

SPECIAL PROFILE Daisy Milano Gold Mine Part 1

Promising future for junior miner

EVE NOON

LESS than a year after gold production began at Daisy Milano mine in WA, Silver Lake Resources proudly announced its first pure tonne of gold poured and it is now looking ahead to becoming a mid-tier producer.

This was a significant milestone for the junior gold producer, particularly as it was achieved ahead of schedule due to production from the mine surpassing initial expectations.

Silver Lake possesses 1.5 million ounces of JORC resources in highly prospective regions including the advanced gold projects in Mount Monger and the Murchison goldfields of WA.

Daisy Milano mine is the company's core project and is well positioned for producing strong results in the Mount Monger goldfield, which is in the Kalgoorlie terrane subdivision of the Eastern Goldfields Province.

The company's Mount Monger project consists of 44 granted tenements covering 45sqkm, with another 67sqkm under application.

These operations are delivering improved productivity which is subsequently lowering costs and creating higher margins.

Gold mining began in the area during the early 1900s, and the field consists of a series of historic workings extending northward under recent shallow alluvial cover towards a significant drainage channel.

Early miners appear to have only exploited sub-cropping mineralisation, as historic workings in the field typically



Underground diamond mining at level 23, Daisy Milano mine

extend to depths of no greater than 80m below the surface.

All of the resources and historical workings are within granted tenements.

According to production records, the field has produced in excess of 400,000oz of gold.

This quarter, the company's financial position was bolstered further and this will be used to invest in future growth.

The quarterly activities report so far this year stated "Cash and cash equivalents of \$14.51 million comprising: \$13.80 million in cash; and \$0.71 million in bullion on hand as at 31 March 2009."

Production

Before the company bought the high grade tenements in November 2007, there had

been no systematic exploration carried out to realise the full potential.

The company allocated \$9.2 million for exploration expenditure, and started in January 2008.

Within a week an underground diamond drill rig was in operation to infill drill the mine area between the 19 and 21 levels of

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the mine, and the results highlighted the existence of parallel lodes in the ore body and showed continuity of the mineralisation.

Mine production began in December 2007, followed by the pouring of the first gold bar in April last year. By February of this year, the company announced it had poured its first pure tonne of gold (32,150oz).

Silver Lake Resources managing director Les Davis feels being regional to Kalgoorlie is a major element to the company's production success, both now and in the future.

"The Mount Monger goldfield is regional to Kalgoorlie and it appears to be under explored, highly prospective and not very well understood, and that really is the key to Silver Lake's growth platform going forward.

"If a company is looking to mine gold then being regional to a prolific gold producing centre like Kalgoorlie is definitely a good place to start.

"We operate in a 'high nugget underground operation'; the distribution of gold is variable along the strike of the ore body.

"To date, the project has delivered in excess of 11g/t reconciled through the mill, with the lowest month being 9g/t and the highest month being 13.9g/t.

"So to defend ourselves from having a low grade month, we have maximised the productivities on mineralised structures within the Daisy Milano system."

In the last quarter of last year, mine production averaged 9.7g/t Au, with monthly ore grades ranging between 7.7g/t Au and 11.5g/t Au.

Approximately 48 per cent of the ounces produced came from stoping activities.

This quarter saw Silver Lake deliver record mine production due to increasing productivity on the mineralised structures at Daisy Milano whilst maintaining a selective mining method.

Ore from the mine is processed through the company's 300,000 tonne per annum Lakewood Gold Processing Facility 5km south east of Kalgoorlie and 45km from the Daisy Milano mine.

Between the mine and the mill, the company employs 65 people.

Mr Davis explained that the benefit of the company having its own processing facility, and therefore being a fully integrated business, is that the company keeps full contact with the product – from under the ground right through to the product, which is sellable to the Perth Mint.

Overall recovery averages 97 per cent as the ore is of modest hardness and approximately 80 per cent of gold content is recovered in a gravity circuit prior to cyanide leaching.

In April last year, modifications and a major refurbishment program were completed to the existing circuit to ensure the optimum amount of the mine's high-grade ore was processed.

In the latter half of last year,

the minor commissioning issues experienced with the mill in the first half of the year were overcome and the processing facility operated as planned, with minimal downtime.

During the latter half year period, production from the mine increased to the anticipated 35,000 to 40,000oz per annum rate.

Mr Davis said this was possible by minimising dilution and applying the appropriate mining method to the width of the gold mineralisation.

The company has continued to build on the record of success detailed in its financial report for the six month period ended December 31.

"We have already exceeded our best quarter to date and our gold production target for this quarter," added Mr Davis.

"We expected to mine 10,000oz per quarter, just from Daisy Milano, and we exceeded that rate to 10,800oz as of March 10 and still had a few weeks of production to go in the month."

It recorded positive net cash flow from operations of \$5.6 million for the six-month period ended December.

A strong cash flow is continuing to be generated, with current cash on hand of \$10.6 million.

Gold sales for the half year to December 2008 were 20,294 oz, sold at an average realised price of A\$1062/oz.

In the company's highlights for the 2009 March quarter it announced gold sales totalling \$18.1 million from

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12,945/oz at an average realised price of \$1400/oz.

The cash position increased from \$5.8 million to \$13.8 million, while the estimated operating cash cost was below \$500/oz and the estimated total cash cost below \$700/oz.

