



Transcript of initial interview with Mr. Frederick W. Davidson



President and CEO of IMPACT Silver Corp.



IMPACT SILVER CORP

TSX Venture Exchange: IPT

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Mr. Frederick W. Davidson - President and CEO of IMPACT Silver Corp. Mr. Davidson has been a senior executive in the mining industry for the past 35 years during which time he has helped finance public and private mining companies. His experience spans over 18 countries throughout North America, South America, Africa and Asia. He was most recently the VP and Chief Financial Officer of TOTAL Energold Corp., an energy and gold producer which had over \$250 million in assets producing over 10,000 b.o.e. per day, 15 million cubic ft of Natural Gas and 100,000 oz of Gold on an annual basis. Previously, he spent 10 years as Chief Financial Officer of Erikson Gold Mines Ltd. and Mt. Skukum which grew from grassroots exploration to production.

Smallcaps.us: Welcome everyone and thanks for joining Smallcaps.us. We're pleased to be taking a look at IMPACT Silver today, a resource Company with several mines in production. We'll be speaking with its President and CEO, Mr. Frederick Davidson. IMPACT is listed on the TSX Venture Exchange under ticker symbol IPT. Fred, it's a pleasure to have you with us, welcome.

Frederick Davidson: Well, thank you very much. It's a pleasure myself.

Since this is our initial interview, can you please give us a brief introduction of IMPACT Silver, along with an overview of where your current projects are located?

Well, IMPACT has basically two sets of projects. One is a very early stage exploration project in the Dominican Republic. We really haven't focused on those in the last while because of what we're finding in Mexico.

Our principle projects in Mexico are located about three and a half hours southwest of Mexico City, on a paved highway. They're in one of the oldest mining districts in Mexico. Cortés, actually, hid out here when he got in trouble with the governor of New Spain almost 500 years ago.

The area is heavily mountainous and has over 3,000 old mines that have been located to date in the general area. It's about 623 square kilometer area covering a portion of Estado de Mexico, or the state of Mexico, and the northern part of Guerrero State, which is directly adjacent. And two entire mineral districts, one of which is called Zacualpan, and the other one is

called Mamatla. So, the area is quite exciting. It's a very large area to be covered. I understand it's larger than about 40 of the countries that are in the U.N., and, at the same time, highly prolific in terms of mineral production over the past 500 years.

Let's go over the properties in more detail. First let's talk about your three operating mines: San Ramon, Chivo and Noche Buena, all of which are located in the Royal Mines of Zacualpan Silver District. Can you give us some background information on these mines and their production rate?

Absolutely. These are three underground mines. They're mining on epithermal vein systems. For the uninitiated, that's veins that have been created through deposition of minerals with lower temperatures of water and pressure. In Mexico, this typically sort of precipitate out where the silver accrues primarily near the surface. As you go to depth, you get more into lead-zinc and the greater silver falls off. And that's over an area of about 250, 300 meters in depth.

Each one of these mines is operating on a separate vein and with hundreds of veins in the area, and each one is in a different stage of mining on that horizon. The San Ramon is structurally higher than the rest and that is it's more into the silver, and it takes longer, as you go to depths, to get into the lower grade silver and the lead-zinc.

Chivo tends to be a little lower down physically and geographically. And, in fact, we're now getting into higher grades lead-zinc there with lower grades of silver. And the Noche Buena is somewhat unique in its own right. It's strictly

silver, but we are getting into some of the base metals as we go down.

Each one of these are being mined from underground, and each one of them are currently being mined by driving in what they call an adit or a tunnel that goes in horizontally into the vein, and then runs along the vein, mining the ore in the vein. And the veins vary in widths, anywhere from a meter and a half to 20, 30 meters in width, depending on where we are.

Historical grades have been averaging around 200 grams. Because we're mining in one of the lower areas of Chivo, the grades are down at about 150 grams. And Chivo will be ultimately replaced by a brand new mine that was just in the process of permitting called Oscar, which structurally is much higher in the overall scheme of things. And we expect to see considerably higher grades coming through in the next year.

Being in production obviously means that you generate revenues and earnings. So can you share some more details about the Company's financials and its current cash position?

Well, the Company has always maintained that rather than just producing ounces for the sake of producing ounces, we produce ounces that make us money. So, the end result is we probably haven't expanded as rapidly as some of the other Companies have, but at the same time, it's allowed us to expand with minimum dilution to the shareholders. Right now the Company has about \$20 million in cash, no debt whatsoever, and a total working capital of probably around \$25 million or \$26 million.

It's consistently produced profits since we started the Company about six years ago, since we first acquired this mine. And production has gradually increased over that period of time and so have the overall revenues. I mean, the slowest period we've had in the last three years has actually been right now, as we sort of mine to the bottom of Chivo and we're transiting into the Oscar.

But in 2012, total revenues were only about \$13

million. In 2011, they were \$19 million, primarily because we are into lower grade material. We expect that to return back up to the higher grade material in 2013. And as production also rises, then we are looking forward to continue to profit silver.

We don't have any debt, as I mentioned, and other than two financings, which I think totalled around \$24 million or \$25 million. We spent about \$38 million to \$40 million in CAPEX and exploration to date, and we still have, as I said, left in the till about \$20 million. I think we've been very prudent managers of the shareholders' money.

What future development plans do you have for your three current mines?

Well, as I've said, the Chivo is getting more into lead-zinc now. So, we are probably going to put it on maintenance until lead-zinc prices respond. We're running, right now, from the Noche Buena and San Ramon, and we're also taking some more from one other mine in the area that we've mined historically, and that's La Gallega, which has certain areas of higher grade silver. And we'll be doing that until we bring Oscar into production sometime this year. That would then replace Chivo entirely and La Gallega as well. That will take us to the full capacity of the current mill, which is roughly 500 tons a day.

