



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

FUNDAMENTALS IN PLACE FOR A STRONG RISE IN THE SILVER PRICE - SPIKE TO US\$8 - \$10/oz POSSIBLE

After languishing at levels between US\$4.00/oz to US\$5.50/oz for the last fifteen years, the silver price has shown signs over the last month of breaking above this historical range and potentially moving to significantly higher levels. Silver prices have already reached US\$5.75/oz this month and have potential to spike to US\$8 – 10/oz, we believe, if investment or speculative demand takes hold.

We believe the following silver market fundamentals are in place to drive such a price move:

1. Industrial/jewellery demand for silver is expected to increase as global economic recovery gains momentum.
2. Supply is expected to remain flat as approximately 73% of mine production comes from by-product sources and is relatively price inelastic.
3. World-wide silver inventories and stockpiles have been run down over the last ten years and there is limited silver stockpile (estimated between 300 – 500m oz) available to feed the 100m oz per annum deficit between fabrication demand and supply which has existed for fourteen straight years.
4. Potential new uses for silver including fuel cells, silver based wood preservatives, superconductors and bactericides point to increased demand in the future.
5. Investment/speculative demand is the wild card, which could send the silver price significantly higher. This is because the silver market is relatively small value wise, with annual supply valued at only US\$5bn. Compare this against annual gold supply worth US\$50bn, Microsoft's capitalisation of over US\$300bn, and world stockmarket capitalisation around US\$28 trillion.

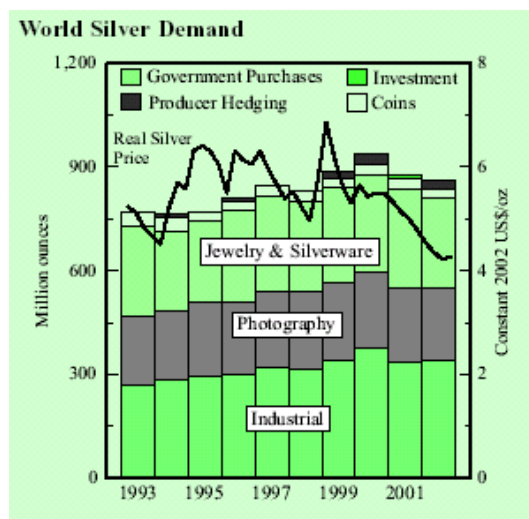
World Silver Supply and Demand
(millions of ounces)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Supply										
Mine Production	469.9	451.4	479.5	487.9	523.1	543.6	542.9	582.8	589.2	585.9
Net Government Sales	6	17.6	25.3	18.9	--	40.9	95.2	78.2	87.2	71.3
Old Silver Scrap	148.5	151.9	162.7	158.2	169.1	193.7	181.2	180.8	182.7	184.9
Producer Hedging	26.7	--	7.5	--	68.1	6.5	--	--	18.9	--
Implied Net Disinvestment	120.4	145.4	94.6	147.9	84.8	43.8	65.4	94.2	--	20.9
Total Supply	771.6	766.3	769.6	812.9	845.1	828.5	884.7	936	878	863
Demand										
Fabrication										
Industrial Applications	270.1	281.7	295.6	297.6	320.7	316.3	340	376.3	338.1	342.4
Photography	199.3	201.6	210.9	212	219	225	226.2	220.2	213.9	205.3
Jewellery and Silverware	259.1	227.9	236.9	263.7	274.3	259.4	273.3	279.9	286	259.2
Coins and Medals	43.1	45.2	26.1	25.2	30.4	27.8	29.2	32.2	30.5	31.3
Total Fabrication	771.6	756.3	769.6	798.6	844.4	828.5	868.7	908.6	868.5	838.2
Net Government Purchases	--	--	--	--	0.7	--	--	--	--	--
Producer Hedging	--	9.9	--	14.3	--	--	16	27.4	--	24.8
Implied Net Investment	--	--	--	--	--	--	--	--	9.5	--
Total Demand	771.6	766.3	769.6	812.9	845.1	828.5	884.7	936	878	863
Silver Price (London Fix, US\$ per oz)	4.31	5.28	5.20	5.20	4.90	5.54	5.22	4.95	4.37	4.60

Source: GFMS World Silver Survey 2003

DEMAND

Demand for silver is from three key areas: photography, industrial (mainly electronics), jewellery and silverware. Together these three categories make up 95% of annual silver consumption. Industrial and jewellery demand over the last ten years has been growing at a rate of around 4% per annum, whilst photography has grown by less than 1% as the introduction of digital photography has flattened growth in this area. However, consumer film demand (which digital photography is cutting into) is only a part of the total photographic demand for silver and is behind the radiography market and consumer printed images market in terms of size. The electronics sector usage is growing strongly in areas such as CDR's, semi conductor and cell phones. Potential new growth areas include water purification (silver is a bactericide) fuel cells, silver based wood preservatives and in super conductors for power generation. There is also potential for more interest in silver in its traditional monetary role and as a store of value, particularly now that prospects of inflation are increasing as the US dollar weakens and US dollar denominated commodity prices rise.



