FAR EAST CAPITAL LIMITED
Suite 24, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Tel : +61-2-92470077 Fax : +61-2-92470044
Email : wgrigor@fareastcapital.com.au
www.fareastcapital.com.au
AFS Licence No. 253003 A.C.N. 068 838 193

FAR EAST CAPITAL
The Mining Investment Experts

Gold Stock
COMMENTARY
On Presentation

12th May, 2008 *Analyst : Warwick Grigor*

Silver Lake Resource Ltd ("SLR")

"A Good Start With A Quality, High Grade Gold Mine"

A New Gold Producer with Ex-WMC Management

Silver Lake is a new entrant to the bourse, listing in November 2007, with a successful $30m IPO. The cornerstone asset is the Daisy Milano underground gold mine which was purchased from Perilya, along with the Mount Monger and Moyagee exploration projects, for $14.5m in cash and shares plus a royalty.

Perilya was a strong promoter of the Daisy Milano mine but it could never quite get it to work properly. The 120,000 tpa mine was only getting grades of 8-10 gpt on bulk mining methods and 5m mining widths that seemed destined to break even at best, so it made a strategic exit to concentrate on the more significant Broken Hill operation.

It was the ideal asset for Les Davis and his ex-WMC colleagues to a form company around and commence trading as an imminent gold producer.

Daisy Milano – Narrow High Grade Gold Mine

SLR is scaling down Daisy Milano operations to 80,000 tpa, using air-leg miners to selectively mine and boost the grade to 15 gpt, at which it believes it can make a good profit.

SLR has contracted 10 air-leg miners on five fully developed levels. While they are expensive operators, if they are skilled and paid on performance, they can be the key to a successful narrow underground operation.

SLR is opting for a different processing schedule as well, having purchased the 300,000 tpa Lakewood treatment plant 5 km SE of Kalgoorlie, 45 km from the mine. (Perilya batched treated its ore at the Greenfield plant near Coolgardie, 100 km distant from the mine). The plant cost $2.4m to purchase and was recommissioned in April 2008, after refurbishment and the addition of a gravity circuit.

In the March quarter, during the ramp-up period, SLR quoted a cash operating cost of $525/oz and Daisy Milano ore production of 5,000 oz at 15 gpt.

The measured, indicated and inferred resource totals 250,000 oz, at grades of 37.9 gpt, 20.8 gpt and 30.8 gpt in the respective categories. In theory this should be a very profitable mine with a minimum life of 5-6 years … if mined astutely.

SLV Needs to Fill the Mill

The treatment cost at 80,000 tpa throughput is expected to be in the range of $30-35 pt. The key to reducing milling cost will be the ability to fill the mill from ore sources other than Daisy Milano.

SLR has access to a number of small resource positions within trucking distance of the plant and is working towards a decision to mine these, probably in the September quarter. The Lorna Doone deposit comprises 111,0000 t at 4 gpt (14,300 oz) in the inferred category, amenable to free-dig mining with a waste to ore ratio of 1:8, to a depth of 75m. The Costello deposit comprises inferred resources of 94,000 t at 3.7 gpt (11,200 oz). These two orebodies will keep the plant full for 12 months, but new ore positions will be needed thereafter.

Lakewood Plant Economics (Daisy Milano and others)

At the tighter mining schedule SLR expects to be able to produce 35-40,000 oz p.a at a cash cost of less than A$500/oz. Add the ore from Lorna Doone and Costello, and production could reach 55,000.

If the same cost price can be achieved, at current gold prices this suggests a cash operating margin of $23m p.a., or 15¢ a share, giving a cash generation multiple of 2.4x with the shares at 36¢. This is modest given the 5-6 year mine life at Daisy Milano, but the concern is the short mine life of supplementary ore feed.

Resources in Other Mining Centres

SLR has a number of other gold resource positions in WA that may contribute to gold production at some stage. There is an inferred resource of 820,000 t at 8.5 gpt (224.000 oz) at Moyagee, 2.25 mill. tonnes at 3.3 gpt (238,000 oz) at Tuckabianna as indicated and inferred resources, and 219,000 t at 7 gpt (inferred) at Rothsay.

SLR is considering a scenario in the Murchison which would produce 150,000 oz p.a. from a large open pit, but significant work is needed first, particularly with respect to converting low quality resource ounces to mineable reserves. Given the track record of a number of other companies that have attempted to restart old mining centres, with most of them going broke, it would be premature to ascribe and potential earnings to this centre yet.

Most recently, SLR has announced a deal to purchase the Comet tenements which contain JORC indicated resources of 1.44 mt at 3 gpt, for 154,000 oz, and an inferred resource of 374,000 t at 5.8 gpt for 77,000 oz. A deposit of $150,000 has been paid and a further $1.425m is due in July. This amounts to A$6.80/oz.

Financial Position

The Company is well placed with approximately $15m in the kitty and no gold hedging commitments, and no debt. The market capitalisation at 36¢, is $55m.

The Bottom Line

The spotlight is on SLR. Realistically, it should be seen as a small high grade producer, with big company management experience that is eager to take the Company to higher levels.

SLR has a reasonable degree of certainty over the next two years but beyond that it needs to kick some goals. It needs to rise above the perception of small scale or subsistence mining in order to inspire and attract serious buying in the market. Nevertheless, if the budgets are met, it represents sound value now.

Revival Gold Companies Generally

Investors have been presented with a number of walking dead gold companies over the past few years. Companies have been fooling themselves, and misleading investors, into believing that they can pick up discarded gold projects that have been shut down for reasons of economics in the gold sector, and miraculously breathe life into them.

Yes, the gold price has risen strongly but so have capital and operating costs. Conditions have changed as well in the employments terms. The huge profit margins in iron ore have led to gold companies having to fall in-line with fly-in-fly out staff even in regional towns such as Meekatharra. The biggest challenge to the gold sector is the ability to find staff and keep them, at reasonable cost. Throw on top of that the impact of rising diesel prices for both trucks and power generation and most projects have their back against the wall if they are hoping to start up on remnant ore resource positions.

Ex-WMC Management

We are seeing a number of junior companies that have directors and senior management that have come out of WMC. In theory, they should be professional and capable, but do they have what it takes to survive and grow in the small mining scene? Before they can recreate WMC they have to learn how to survive in the rough and tumble. They have to learn to be humble and aggressive, at the same time. They need to shake off the arrogance that big companies tend to breed. Silver Lake is one company staffed by ex-WMC personnel; Western Metals is another. Both can be impressive in presentations, but both are still on probation. They are worth following, and if they successfully make the transition, they may be able to develop into great companies and avoid the path taken by another company that was run by ex-WMC personnel, View Resources. That company has crashed and burned.

Contact ***OZEQUITIES NEWSLETTER*** *"Australia's Most Comprehensive Daily Digest of Equities News", at ozequities@pacific.net.au. Tel:+613-97485033*
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