Daisy Milano is expected to have generated cumulative cash during the June 2009 quarter to pay back its original acquisition cost of A\$11.5 million.

In this year's quarterly activities report ended March 31, operating cash cost was reported to have decreased from A\$684/oz to A\$488/oz and total cash cost decreased from A\$844/oz to A\$659/oz.

Future

Silver Lake has a clear strategy to build a disciplined and high margin gold business producing from multiple mines in multiple mining centres.

Mr Davis is confident the company will achieve another solid financial year and he envisages the Mount Monger operations continuing to flourish from strength to strength.

"We have come a very long way in a short period of time: Silver Lake has gone from being a junior explorer through to being a junior gold mining producer, and then producing our first pure tonne of gold, all inside 12 months," he said.

"We feel we can get the Mount Monger operation in Kalgoorlie to in excess of 100,000oz per annum in two to three years.

"I am confident we have the right people and the right projects to take the company into being the next Australian mid-tier gold producing company."

The project has multi-mine potential with the Christmas Flats, Lorna Doone and Costello open cut deposits presently being assessed for mining.

Haoma lode and Caledonian trend also show potential as near-term production sources for the company.

Open-pit mining is expected to begin in July at Christmas Flats.

The Magic deposit represents another near-surface open-pit mining opportunity adjacent to Silver Lake's existing infrastructure.

Future exploration by the company includes a new resource identified at this deposit of 288,200t at 5.3g/t Au for 49,000oz.

During the March 2009 quarter, work will start on extending the Daisy Milano decline to provide a drilling platform to test the extent of the significant high grade shoot south of the dolerite dyke at the 26 level.

"We have had four consecutive quarters of growth and the company can keep doing this by making sure our strong decision-making processes continue," Mr Davis said.

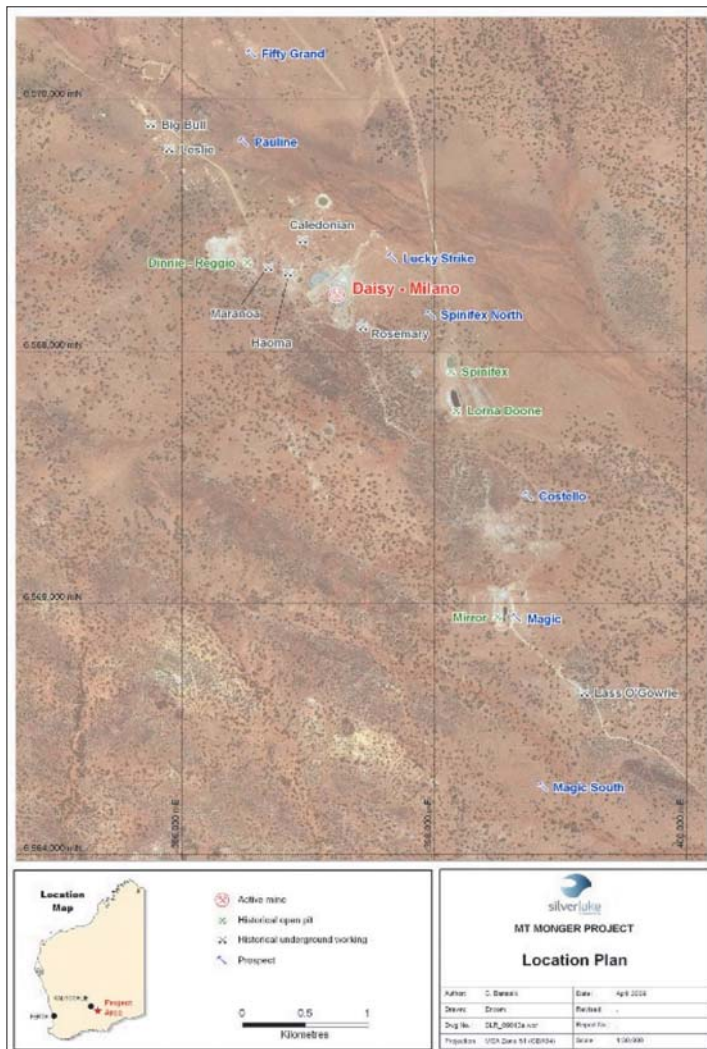
"The current gold price in Australian gold terms is at record highs but that is only one input to an output – we need to ensure that regardless of the input price, we are sustainable in the long term."

Mr Davis believes the combination of the current gold prices and the plans for all of the Mount Monger operations will safeguard positive results in the future.

"What you see when you first drive into Mount Monger is all the old head frames and ladder ways going underground.

"It was a fragmented goldfield up until 2003, and then all of the other players in the field were bought out, but it was never taken to the next level so there's simply been no exploration along our 10km of strike and 4km wide.

"Daisy Milano sits right in the middle and it certainly isn't the only jewel in the crown."



Mount Monger location plan

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and drainage projects. It is actively involved with various mine sites including Daisy Milano and the Silver Lake Resources treatment plant. Most recently the company has worked on construction of a deviation following the recent train derailment

east of Kalgoorlie. It also completed dam cleaning and maintenance of farm roads in the Esperance and Salmon Gums areas. Being a small company, it prides itself on efficient utilisation of competent staff and fully-equipped modern equipment.