



Gold : Silver Lake Resources Ltd (SLR)

By : Eagle Research (Keith Goode)	MAY 2009 VISIT TO DAISY MILANO		29 May 2009
Year Low/High:	\$0.13 - \$0.705	153.4m ords	Recommendation BUY
Diluted No. Shares	180.1m	26.7m in-money opti	Share Price \$0.70
Diluted Mkt Cap :	A\$126m		Target Price (5%NPV: \$1.08) > \$1.00
Net cash (est 31 Mar 09)	\$11m		www.silverlakeresources.com.au T:+618 6313 3800

Silver Lake Resources Limited (SLR) – Taking the next step to producing >70,000ozpa

- **Silver Lake Resources (SLR) has achieved its production target of 50,000ozpa at its Daisy-Milano operation at Mount Monger in WA, currently producing a steady ~1,000oz per week with the occasional 1,500oz week. With the Christmas Flats open-cut expected to start in July 2009 and the probable expansion with an additional 300,000tpa mill at its Lakewood plant, SLR's gold production appears to be moving into the next phase, taking production beyond 70,000ozpa.**
- **SLR still appears to be on-track to achieve its 2011 production target of 150,000ozpa, possibly by 70,000ozpa to 100,000ozpa (or so) from Mount Monger & 50,000ozpa from its Murchison Project at Moyagee/Comet/Tuckabianna. Currently SLR is examining its milling opportunities at Murchison, ranging from toll-treating to having its own initially 500,000tpa to 600,000tpa mill (doubling to 1.2mtpa later).**
- **Due to SLR's current total cash costs of ~A\$600/oz to A\$700/oz, Silver Lake is generating significant cashflow at current gold prices >A\$1,000/oz of ~A\$1m to A\$2m per month (its best week so far was selling 1,550oz at A\$1,550/oz). This is increasingly enabling SLR to build up a war-chest capable of financing a mill expansion at Lakewood, start its Murchison operation & remain debt & hedge-free.**
- **In fact in the June Qtr of 2009, SLR may have recouped its ~A\$13m acquisition cost of Daisy-Milano from Perilya and the acquisition of the Lakewood plant, just over a year since first production in April 2008 (which itself was only ~6 months from the acquisition from Perilya & subsequent listing of SLR in November 2007).**
- **The Daisy-Milano orebody is shaping up to be a dream orebody, with ~400m on strike of almost continuous gold mineralisation. The recent delineation of Daisy-Milano on strike at the 8 Level infers a significant increase in resources, and visible nuggetty gold is becoming common with grades in oz/t or even kg/t.**

FINANCIAL ESTIMATES : (Note : This ERA scenario is just one of a number of possible scenarios that could occur)

Year end June		2008a	DH08a	JH09f	2009f	2010f	2011f	2012f
Gold Sold	koz	3	20	27	48	80	107	121
Gold Price Received	US\$/oz	897	833	913	873	950	950	950
Cash Cost	US\$/oz	1007	678	468	552	534	525	519
Total Cost	US\$/oz	1007	833	610	699	674	642	636
NPAT	A\$m	-3.7	-0.1	11.1	11.0	19.3	28.8	33.3
EPS	c	-2	0	7	7	13	19	19
DPS	c	0	0	0	0	5	10	10
No Shares	M	153	153	153	153	153	153	180
P/E ratio @ A\$0.70	x				9.8	5.6	3.7	3.8

OTHER KEY POINTS:

