

Great Panther Resources

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TSX-V: GPR, www.greatpanther.com

Price Share: C\$1.94 Market Cap: C\$108 million On: 05/17/05 Shares Outstanding: 55.8 Million

Fully Diluted: 75.6 Million, As of: 05/17/05

Cash: C\$3.6 Million, Burn Rate: C\$200,000/mo. As of: 05/17/05

Great Panther Resources is the latest Canadian junior to join the ranks of silver producers. This writer toured the operating projects of the company in April 2004, and below is our report from the field. But before we get into the nitty-gritty, consider these highlights:

- Great Panther trades on the TSX Venture Exchange under the symbol GPR. There is a good chance the company will graduate to the Toronto Exchange sometime this summer.
- Assuming GPR is successful in transitioning to TSX, it is not unreasonable to expect full AMEX listing still in 2006.
- The company has two operating projects, one of which (Topia Mine) is already in production with the second mine (Guanajuato) to be commissioned in Q2,'06.
- GPR has aggressive goals of ramping up production to an annual rate of four million ounces of silver (equivalent) by the end of 2007.
- The stock enjoys wide institutional support with some 40% of shares currently owned by institutions on both sides of the pond.
- Insiders own about 10% of the stock.
- If all goes according to plan, the share price of GPR should stage a dramatic performance.



PEOPLE

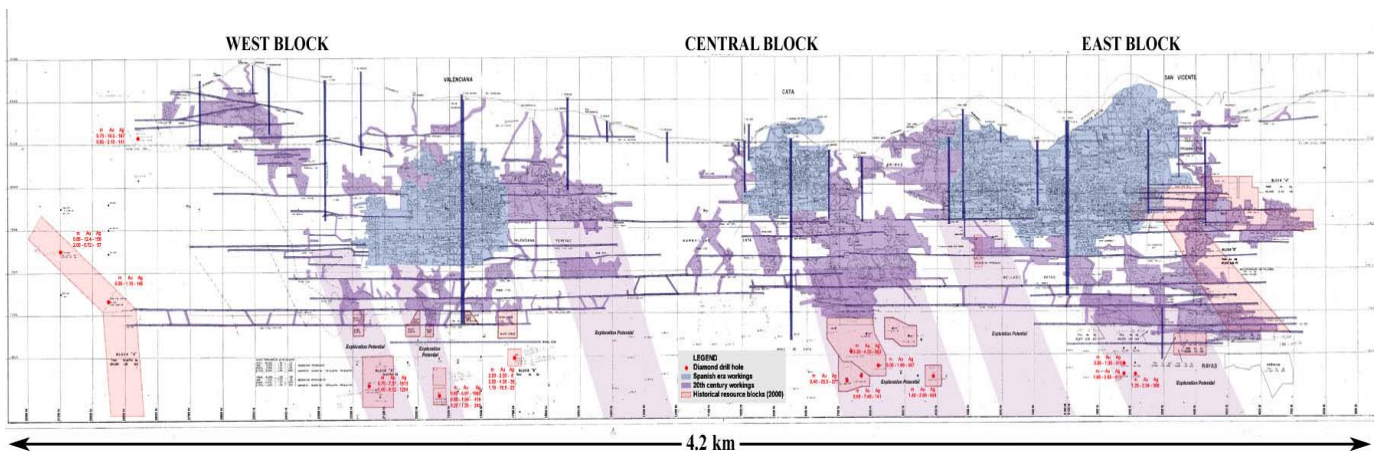
Bob Archer, president and CEO, is a professional geologist. His resume includes positions with Placer Dome and Newmont, but in the last several years Bob has been focusing on building junior companies. The management team of GPR is rather diverse, both in skills and geography, which may account for a rather prominent international profile of the company. In addition to top-notch mining professionals in Mexico, the company has solid marketing and financial representation in Vancouver, London, and Perth.

We were most impressed by the quality of people on the ground. Francisco Ramos, vice president of operations, has been able to put together a team of knowledgeable and experienced professionals, and this team is largely responsible for our optimism that GPR can deliver on its lofty objectives.



