

Quarterly Report

30 April 2011

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PRH



Phillips River

Quarterly Report for the Period Ending 31 March 2012

HIGHLIGHTS

- Sales agreement reached for all the Company's assets
- Silver Lake shares valued at approximately \$18.3 million or 28.5 cents per PRH share available to shareholders upon shareholder approval of the sale
- Acquisition of copper/gold tenements
- 2012 exploration program advanced

The focus of the quarter was addressing immediate funding requirements and long term strategic support for the Company's activities. In January 2012, the Company announced a merger with Silver Lake Resources Ltd ("**Silver Lake**") (ASX:SLR) to acquire 100% of Phillips River and a convertible note facility ("**Facility**") to address Phillips River's short term funding requirements. The merger was subsequently terminated and the Company entered into a sale agreement with Silver Lake for the Company's Munglinup Assets. This was subsequently followed by an additional asset sale agreement for all of the Company's remaining tenements and other assets to Silver Lake (**Sale Agreement**). The Facility remains in place to cover the Company's operating requirements during the sale process. Key terms of the Sale Agreement and Facility are discussed below.

After the end of the quarter, the Company announced that it had reached a resolution with LN Metals regarding the agreement for delivery of bulk lead/zinc concentrate. The resolution addresses a condition precedent to the sale of its Trilog project to Silver Lake under the Sale Agreement.

The quarter also saw the Company enter into an agreement with Galaxy Resources Limited ("**Galaxy**") to acquire 4 tenements of 3.1km² within the Ravensthorpe region. The transaction includes the Mt McMahon tenements 4km ENE of Ravensthorpe containing the prospective Mt Benson and Last Chance mines which were historically the main producers from the Mt McMahon group.

The Company progressed exploration activity at a number of sites including soil sampling and geochemistry programs and preparation for future RC and RAB drilling programs.

Sale Agreement

Subsequent to the terminated merger, Phillips River entered into the Sale Agreement to sell its Kundip gold project, including all other tenements and assets unrelated to the Trilogy project to Silver Lake (**non-Trilogy assets**). The Sale Agreement includes the decommissioned RAV 8 project assets, tenements and rehabilitation obligations as well as the Ravensthorpe camp.

The Sale Agreement also provides for Silver Lake to purchase Phillips River's Trilogy polymetallic project (**Trilogy assets**) which includes surrounding tenements, Myamba farm and infrastructure on Myamba farm. The sale of the Trilogy assets was conditional upon the satisfactory resolution of negotiations between Phillips River and LN Metals in relation to the Offtake Agreement (including, if applicable, its assignment to Silver Lake at completion of the sale of the Trilogy assets).

On 27 April 2012 the Company announced that it had reached a resolution with LN Metals regarding the agreement for delivery of bulk lead/zinc concentrate. The resolution addresses a condition precedent to the sale of its Trilogy project to Silver Lake. The agreed revisions to the Offtake Agreement are subject to the completion of the sale of the Trilogy Assets to Silver Lake which in turn is subject to the approval of Phillips River shareholders.

The main outstanding condition precedent to the Sale Agreement is now the approval of Phillips River shareholders. This approval will be sought at a General Meeting of the Company expected to be held in early June 2012.

The consideration payable by Silver Lake for the purchase of the Trilogy and non-Trilogy assets is 5,229,412 ordinary SLR Shares, valued at approximately \$18.3 million or 28.5 cents per PRH Share (based on the value of SLR shares traded before the Sale Agreement announcement). The Company proposes to carry out an *in specie* distribution, to shareholders, of all of the SLR Shares received upon completion of the Trilogy and non-Trilogy assets sale. Assuming shareholder approval, completion and the *in specie* distribution is expected to occur in July 2012.

In the absence of a superior offer, the Directors of Phillips River unanimously recommend this proposal to shareholders because:

- the Company is relying on this transaction or a significant cash injection to remain a going concern, as stated in recent financial accounts
- the proposal provides similar value to shareholders as the previously announced merger,
- the SLR Share Consideration offers approximately a 97% premium to the Phillips River closing share price at 23 March 2012 of \$0.145 and a 32% premium to the 30-day VWAP of Phillips River shares at the date of announcement of the proposed merger in January 2012; and
- shareholders may have the opportunity to be exposed to an investment in Silver Lake - a liquid, fast growing and well capitalised ASX 200 gold company.

