

Silver Lake Resources (SLR)

Recommendation: Speculative Buy

27 April 2009

March Quarter Report – Strong operating & financial performance

- Highlights from SLR's March Quarter Report include: a reported pre-tax profit of A\$7.5m; higher than expected gold production of 14,385oz (December quarter: 9,965oz); operating cash costs decreasing from A\$684/oz to A\$488/oz; and SLR's net cash position increasing by A\$8.0m to A\$13.8m.
- SLR has flagged that it is assessing low capital cost expansion options at its Lakewood Mill. Acquiring a second hand gold mill (for, say, \$5m) could lead to a doubling of plant capacity (to 600ktpa). This indicates confidence in materially increasing the Mount Monger resource base.
- We have made changes to our financial model to allow for a sustainable increase in underground production and a three month delay to open pit mining at Christmas Flats (now likely to start in June). Our base case valuation for SLR has been increased to an estimated \$0.53 per share (previously \$0.46 per share) fully diluted for 27m unlisted options. Our base case valuation is based on: a 5 year Mount Monger mine life to 2013 (at 45-65kozpa); excluding any value for the Murchison Goldfield (pre-feasibility study outcome to be reported shortly); and using a 5% discount rate.
- Potential upside valuations to \$0.80/share have been upgraded by a possible Lakewood Mill expansion and a greater likelihood of a larger Mount Monger resource base - in addition to the potential value we had estimated for the Murchison Goldfield.
- Perilya Ltd (PEM) has sold the balance of its original holding in SLR (at 24 March 2009: 12.8m shares or 8.38% of issued capital) to an overseas fund (and after selling 2.15m shares on the market). This finally removed the stock overhang in the market.
- At 42.5 cents per share, we retain a Speculative Buy recommendation. Risks include establishing sufficient resources - to underpin our base case and upside case valuation estimates - plus all the usual risks attached to narrow vein underground mining and gold price risk (if global risk aversion reduces significantly). The company has a very capable Board (all ex-WMC) and management.

Share price: \$0.425

52 week price range: \$0.13/\$0.47

Market capitalisation (\$m): 77

Year ending 30 June	2007	2008	2009	2010	2011
	Act	Act	Est	Est	Est
Adjusted Profit	-7.2	-3.7	15.0	24.6	21.3
EPS (fully diluted) (cps)	-4.0	-2.0	8.3	13.7	11.8
P/E ratio (x)	na	na	5.1	3.1	3.6
DPS (c)	0.0	0.0	1.0	2.0	2.0
Yield (%)	0.0%	0.0%	2.4%	4.7%	4.7%
Assumptions					
Gold produced (koz)	0	6	46	63	64
\$A/US realized	0.788	0.950	0.720	0.685	0.710
Gold (US\$/oz) realized	638	890	882	875	815

March Quarter Report

Mount Monger Operations

March quarter's gold production of 14,385oz (December quarter: 9,965oz) exceeded the company's forecast due to a larger than expected increase in ore hoisted (average 15,000 tonnes/month) and a higher mined grade at the Daisy Milano Mine (located 50 km SE of Kalgoorlie).

The March quarter's mined grade averaged 11.2g/t Au (December quarter: 9.7g/t) with monthly ore grades ranging between 10.1g/t Au and 13.2g/t Au. The mined grade is likely to be variable month-to-month, given a high nugget effect within the lodes. Approximately 73% of the ounces produced came from stoping activities (December quarter: 48%) with the balance from level development.

The mine is expected to sustain current ore production levels as development advances in the forthcoming quarters. The production target has been enhanced by new development along levels 21 through 23 to the south of the dolerite dyke which has revealed a new high-grade shoot of considerable strike extent.

The company achieved a significant reduction in unit costs due to increased productivities at Daisy Milano and increased head grade through the Lakewood Gold Processing Facility (LGPF) during the quarter. The operating cash cost for the March Quarter decreased from A\$684/oz to A\$488/oz.

The total cash cost, including waste development and royalties, decreased from A\$844/oz to A\$659/oz.

Gold sales totalled A\$18.1m from 12,945 oz at an average realized price of A\$1,400/oz. SLR reported a pre-tax (unaudited) profit of A\$7.5m.