Source: GFMS World Silver Survey

PRODUCTION

World mine production of silver in 2002 at 586m oz was considerably lower than total demand of 863m oz. Approximately 73% of mined silver was from by-product mining of other metals (lead/zinc, copper or gold) and only 27% was from primary sources. This makes silver relatively price inelastic – ie higher prices do not have a profound effect on increasing production. The top silver producing countries in 2002 were Mexico (92m oz), Peru (89m oz), Australia (67m oz), USA (46m oz), China (45m oz), Canada (44m oz), Poland (39m oz), Chile (35m oz), Russia (25m oz) and Kazakhstan (25m oz).

The significant deficit between mine production supply and demand of approximately 100 - 150m oz per year has been filled by inventory/stockpile drawdowns over the last ten years. However, with official stockpiles now run down and unofficial stockpiles estimated at only 300 - 500m oz remaining, there is a likelihood of tightness in the silver market in the near future, particularly if investment or speculative demand emerges. We expect this tightness to lead to a sustained rise in the silver price over the next two years.

The World Silver Survey 2003 estimated that in 2002, for the fourteenth straight year, a structural deficit was recorded. This gap between supply (mine production and recycled scrap) and fabrication demand stood at 67m oz in 2002.

OUTLOOK FOR SILVER

With signs of strong economic recovery taking place globally, industrial and jewellery demand for silver is expected to increase.

Rising gold prices and a weakening US dollar at a time when silver is still relatively cheap may prompt investment activity in silver which could significantly increase demand and prices. The last time investment or speculative demand was evident in the silver market was in 1998 when Warren Buffet reportedly purchased over 130m oz of silver as an investment and silver prices spiked to US\$7.80/oz. The last significant speculative bubble in silver was in 1980 when the Hunt brothers tried to corner the market, sending silver to US\$50/oz.

With the likelihood of improving industrial demand for silver, a flat production profile, limited stockpiles of silver and the possibility of some investment/speculative action happening, the fundamental outlook for silver looks very healthy.

The Alchemist believes silver could spike to US\$8 – US\$10/oz in price over the next one to two years.

AUSTRALIAN LISTED COMPANIES LEVERAGED TO SILVER PRICE

The majority of silver equity plays are North American listed and unfortunately there is a severe shortage of Australian silver companies. However, whilst best leveraged exposure to silver can be gained from investing in North American listed silver producers, there are three stand out Australian listed companies well leveraged to silver.

These three companies Anvil Mining NL (a copper/silver producer in the Democratic Republic of Congo), Macmin Silver Ltd (a potential emerging primary silver producer with proven reserves in Queensland) and Perilya Ltd (a zinc/silver/lead producer from the Broken Hill operation, NSW) offer excellent exposure and leverage to higher silver prices.

Australian Listed Companies Leveraged to Silver

Stock	ASX	Share Price	Market Capitalisation (dil)	Reserves Cu/Zn (t)	Reserves Silver (m ozs)
Anvil Mining NL	AVL	\$0.43	A\$97m	92,300t Cu	9
Macmin Silver Ltd	MMN	\$0.20	A\$78m	-	13
Perilya Ltd	PEM	\$1.24	A\$211m	893,000t Zn	15

The Alchemist

DISCLAIMER

RFC Research Limited ("RFC") has prepared this note to provide general commentary and analysis to professional investors on selected resource companies, securities and markets.

No part of this report is to be construed as a solicitation, offer or invitation to buy or sell any security and should not be relied upon in connection with any contract or commitment whatsoever.

RFC prepared this report without taking into account the objectives, financial situation or needs of any person. Before making an investment decision or otherwise acting on the basis of this report you should consult with a professional investment adviser to consider the appropriateness of the advice, having regard to your objectives, financial situation and/or needs.

This report is based on publicly available information. Although the information contained in this report has been obtained from sources believed to be reliable and accurate, its accuracy, reliability or completeness has not been verified by RFC and is not guaranteed.

Opinions, conclusions, assumptions, estimates, reflections, forward looking statements and forecasts referred to in this report are those of RFC alone and not those of the companies referred to in this report and these companies do not endorse this report. Opinions expressed reflect RFC's judgement at the date of this report and may change without notice. Forecasts of commodity prices, interest rates, exchange rates and economic growth are subject to significant change. No representation or assurance is given that any prediction, projection or forecast contained in this report will be achieved.

At the time of writing this report, RFC is engaged by Anvil Mining NL and may be seeking to become engaged by other companies referred to in this report to prepare ongoing investment research reports and expects to be paid fees in relation to its services.

RFC and its related bodies corporate or any of their associates, officers or employees may have interests in securities referred to in this report and may hold directorships in or provide corporate finance or other services to the companies referred to in this report. Further, they may buy or sell securities of the companies referred to in this report as principal or agent, and as such may effect transactions which are not consistent with any opinions contained in this report.

Use of the information in this report is at your own risk. RFC is not responsible for any adverse consequences arising out of the use of this report. To the extent permitted by law, RFC accepts no responsibility for damages or loss relating in any way to any errors or omissions in any information or opinions provided in this report, whether arising from negligence or otherwise from the use of or reliance on this report.

This report is intended to be, and is only, published and distributed in Australia and is not to be read or relied upon by any person situated outside of Australia.