

BGF Equities Gold Sector Analysis

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Silver Lake Resources Limited SLR Update for March Qtlly High proportion of stoping ore gives better grade, production and profits

Share Price	\$0.395
12 Mth High/Low	\$0.13-\$0.42
Market Cap'n	\$61m
ASX Listed Shares	153.4 million ordinary
Unlisted Opt/Ctg	27.1 mill. various
Cash Balance	\$13.8m (31/4/09)
Debt	\$0m
Largest Shareholders	HSBC Custody 9.9% National Nominees 2.6% Invia Custodians 1.8%

Investment Perspective: SLR is a new producer that is in the process of proving that it can be an efficient underground producer. The March Quarter was its best yet as it increased the proportion of stoping ore through the mill from 48% to 73%. The result was a boost to grade and profitability, with cost falling significantly.

The move to increase mill throughput through the addition of open pit ore is running a few months behind schedule and we are still waiting for further news on the possibility of a second source of production, in the Murchison. This may be a reflection on the WMC background of management - wanting to get things right rather than jumping ahead too quickly - or just the reality that things take time.

Valuation: The shares are selling at a 28% discount to our valuation of 55¢ a share, using US\$890/oz and AUD/USD 0.7244. This valuation does not take into account the Murchison resources and any possible development. Thus the shares offer reasonable value at current prices even though they have been outperforming the sector.



March Qtlly Report (14/4/09)

It was a record quarter for SLR with the major contributor being the 34% jump in head grade, which enabled cash costs per ounce to fall 29% to a modest A\$488/oz. The higher gold production and the 23% boost to the gold price

receive led to a pre-tax profit of \$7.5m for the quarter and an \$8m boost to the cash balance, which sat at \$13.8m at the end of March. It is worth noting that the Daisy Milano mine only cost SLR \$11.5m when purchased from Perilya in 2008.

During the quarter the proportion of ore from stoping increased from 48% to 73%, which explains the jump in grade.

Company Guidance

SLR is currently producing gold from the Daisy Milano at the rate of 56,000 oz p.a., which is greater what it was forecasting six months ago. While costs have come back down, but still not quite as low as the earlier guidance.

Production growth is anticipated from development of open pit resources, but the approvals for the Christmas Flat development are running three months behind schedule and are not expected until June. The Indicated and Inferred Resource here is 453,000 t at 3.5 gpt for 51,000 oz. Only the first 10,000 oz have so far been scheduled, for the December Half. The balance is still being assessed.

Studies are underway on another 493,000 t at 4.72 gpt at Costella, Lorna Doone and Magic. There is about 200,000 tpa of spare milling capacity that needs to be employed, but SLR is considering the options to expand this further, to 600,000 tpa total capacity.

Options for commencing production at the Murchison Project are also being considered following a pre-feasibility study.

Quarterly Comparisons		Sept Qtr	Dec Qtr	March Qtr	% Chg
Ore Hoisted	t	25,315	31,986	45,420	42%
Mined Grade	gpt	12.0	9.7	11.2	15%
Ore Treated	t	27,260	37,948	40,120	6%
Head Grade	gpt	10.40	8.80	11.80	34%
Recovery	%	96%	93%	95%	2%
Gold Produced	oz	8,670	9,965	14,385	44%
Gold Sold	oz	9,800	10,947	12,945	18%
Cash Costs	\$/oz	\$687	\$684	\$488	-29%
Total Costs	\$/oz	n/a	\$844	\$659	-22%
Gold Price	A\$/oz	\$985	\$1,138	\$1,400	23%
Cash Margin		43%	66%	187%	182%
Cash Balance	\$m	\$3m	\$6.7m	\$13.8m	106%
Pre-Tax Profit	\$m			\$7.5m	

Treasury and Hedge Position

The cash balance at 31/3/09 was \$13.8m.

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 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/ft. 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.

Disclosure The author does not own shares in any of the companies covered in this research paper.

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