

BGF Equities Company Research

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Silver Lake Resources Limited SLR Release of Dec '08 Qtlly Still coming to grips with the Daisy Milano, but profitable

Investment Perspective: SLR is a new producer that is yet to make its mark. Its gold comes from an underground mine near Kalgoorlie that under-performed for Perilya. The ex-WMC management of SLR believes it can do a better job but so far the jury is still out. We will see what happens when the proportion of stoping ore to the mill increases.

The large tonnages of indicated and inferred resources that looked marginal a year ago are now starting to offer interesting leverage to the gold price and they may be important in lowering unit costs in the mill. Expect announcements on new pits to feed the existing plant and the possibility of a start-up of the Murchison project.

While the new ore sources for the existing mill make sense, there is a higher risk with kick starting a brown fields project. The bourse is littered with companies that have tried this, unsuccessfully, over the past five years. Maybe it is a different ball game now with the higher gold price.

December Qtlly Report (21/1/09)

It was somewhat of a mixed quarter for SLR, but the bottom line improved due to the stronger gold price and total ounces produced improving by 15%. Tonnages hoisted and treated improved by 26% and 39% respectively, but the mined grade and the head grade to the mill were both off by a large proportion. It seems that the variable nature of the orebody caused some issues during the quarter. Note that some low grade stockpiled ore (4,500 t at 2 gpt) was processed.

A useful open pit resource has been found near the mine, with an Inferred Resource of 288,200 tonnes at 5.3 gpt for 49,500 oz. This may supplement the mill once further studies are conducted.

The Net Operating Cash Flow for the quarter (from the App. 5B) was \$3.1m, enabling the cash balance to double over the period of the quarter to \$6.7m.

Company Guidance

SLR is currently producing gold from the Daisy Milano at the rate of 40,000 oz p.a., which is what it was forecasting six months ago. However, the cash costs are almost 40% greater than expected, at \$684/oz.

During the quarter only 48% of the ore treated came from stoping with the balance coming from development. It would be normal to see a higher grade, and thus lower unit costs, when the proportion of stoping ore increases.

Production growth is anticipated from development of open pit resources. SLR is expecting approvals to commence mining at Christmas Flat by March. The Indicated and Inferred Resource here is 453,000 t at 3.5 gpt for 51,000 oz. Studies will commence on another 493,000 t at 4.72 gpt at

Share Price	\$0.24
12 Mth High/Low	\$0.13-\$0.44
Market Cap'n	\$37m
ASX Listed Shares	153.4 million ordinary
Unlisted Opt/Ctg	27.1 mill. various
Cash Balance	\$6.7m (31/12/08)
Debt	\$0m
Largest Shareholders	HSBC Custody 9.9%
	National Nominees 2.6%
	Invia Custodians 1.8%

SLR is coming from the base of a small underground mine, but it could transform into a larger scale company if it can bring lower grade open pits on stream

Costella, Lorna Doone and Magic. There is about 200,000 tpa of spare milling capacity that needs to be employed.

Treasury and Hedge Position

The cash balance at 31/12/08 was \$5.8m. The exploration and development budget for Q1 2009 is \$1.15m, so there is no strain on the treasury.

The Company has no gold hedging position.

Description of Operations

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.

Previously, 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.

SLV's plan was to scale 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. However, this hasn't yet happened judging by the latest quarterly.

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 Lakewood plant cost \$2.4m to purchase and was re-commissioned in

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April 2008, after refurbishment and the addition of a gravity circuit.

The Daisy Milano 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.

The treatment cost at 80,000 tpa throughput was expected to be in the range of \$30-35/t. 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 111,000 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. Add the ore from Lorna Doone and Costello, and production could reach 55,000 oz p.a.

A second production project could be in the Murchison where SLR has released Indicated and Inferred Resources of 7.8 mill. tonnes at 3.8 gpt for 965,000 oz. Mining parameters have yet to be applied to these so we do not have a feel for the conversion rate to reserves.

		June Qtr	Sept Qtr	Dec Qtr	% Change
Ore Hoisted	tonnes	15,964	25,315	31,986	26%
Mined Grade	gpt	10.2	12.0	9.7	-19%
Ore Treated	tonnes	21,085	27,260	37,948	39%
Head Grade	gpt	10.20	10.40	8.80	-15%
Recovery	%	n/a	96.0%	93.0%	-3%
Gold Produced	oz	5,808	8,670	9,965	15%
Gold Sold	oz	n/a	9,800	10,947	12%
Cash Costs	\$/oz	n/a	\$687	\$684	-0%
Total Costs	\$/oz	n/a	n/a	\$844	
Gold Price Received	A\$/oz	\$937	\$985	\$1,138	16%
Cash Margin		n/a	43%	66%	53%
Cash Balance	\$m	\$3.4m	\$3m	\$6.7m	123%

Disclosure The author does not own shares in SLR.

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