During the quarter, a 20 hole underground diamond drilling programme at Daisy Milano was completed to test the strike extent south of the dolerite dyke below the 21 level. The drilling has revealed continuity of the high-grade shoot previously announced that contains considerable strike extent (assays are still outstanding - several holes contained visible gold in the drill core).

Work will continue on extending the Daisy Milano decline down to the 26 level during the June 2009 quarter (350m, estimated cost: \$1.8m) to provide a drilling platform to test the extent of the significant high grade shoot south of the dolerite dyke below the 23 level.

Mount Monger Exploration & Development

Regulatory approvals have been received for the commencement of mining at the **Christmas Flats** project. The Project is expected to start in June 2009.

Stage 1 of the project extracts 10koz over a six month time frame. The remaining resource of 41koz is undergoing a mining study to determine extraction methods either via an open pit cutback or from underground.

Mining studies for open pit production at **Costello, Lorna Doone and Magic** are underway (Refer to the location plan). These deposits have a combined total resource of 493,200t at 4.72g/t Au for 74,800oz.

SLR is reviewing a scoping study for low capital options to expand the LGPF to 600ktpa. (Current mill capacity is 300kt of hard and soft ore or 200-220kt for hard ore feed only.)

Financial position at quarter-end

At 31 March 2009, SLR had cash & cash equivalents of \$14.51m, comprising \$13.80m in cash and \$0.71m in bullion on hand.

SLR has no debt or hedging in place.

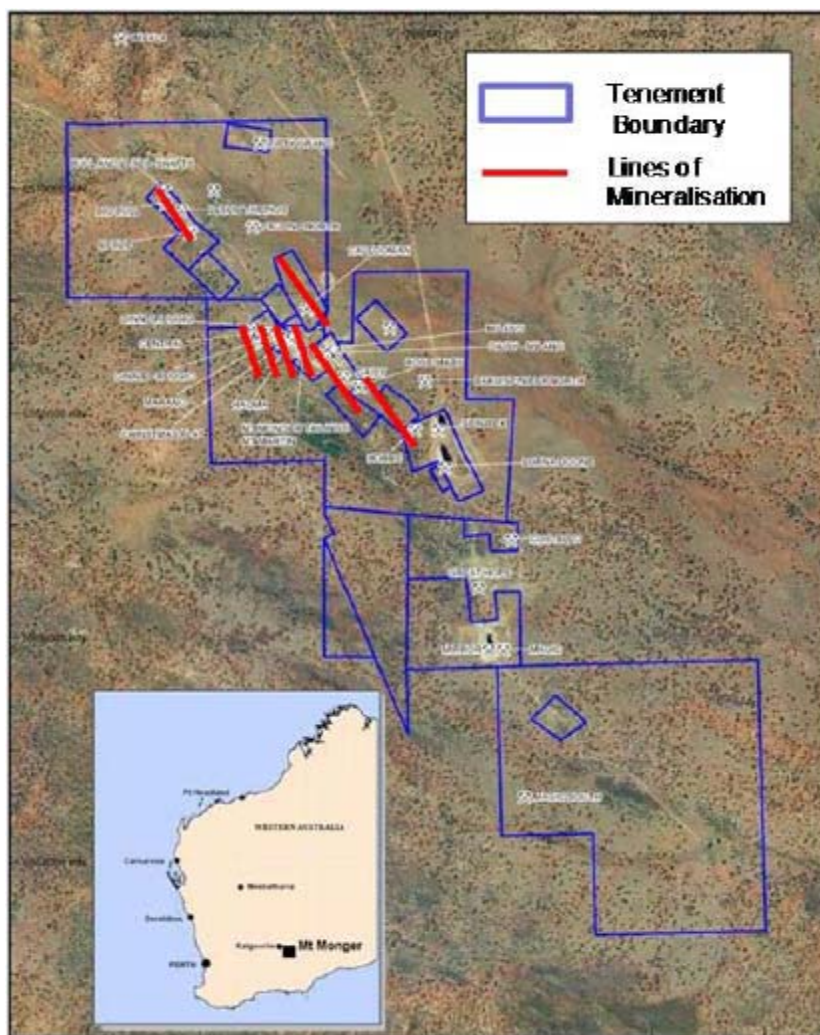
Surplus cash generated from the operations during the March quarter was applied as follows:

- \$8.00m increase in cash on hand;
- \$0.56m invested in exploration;
- \$1.12m in capital development;
- \$0.72m to capital works (including a 2 metre tailings dam lift which was 80% complete at the end of the March quarter) and business development; and
- \$0.43m in corporate overheads.