PROPERTIES

Guanajuato, the flagship project of the company, is located in central Mexico in the historic mining district. The state capital, [Guanajuato is a small but most beautiful town](#) with close ties to the mining industry. While today it is known as a tourist destination with near perfect climate and fabulous architecture, this town was built around the silver mine and is credited with historic production of more than a billion ounces of silver and seven million ounces of gold. Many of the streets of this unique town are underground tunnels, reportedly built by miners from the Guanajuato Mine. Great Panther tells us that bringing workers into the city has not been an issue in that most mining projects are located in places off the beaten path. In contrast, after a workday at Guanajuato, miners can enjoy all the amenities of civilized life. The city is very clean and in addition to two universities, it is host, we were told, to the “most important school of mines in Mexico.” Incidentally, Ramos graduated from that very school, as have many other mining professionals of the burgeoning mining sector in Mexico.



The Guanajuato Project consists of several parts regarded as separate mines in their own right due to the scale and size of each. The project has an elaborate network of underground workings with 6-8 meter wide tunnels spanning for many kilometers. After all, the mine was once said to be producing a third of the world's annual silver supply. Excellent infrastructure makes the lower-grade material economic at today's metal prices and allows the company to process substantial amounts of mineralized material. At this time, GPR is conducting tests of the processing plant with a view to start production within several weeks.

One of our main concerns about the Guanajuato Project prior to the trip was the fact that it is located right on the outskirts of the town. We speculated that some problems might stem from this proximity. However, after visiting the property and speaking to people who live in the area, our concerns have subsided significantly. The history of the town and the mine is so intertwined that it is obvious one would not have been there without the other.

The Guanajuato Mine produced some one billion ounces of silver over its lifetime. Bob Archer believes that there is at least another 500,000,000 ounces of silver in the mine. We tend to share that view for two reasons:

- (1) In the old days, primarily high-grade material—something north of 15-20 ounces per ton—was mined. Anything below that was simply left alone as sub-economic. Needless to say, at today's metal prices anything above 5 opt would be economic, especially given the size of the project.
- (2) Modern recovery methods have substantially improved both the economics and the amount of end product produced.

Another reason we think the Guanajuato Mine has a lot of silver and mine life left in it is the personnel. Mr. Jesus Rico Aguilera used to be the mine manager at the other major mining complex in the district, owned by Industrias Peñoles. Incidentally, Jesus also managed the Topia Mine during his tenure at Peñoles and he was able to put that mine back into production for Great Panther in less than six months. Well, these days he is managing the mine at Guanajuato and aiming to have it running at full capacity by the end of 2006. The schedule for bringing Guanajuato online comprises three steps.

- By June 400 tpd
- Q3 2006 800 tpd
- December 2006 1200 tpd

If anyone could execute such an aggressive schedule, it's Jesus Aguilera, with his experience and with his knowledge of the project, the place, and the people. And here we have to tip our hats to GPR management for attracting such talent to work with them. Mind you, professionals of that caliber are in great demand and can pretty much name their price. We know this because we hear it from other silver companies operating in Mexico, scrambling to find quality people. To that end, Great Panther does an exemplary job; aside from competitive pay across the board, senior managers at their mines have an incentive options package.



Picture 1. Magnificent architecture attracts tourists



Picture 2. A night in town is a worthwhile experience



Picture 3. Shaft structure at Rayas Mine



Picture 4. The largest shaft is 11 meters wide



Picture 5. Panning for silver from the flotation circuit



Picture 6. Underground



Picture 7. Surface activity at San Vicente Mine



Picture 8. Pay Dirt!!

The good news is that GPR does not need to incur large capital expenditure to put Guanajuato in production. There is some work that needs to be done on the processing plant. Management is taking the sensible approach of only replacing the equipment that needs to be replaced. There are guesstimates that the mine can be brought to full operating capacity for under US\$2 million. That includes the current drill surface program that is underway.

Production costs in 2006 are expected to come in under US\$4/oz silver. Given today's silver prices, that should generate significant cash flow. But the beef, of course, is to come in 2007 when the company expects to produce about four million oz of silver (equivalent), of which 2.6 million oz is to be produced from Guanajuato.

Topia silver-lead-zinc mine located in northern Mexico is currently in production. Great Panther owns 100% of this project where the total land package exceeds 6,500 hectares. This high-grade mine has already started to contribute to the company's bottom line. On May 15, 2005, Great Panther announced the receipt of funds for concentrate produced from this mine. While Topia is a smaller mine compared to Guanajuato, it makes up in grade what it gives up in size. Located right on the Mexican Sierra Madre Belt, it is in the same general area as a number of other prominent mines. The tiny town near the Topia Mine is, again, largely a mining town, where the mine is a significant employer.