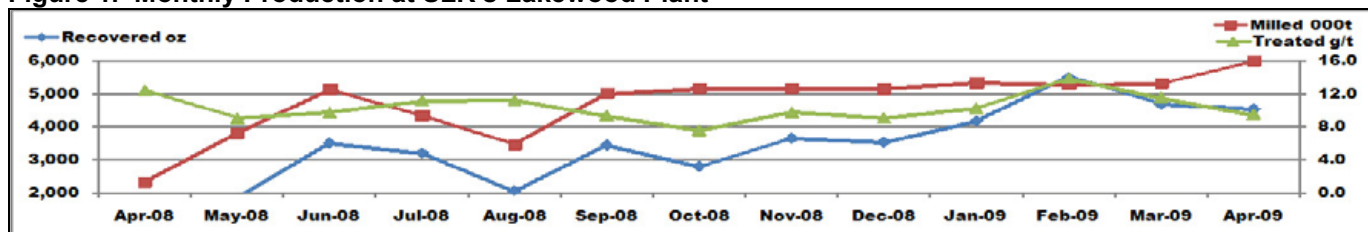
- **SLR has a 5%NPV of A\$1.08, based only on Mount Monger (excl Murchison). (The NPV rises by ~A\$0.25 per 10% increase in grades (which could be up to 30% higher).**
- **Initial drilling from the 8 Level towards Rosemary intersected two unexpected mineralised hanging-wall lodes ~40m & ~90m away, (assays pending) showing with the development on 8 Level, the significant upside potential in the Mt Monger goldfield.**
- **Realised grades could easily be up to 30% higher than our 10g/t estimates with development grades on the 23 level South of the dyke, responsible for the ~13g/t milling average achieved in February 2009 (to be stoped sometime during 2010) and average grades appearing to increase at depth.**
- **Depending on its capital requirements, SLR may pay a 1c to 2c final dividend in Aug 2009, or a 5c franked dividend in Aug 2010.**

Corporate Overview

Since our last report dated 19 May 2008 on Silver Lake Resources Limited (SLR), no placements or raisings have been made so SLR still only has **153.4m ordinary shares** in issue with **26.7m options** (all in-the-money, mostly at 30Ac between 31 December 2012 and March 2013).

SLR's Daisy-Milano mine has exceeded all expectations currently generating free cashflow of A\$1m to A\$2m per month, based on total costs of A\$600/oz to A\$700/oz and production of ~1,000oz to 1,100oz per week, with the odd week in the 1,200oz to 1,600oz area, resulting in current production of ~50,000ozpa as shown in Figure 1. The Daisy-Milano orebody appears to be one of those dream orebodies, with a steady average in-situ u/ground grade ~30g/t, resulting in ~10g/t milled, for 1,000oz per vertical metre which only requires ~50m to 55m per year of vertical production to achieve ~50,000ozpa.

Figure 1. Monthly Production at SLR's Lakewood Plant



The generation of cash from Daisy-Milano at Mount Monger has meant that SLR may achieve payback within only ~13 to 14 months of starting production (the first gold bar was poured on 30 April 2008), recouping the \$13m acquisition cost from Perilya and the \$2.4m for the Lakewood plant (plus the \$5.6m spent modifying and refurbishing it, with an almost new crushing circuit and gravity circuit [for the high quantity of visible gold]), as the cash position at 31 March 2009 was estimated at ~A\$13.8m.

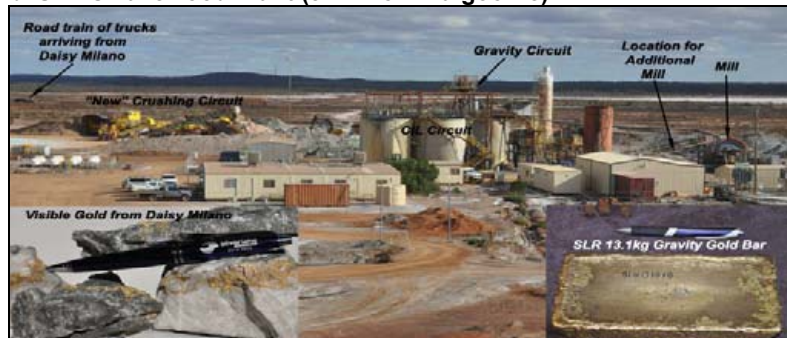
Silver Lake's Mount Monger operation and other exploration projects are all located in WA as shown in Figure 2a, with the 300,000tpa Lakewood plant about 5km SE of Kalgoorlie and Daisy-Milano a further 45km SE along the road to the Mount Monger Station. SLR's second main project area is in the Murchison and consists of the old mines at Moyagee, Comet and Tuckabianna. A PFS has been completed on the Murchison assets and SLR is currently examining its mill treatment options ranging from stand alone (initially at 500,000tpa to 600,000tpa) at Tuckabianna, to toll treatment through a nearby mill.