Mount Monger - Background

Silver Lake poured the first gold at its Lakewood Gold Processing Facility in April 2008 after commencing operations at Daisy Milano in December 2007. It follows the acquisition of Perilya's gold assets (including the Daisy Milano mine and most of the Mount Monger Goldfield) in August 2007 in a deal (\$7.5m cash, \$6m in SLR shares and a minor royalty) which increasingly appears highly favourable to SLR. Silver Lake's Mount Monger Operation, including the Daisy Milano mine, is located 50 km SE of Kalgoorlie. The separate purchase (30 November 2007) and refurbishment of the Lakewood Gold Processing Facility (cost: \$2.4m; plus \$4.6m included installation of a gravity circuit), located 5 km east

Silver Lake's Mount Monger Tenements



of Kalgoorlie and 45 km from Daisy Milano, adds further value (replacement cost would now be: \$25m, plus extended delays for mill delivery).

SLR has access to a very large drilling data base for the Mount Monger Goldfield, yet only 3% of drillholes extend deeper than 100m. A due diligence report (AngloGold, 2003) had indicated a potential gold inventory of 2.0 to 4.5Moz.

SLR is the first company to undertake a comprehensive, systematic exploration programme over the entire Mount Monger tenement package (acquired in November 2007) and is **targeting 2Moz in resources across the area**. The calculation of a new resource for the **Magic deposit** had increased the total Mount Monger resource base by 16% to 1.2mt at 9.7 g/t Au for 374,900oz.

SLR's monthly mined grades at Daisy Milano are typically 7-15g/t, based on selective mining with minimal dilution (up to 2m widths).

Murchison Goldfield

The Company is currently reviewing the results of a **pre-feasibility study into low capital start-up options for the Murchison project** and expects to make an announcement regarding the outcome of this study shortly.

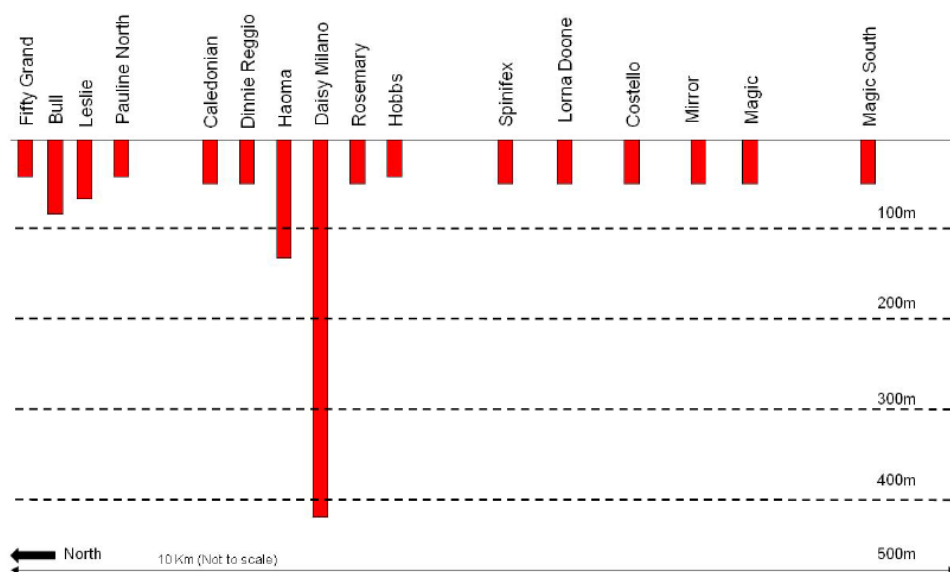
The Murchison Goldfield includes Tuckabianna, Comet, Moyage and Rothsay deposits.

An update of the Comet resource estimate has resulted in an increase in the overall resource base for the Murchison project to 7,821,800 t at 3.8 g/t Au for 965,400 oz.