Upon completion of the asset sales it is intended that the Company will review the Board and management structure of the Company. A decision will subsequently be made to either acquire suitable projects to move the Company forward or to wind up the Company and return the remaining cash to shareholders.

Reason for Merger Termination

The Sale Agreement was reached subsequent to a proposed merger between Phillips River and Silver Lake being terminated (see announcement dated 26/3/12). The specific issue and only cause of Silver Lake electing not to proceed relates to the delivery schedule in the Bulk Concentrate Offtake Agreement entered into by Phillips River and LN Metals. Namely, given current market conditions and development delays, the Phillips River project would not have been in a position to meet the delivery schedule due to commence second half of 2013. Phillips River was unable to secure changes to the offtake agreement to satisfy Silver Lake's concerns in the timeframe defined in the MIA. The Company subsequently reached a resolution regarding the agreement after the end of the quarter.



Munglinup Sale

In conjunction with the termination of the Proposed Merger with Silver Lake the Company announced an Asset Sale Agreement with Silver Lake to purchase Phillips River's Munglinup Project for \$325,000 ("**Munglinup Sale**").

Under the Convertible Note Facility, all amounts outstanding under the Facility become due and payable, at Silver Lake's sole election, within 14 days of termination of the proposed merger. Silver Lake and Phillips River agreed to offset the amount owing under the Facility at that time against the consideration payable under the Munglinup Sale Agreement.

Silver Lake immediately assumed control of, and responsibility for the maintenance and ongoing costs of, the tenements making up the Munglinup Project.

Galaxy Agreement

The quarter also saw the Company finalise an agreement with Galaxy to acquire 4 tenements of 3.1km² within the Ravensthorpe region. The transaction includes the Mt McMahon' tenements 4km ENE of Ravensthorpe containing the prospective Mt Benson and Last Chance mines which were historically the main producers from the Mt McMahon group.

The new tenements consolidate Phillips River's tenure along the prospective Chidnup Fault zone, which is the focus of gold and copper mineralisation in the Achaean (fig1).

Subject to certain conditions, the transaction also includes Galaxy's interest in the Mosaic tenement (M74/136). This area is located 3km from the Kundip project, and contains shallow historic gold workings.

Phillips River acquired the tenements through awarding Galaxy, at Philips River's election, \$250,000 in cash or the equivalent in fully paid ordinary shares in the capital of Phillips River based on the volume weighted average share price for Phillips River shares traded on the ASX on each of the 5 consecutive trading days immediately preceding the completion date.

Completion of the acquisition is subject to:

1. the signing of deeds with the relevant native title claimants reflecting the change in ownership;
2. obtaining Ministerial consent under the Mining Act 1978; and
3. Galaxy becoming the registered holder of the Mosaic Tenement (M74/136). If this condition is not satisfied, then Phillips River has the right to exclude this tenement from the agreement and reduce the consideration to \$231,000 or equivalent in Philips River shares.

If all conditions are not satisfied or waived within 6 months then either party may terminate the agreement.