The IMPACT exploration team has mapped over 3,000 old mine workings in the Zacualpan Silver District. Are there other mines in your near-term production pipeline?

Well, there are indeed. First of all, in Zacualpan itself. The district as you go from the northeast to the southwest, tends to be changing in characterization, and that is, as we go to the south and southwest, we're moving out of what appears to be epithermal veins into what appears to be mesothermal veins. Those are created from higher pressure, higher temperature. And as you get to these higher pressure and higher temperatures, you tend to get a different type of mineralization and that is,

theoretically, they're lowered down in the system, and precipitating out in that general area is sort of copper-gold.

We're seeing in what we call Valle de Oro, or valley of gold, a number of old workings in the area, which have been generating pretty high grades of gold, and that's something we'll be following up in the very near future.

As you go further south, out of the Zacualpan district into a district we call Mamatla, we get into an area that is actually volcanogenic massive sulphides or VMS for short. Those tend to be a different type of deposition. Those are things that are basically volcanic plumes that have accumulated on the bottom of the ocean bed. We're currently bringing one of those into production right now. We've identified at least five, one we've drilled off called Capire, and it'll be in production early this year.

And we're building a 200-ton-a-day pilot mill. Before we finally establish the ultimate size of that mill, we want to run the pilot plant for about a year or so, which will allow us to get good metallurgical results on Capire. It will give us good operating costs from recoveries.

At the same time, we're doing active exploration on at least five other targets in the area, which may generate the need for a much larger mill than the 200 tons a day. We've got a very busy schedule lined up for us in 2013.

Where would you like to see these two new mines one year from now?

Well, we're hoping that we're going to have the Zacualpan mill running at full capacity at 500 tons a day with the average historical grade running around 200 grams a ton. We're hoping to have the Capire pilot plant operating at full capacity. And at that same time, the exploration being conducted on the other Capire targets as well as the Valle de Oro, would start speculation as to development of maybe even a third or a fourth mill in the general district.

IMPACT's generated cash is also used to continue exploration and drilling on your

properties, which expands known zones and helps discover new ones. Can you elaborate on the work currently being conducted and the results?

Well, that's the teaser that we've been seeing. This whole area called Valle de Oro is a brand new district for us. It does lie stratigraphy-wise underneath where we're mining at Zacualpan. It seems to have some size potential and it does have some extremely good gold and copper grades.

The other side of it is we are exploring in other areas in the valley that will probably produce more ore than we can currently handle at the 500-ton-a-day mill. And there's an issue of hauling distances as well. So, we're looking at across the valley from where we're working with the mines where we were working with Chivo and where we're working at San Ramon. We're working at a new possible district in that area that would be mining one or two new mines at either Mirasol or Condesa, both of which are giving us some exceptional grades and good widths in our mining. I think in Condesa we got 2.87 meters at over 300 grams silver in our recent discovery and Mirasol has just generated over 7 meters at 216 grams of silver. So, high grade, good mining widths, and it might force us, literally, to build additional mills in that area as well. So, there's a lot of potential for us in the future.

And what can you tell about IMPACT Silver's significant shareholders?

Well, IMPACT is a very small Company. It has relatively broad shareholders. We have two shareholders, however, that are fairly substantial in the business. One of which is a Company called Energold Drilling. And Energold is one of the largest mineral and oil and gas drilling Companies around. They work in over 22 countries. And this was originally an investment by Energold well before Energold was focused strictly on drilling. And it maintains its interest because it really believes in this overall project.

And, of course, there's one other shareholder,

who we always like to have along, and that's Sprott Asset Management, who runs one of the big silver funds in the industry.

Can you also inform us about the Company's management team and other key players?

Well, the management team, as myself as president. I've been in the business 35 years in mining and in mining underground. I'm also, coincidentally, the president of one of the largest shareholders, Energold. We have a vice president in exploration, George Gorzynski, who has been in the business, again, about the same length of time with a real success ratio.

The board of directors is composed entirely of technical people, people who've been both geologists and engineers. We do have one non-technical person. His job is to keep us from getting too technical when we're talking to the public, and he's a fund manager out of New York. In the field, our management team is all Mexican. Our COO is Armando Alexandre, who's a resident of Mexico, and our mine manager is also a Mexican. So, as soon as we get into the Mexican purview, everybody is Mexican with the exception of the 43-101 geologist we're required to keep on site.

As a final question, what are the two or three most compelling reasons for a long term investor to consider IMPACT Silver today?

Probably the same reason that I'm a big shareholder and Energold Drilling is a big shareholder. It's being run as a value play. It's run on a very conservative basis with a clean balance sheet, it's been run with the intention of generating profits and avoiding delusion, and at the same time, developing probably one of the largest mineral districts available on a contiguous basis, at least in Southern Mexico.

And that gives us an opportunity to develop our commodity base, especially, in precious metals. I used to call it distinctly silver, but if we keep on getting gold. I guess we'll have to acknowledge the gold there as well. I think the Company has a lot of potential. Is it quite as exciting as some of the others? Maybe not. Is it one of the better quality assets out there? Definitely.

Well thank you Fred, it's been a pleasure speaking with you and we appreciate your time and insight. We'll certainly continue to follow IMPACT's progress and we hope to have you back in the future for an update.

My pleasure.

Interview Feedback

We welcome your questions and feedback regarding this interview at: <http://smallcaps.us/impact-silver-ceo-frederick-davidson-outlines-plans-for-taking-more-silver-mines-into-production>

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