We assume the Murchison projects have nil value in our base case valuation (other than the value of the exploration/evaluation expenditure).

Mount Monger Goldfield

Multi Mine Operation & Potential at Depth



Source: Silver Lake Resources

Historic Mined Grade	
Daisy Main	28.4 g/t
Milano (Upper)	33.8 g/t
Milano (Lower)	15.6 g/t
Rosemary	27.4 g/t
Haoma	28.9 g/t
Dinnie Reggio	32.6 g/t
Caledonian	7.9 g/t
Pauline	11.8 g/t
Leslie	21.8 g/t
Bull	28.6 g/t
Average	23.7 g/t

Mount Monger GoldField		2008	2009	2010	2011
Daisy-Milano ore milled	mt	0.021	0.148	0.160	0.160
	g/tAu	10.2	10.2	10.0	10.0
Christmas Flats	mt		0.000	0.100	0.080
	g/tAu		0.0	3.5	3.5
Costello, Magic & Lorna Doone	mt			0.030	0.050
	g/tAu			4.0	4.0
Total Ore Milled	mt	0.021	0.148	0.290	0.290
Recovery		84.0%	94.0%	95.0%	95.0%
Gold Production	koz	5.8	45.7	63.2	63.5
Gold Price	\$US/oz	890	882	875	815
	\$A/oz	935	1225	1277	1148
Cash costs excl royalties	\$A/oz	719	688	605	534
Cash costs incl royalties	\$A/oz	731	718	637	563
Total costs excl royalties	\$A/oz	855	791	684	628
Total costs incl royalties	\$A/oz	868	821	716	657

Profit / (Loss)	\$Am	2008	2009	2010	2011
Revenue		2.9	56.0	80.8	72.9
Mining, Transport, Admin		-3.4	-25.5	-31.0	-26.7
Milling		-0.8	-5.9	-7.3	-7.3
Operating Surplus		-1.2	24.6	42.5	39.0
WA State Gov. Royalty		-0.1	-1.4	-2.0	-1.8
Depreciation/amort		-0.8	-4.7	-5.0	-6.0
Other		-1.6	-1.0	-1.0	-1.0
Pre-tax profit		-3.7	17.5	34.5	30.2
Tax expense		0.0	-2.5	-9.9	-8.9
Adjusted Profit		-3.7	15.0	24.6	21.3

Cash Flow	\$Am	2008	2009	2010	2011
Operating Surplus		-1.2	24.6	42.5	39.0
Capital Expenditure		-19.0	-4.0	-4.0	-3.0
WA State Govt Royalty		-0.1	-1.4	-2.0	-1.8
Exploration/evaluation expenditure ¹		-3.2	-6.2	-4.5	-2.2
Tax Paid		0.0	-2.5	-9.9	-8.9
Net Cash Flow		-23.5	10.5	22.1	23.1

¹ Includes planned \$5.7m Murchison expenditures - excluded from base case valuation.

Valuation

We have made changes to our financial model to allow for a sustainable increase in underground production and a three month delay to open pit mining at Christmas Flats (now likely to start in June). Our base case valuation for SLR has been increased to an estimated \$0.53 per share (previously \$0.46 per share) fully diluted for 27m unlisted options. Our base case valuation is based on: a 5 year Mount Monger mine life to 2013 (at 45-65kozpa); excluding any value for the Murchison Goldfield (pre-feasibility study outcome to be reported shortly); and using a 5% discount rate.

Potential upside valuations to \$0.80/share have been upgraded by a possible Lakewood Mill expansion and a greater likelihood of a larger Mount Monger resource base – in addition to the potential value we had estimated for the Murchison Goldfield.

Valuation at 31/12/08	A\$m	NPV/share
Mount Monger Gold Mine ¹	88	0.49
Net Cash	6	0.03
Capitalised Corporate Costs	-8	-0.04
Exploration - Additional Value ²	4	0.02
Lakewood Plant - Residual Value	4	0.02
Base Case Valuation	95	0.53
Lakewood Plant Expansion	15	0.08
Murchison Goldfield	35	0.19
Upside Valuation	144	0.80

¹ Assumes 300koz of mineable reserves (total 5 year mine life)

² Additional discounted value of exploration expenditure
- targeting 2Moz in resources at Mount Monger

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