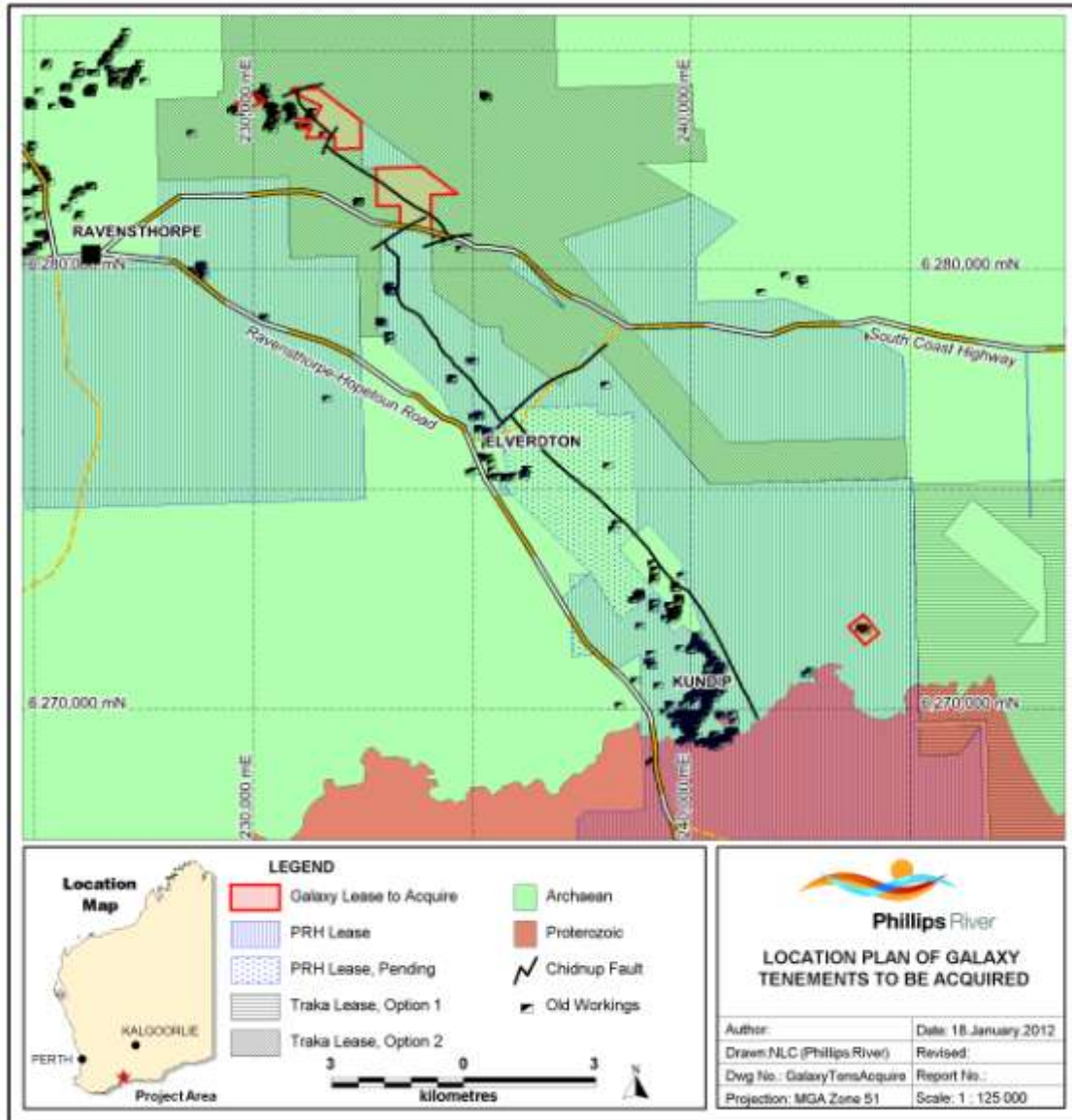


Figure 1: Plan of Galaxy tenements to be acquired

Exploration Program

The Company conducted Heritage Surveys across a number of tenements during the quarter in preparation for future RC and RAB drilling programs. The RC drilling program of approximately 1,000m will focus on targets within the Bandalup tenements. The larger RAB program is related to the the Munglinup tenements which are now owned by Silver Lake. The Company also concluded a number of soil sampling programs across the broader Kundip area.

Corporate

The company entered into the Facility in January 2012 as part of the now terminated Merger with Silver Lake. Upon the signing of the Sale Agreement, the Facility was amended and provides funding for the operational requirements of the Company while the Sale Agreement is completed.

The Company completed and lodged its half year accounts in March 2012. The accounts can be viewed on the Company's website.

As announced in March 2012, the Company also moved offices and is now situated at:

1306 Hay Street
West Perth WA 6005

Ph: 08 4481 2100
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Please note that the Company's PO Box address remains the same.

This announcement contains certain statements which may constitute "forward-looking statements". Such statements are only predictions and are subject to inherent risks and uncertainties which could cause actual values, results, performance achievements to differ materially from those expressed, implied or projected in any forward-looking statements. No representation or warranty, express or implied, is made by Phillips River Mining that the material contained in this presentation will be achieved or prove to be correct