There are three smaller mills at this facility, which provides for good flexibility of operation and reduces potential downtime due to necessary service and repair. Currently the operation is processing some 120 tpd. The company is planning to scale up the production to 200 tpd by Q3 2006, which should amount to 1.4 million oz of silver equivalent, with silver content averaging about two-thirds of total value. The plant is highly scaleable, and multiple separate ore bins allow processing ore feeds from other mines, which the company intends to take advantage of.

Peñoles operated the mine in the past, and prior to selling it in 1989 had five years' worth of mineable reserves at Topia. These numbers are not compliant with modern standards, therefore a new Canadian NI43-101 compliant resource estimate is being prepared and is due in Q2 2006.

Current production grades average about 480 gpt silver (16 opt), 0.6 gpt gold, and 6% combined lead/zinc. This is fairly **high-grade material that amounts to 817 gpt silver equivalent, or just over 26 ounces per ton**. That is consistent with average historic production at this narrow-vein, high-grade mine. Presently, a new decline is being developed with a view to open more working faces. Recent sampling of the Dos Amigos Vein from the east end of the ramp has returned average grades of 924 g/t Ag, 21.78% Pb, and 16.16% Zn along a 30-meter strike length. Results like these give a good indication of the potential this mine holds.

Average production cost per ounce of silver at Topia is about US\$3.50. The mine is expected to produce some 880,000 ounces of silver equivalent in 2006 and 1,400,000 ounces of silver equivalent in 2007.

The latest addition to GPR's portfolio is the "**Km 66 Project.**" This 3,508-hectare property is located in Durango state of Mexico. It was drilled in 1998 by Coeur d'Alene Mines (NYSE: CDE). An extensive program of some 10,000 meters of drilling and 4,500+ samples collected was conducted on the property. At the time, it was estimated that the project contains something on the order of 40,000,000 ounces of silver (equivalent). The resources numbers are historic and therefore not directly quoted by the company. However, Great Panther will likely update those numbers and bring them into compliance with NI43-101 standards. This deposit is amenable to open-pit development with significant blue-sky potential present.

GPR will pay a total of US\$3,000,000 plus 500,000 shares over four years. If GPR decides to exercise its option to acquire this project, a 3% NSR will be retained by the vendor, 2% of which can be purchased for an additional US\$2,000,000. There is good potential to expand mineralization at the property. We view this as a sound acquisition, especially given today's metal prices and corresponding rise in property values in Mexico.



Picture 9. Senior Managers at Topia Mine



Picture 10. Mapping our way underground



Picture 11. Multiple ore bins allow processing various feeds



Picture 12. Flotation circuit at Topia



Picture 13. Filter separating zinc from lead-silver concentrate



Picture 14. Shipping concentrate to smelter at Topia

SUMMARY & CONCLUSION

With the market cap of about C\$108 M as of this writing, we feel that GPR is rather undervalued given current silver prices and production projections for the next 18 months. If all goes as planned, GPR should produce some 4,000,000 ounces of silver (equivalent) in 2007. With C\$3.6 M in the bank and ongoing cash flow from Topia Mine, the company is fully funded to achieve this goal. But it doesn't stop there. The company plans to ramp up production to 7,000,000 ounces of silver in 2009, and that does not include any numbers from the Km 66 Project, which may or may not be in production by then.

The market has not caught on to the Great Panther story yet. That should change as the company continues to execute its plan and deliver on their objectives. The growth profile for GPR could be explosive and so could its cash flow. Consider these numbers. In 2007, GPR should produce 4,000,000 ounces at a cash cost of, say, US\$4.00/oz. At US\$14/oz silver, that should throw off some US\$40,000,000 in free cash flow:

$$4,000,000\text{oz.} \times (\text{US\$}14 - \text{US\$}4) = \text{US\$}40,000,000$$

As bold as these numbers sound, they may end up being conservative if silver takes off on the upside, but we're not betting on that. Even if GPR brings in US\$20 M next year, the stock should stage a dramatic rally. What are the risks? Aside from usual operations risk—in mining more things can go wrong than right—there is execution. Can the company deliver on these objectives? So far they have been able to do exactly what they planned. As you well know, past performance is no guarantee of future results, so no one knows. We like the projects, the management, and the ambitious goals set by the company. It's a relatively new story and we are willing to go along for the ride.

Sean Rakhimov