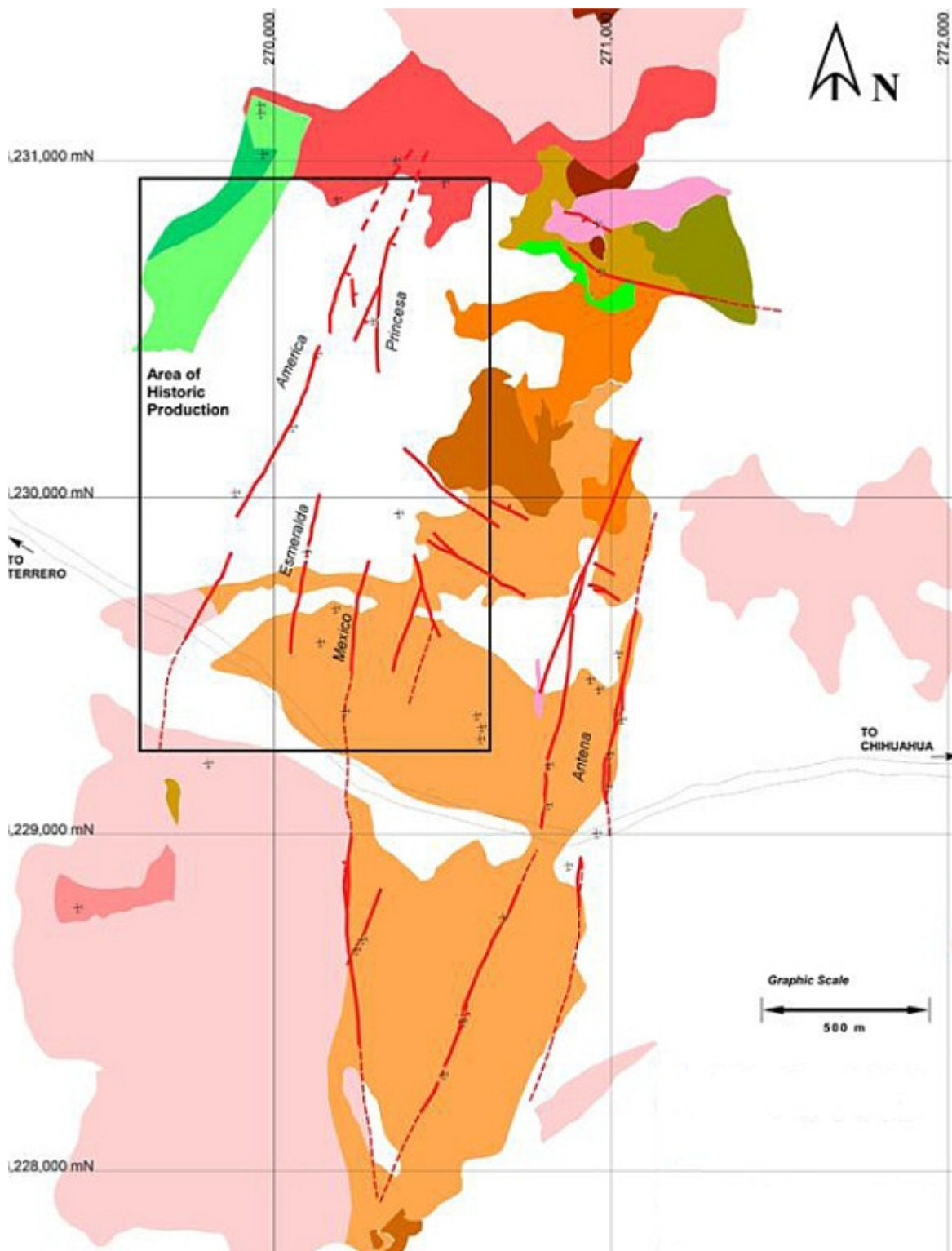


There are three prospects the company will focus on that are in close proximity to its Cerro del Gallo project; these are the Carmen-Providencia system, the Ave de Gracia system and the San Luis Rey epithermal system.

We have been encouraged by the early results from the company's near mine drilling. Some of the better intersections include 4.6 metres showing 428g/t silver and 3.52g/t gold and six metres showing 243g/t silver and 1.7g/t gold. These are significant silver intersections.

As a result of the early findings, we are of the opinion each of these prospects, given the pedigree of the region, when fully explored have the potential to add significantly to shareholder value in the future. We remind Members that exploration is a high risk venture where actual outcomes can vary to anticipated outcomes.

While the focus of the company has been on its Cerro del Gallo project, activities at its Namiquipa project site has also picked-up. The following schematic is of the Namiquipa site.



A drill programme of some 10,000 metres is now underway. The programme is designed to explore for mineralised extensions of veins around the La Venturosa mine, where some 14.4

million ounces of silver, 32,550 tonnes of lead and 43,530 tonnes of zinc have been extracted from the America and Princesa veins. The results are expected during the current quarter. We look forward to the results as these come to hand.

A ground magnetic geophysical survey of the entire Namiquipa tenement is being carried-out, in support of the drill programme. Ground magnetic and induced polarization anomalies detected during the survey are currently being evaluated for prioritized testing in the December 2011 Quarter.



Cerro Resources found solid support at the horizontal support level of 19 cents to rebound strongly. The recent breakout from the confluence of the 50 day moving average and downtrend line is bullish. This also signals the commencement of a short term uptrend.

Overhead resistance is expected at the 50 - 61.8% Fibonacci retracement region of 28.5 and 30.7 cents respectively over the medium term.

Cerro Resources NL is still speculative in nature but we anticipate positive news flow out of Mexico. A growing silver resource going forward and a positive DFS outcome will each act as a catalyst to increase value.

Cerro Resources NL is recommended as a buy for all Members who do not already have exposure to the stock.

Snapshot CJO

Cerro Resources NL

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Market Capitalisation	A\$194.5m
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