

HIGHGRADE

Silver Lake gets tick from thorough Goode

By Richard Roberts, 19 May 2008

NEWLY minted gold producer Silver Lake Resources (SLR) has joined the backyard makeover crowd trying to breathe new life into Australia's old gold districts – in its case the Mount Monger field east of Kalgoorlie in Western Australia, and parts of the state's Murchison. Its success will depend, at least initially, on the effectiveness and sustainability of a new mining approach at Mount Monger.

While industry analyst Keith Goode's research note on SLR after a site visit in April will raise a few eyebrows because of his suggestion the newcomer can follow the share-price trajectory of sector favourite Avoca Resources, the first-hand assessment of SLR's reopened Daisy-Milano mine, its Lakewood plant and Mount Monger ground produced some pertinent observations.

Despite gold prices starting to climb back towards \$US1000/oz and perhaps beyond, and their relative buoyancy over the past year or so, life has been fairly tough for Monarch Gold, Bendigo Gold, St Barbara and a host of others trying to build production on well-worn foundations and amid rising cost pressures.

"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 any potential earnings to this centre [Mount Monger] yet," Far East Capital's Warwick Grigor noted in a recent report on SLR.

"In theory, this should be a very profitable mine with a minimum life of 5-6 years ... if mined astutely."

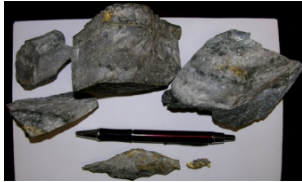
Goode, on the back of his site visit, was less circumspect about SLR's prospects.

"SLR has a target of producing at 150,000ozpa within three years (2011), which could be achievable, based on possibly 50,000ozpa to 70,000ozpa from Mount Monger and a mining operation at Comet/Tuckabianna," he said, "although Mount Monger could be capable of achieving 100,000ozpa in its own right."

Goode's commissioned SLR report suggested the lack of serious deep exploration at Mount Monger – apart from Perilya's work at Daisy-Milano – left the door open to further high-grade finds and possible reappraisal of the district's potential a la Avoca/Higginsville, between Kambalda and Kalgoorlie. The Mount Monger goldfield had not been "mined much beyond 100m below the surface ... because it remained essentially privately owned in a number of different parcels with restrictive boundaries".

Additionally, Perilya had mined the "30 grams-per-tonne orebody" at 9-10gpt – "with dilution due mainly to bulk mining" – and was toll treating ore more than 100km away on a batch basis. SLR had its own 300,000tpa mill, which produced its first gold for the company at the end of April, with Lakewood less than 50km from Daisy-Milano. The company was using narrow vein mining techniques (employed successfully before Perilya bought and operated the mine) and had a board/management that was "basically a who's who of part of the former WMC Nickel Division ... from senior management/director

level through to the workface ... and they understand underground mining including narrow vein mining". The team is headed by managing director Les Davis, whose 30 years in the industry include 17 years of hands-on mine development and narrow vein mining experience.



Ore samples from Daisy-Milano.

SLR mined 5000t grading 15gpt from the Daisy-Milano 15 level in the March quarter this year and is aiming for 35,000-40,000ozpa from treatment of 75,000-80,000tpa grading 15gpt. Goode said based on a measured resource grade of 33gpt and overall resource grade of 30gpt, mined grades "could easily be anything between 15gpt and 30gpt".

They might need to be at the higher end of the scale, with Davis telling **HighGrade** this week a A50c/litre rise in the price of diesel (at the bowser) since SLR did its feasibility study on reopening Daisy-Milano – and possibly higher prices to come – would maintain pressure on companies to achieve projected cash operating margins.

"I think our biggest challenge at the moment is diesel," Davis said.

"We budgeted \$A1.20/litre for diesel and the bowser price now is \$A1.70, so we're 50c a litre over, obviously less the rebate, but you've just got to be prudent and save in other areas of the business to make sure you're achieving stated [operating] costs.

"The \$A500/oz range that we've given as market guidance is for once we get to 3000oz per month. We know what our fixed costs are and what our variable rate is, so our unit cost is higher at the moment because we haven't reached 3000oz a month. But once we get to 3000oz a month the unit costs fall below \$A500/oz.

"Diesel is the biggest risk [because] we generate our own power [at the mine]. Our burn rate is about 5000 litres a day, so the cost per day is about \$A2500/day over and above what we thought we'd be paying."

Grigor noted the key to SLR reducing its milling costs at Lakewood was filling the mill with ore. It has about 200,000t of 3.5-4gpt dirt amenable to mining by shallow opencuts at Lorna Doone and Costello at Mount Monger, while Caledonian, Haoma and Rosemary shape as potential sources of high-grade ore to supplement that coming from Daisy-Milano.

Davis, who said he wouldn't countenance toll milling but was open to buying ore in to feed the Lakewood plant if he had to, believes Haoma is a "Daisy-Milano lookalike" and that Bull and Leslie are other promising targets for finding the higher-grade feed he is looking for to at least maintain a

150,000tpa supply of 15gpt-plus Daisy-Milano-style ore and 150,000tpa of 3-4gpt opencut material over the next 2-3 years.

“If we get the chance to expand the mill I believe we could do that relatively quickly and hopefully relatively cheaply because we have quite a large landholding there and I can put in another inline mill, some more tankage and another gravity circuit, and I’ve got mains power and everything else there,” Davis said.

SLR is spending \$A6 million a year on exploration at Mount Monger and its Murchison properties, Moyagee, Comet and Tuckabianna, and Davis believes deeper exploration has been lacking on both belts. SLR calculated only about 3% of drill-holes completed on the Mount Monger field (10km strike/multiple lines of mineralisation) had gone beyond 100m vertical depth while the Murchison landholdings were similarly “under-drilled below 100m”.

Goode thinks mine grades could exceed SLR’s target at Daisy-Milano and notes the company “has a very high sensitivity to the underground grades which could easily be 5gpt higher at 20gpt ... and to higher production”.

“Daisy-Milano is one of the few mines we have been underground where you can see visible gold on a blasted face,” he said. “There is also the possibility of selling specimen gold – which often sells for more than two times the gold price of the total weight of the sample [gold and rock] – and a trial parcel is being collected to send to jewellers in the US for evaluation.”

Davis, who ironically was manager of the Beta Hunt nickel mine Avoca Resources tried unsuccessfully to purchase (before it landed with Consolidated Minerals), devised new contracts for the airleg miners working at Daisy-Milano which meant they turned up for work self-supported with equipment and transport – and an offsider to be trained up on the job.

“We managed to attract six highly experienced individuals up front,” he said.

“I thought it might be more difficult to get some more, but we started and people realised who we were and what we were doing and we’ve had no shortage of people wanting to come and work there.

“I’ve introduced individual airleg contracts. The reason they need to bring an offsider is to train up the next generation of airleg miners, which was part of a plan to put in place a unique structure where we could make sure that if our business was going to grow, and needed more airleg miners, we had some sustainability measures in place. I think we’ve given ourselves the best chance of long-term success by doing what we’ve done.”