Figure 2. Locations of SLR's Two Main Projects (Source : Google Earth), and SLR's Lakewood Plant

a. Locations of SLR's Two Main Projects



b. SLR's Lakewood Plant (5km from Kalgoorlie)



We (ERA) visited SLR's Mount Monger operation and its Lakewood plant at Kalgoorlie, and the 3 main old gold mining area assets of the Murchison project in May 2009, and have compiled this report, drawing from publicly available presentations and information, plus our own (ERA) historical records.

Lakewood Plant (SLR : 100%)

SLR's 300,000tpa Lakewood Plant (shown in Figure 2b) appears to be achieving an optimal throughput rate of 180,000tpa hard (sulphide) ore with an expected up to 120,000tpa soft (oxide) ore. Treatment of soft ore is expected to start from the Christmas Flats open-cut probably in late SQ09, with the pit itself being cut in July 2009. Silver Lake has acquired a second 300,000tpa sister mill (in need of refurbishment) to provide the flexibility to double production capacity up to 360,000tpa hard & 240,000tpa soft if used in tandem, or possibly up to ~420,000tpa or so hard if the second mill is used as a regrind mill.

Installation of the second mill has been costed at ~A\$6m - \$8m (including additional tanks etc), and could be ready for throughput from 1 January 2010. Just how much hard rock is treated depends on exploration success in delineating additional lodes with sufficient strike length besides Daisy Milano. Although theoretically Daisy Milano should be able to support ~75m of vertical development and stoping per year, ~460m of development per level is relatively high with an ~11m level interval. The recent intersection of additional lodes parallel to Daisy Milano in May 2009 is very encouraging, since the underground decline is already effectively in place. Added to which a decline may be driven to Dinnie Reggio from the Christmas Flats open-cut (which should expose Haoma), and there is the initial drilling progress at Leslie.

Mount Monger Project (SLR : 100%)

Geology

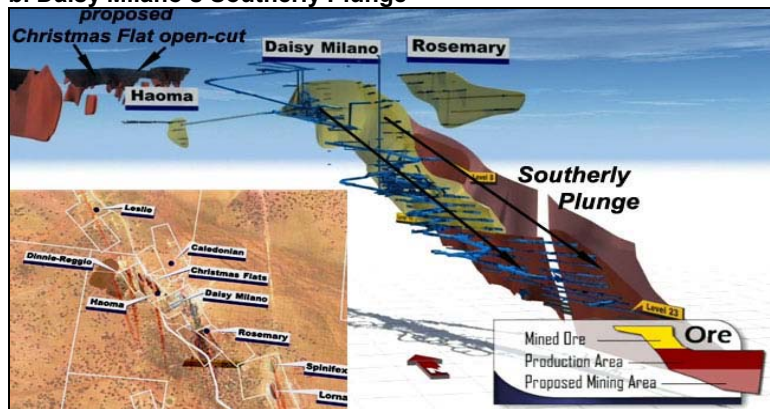
The understanding of the apparent controls on the gold mineralisation at Mount Monger has advanced significantly in the past year (since our previous visit in April 2008), such that the almost vertical NW/SE striking veins appear to have 4 main characteristics that show how previous miners may have “missed” (or misinterpreted) the lodes, namely : host rock, uniformity, discrete shoots, and shallower dipping.

Figure 3. Locations of SLR’s Two Main Projects, and Daisy Milano’s Southerly Plunge

a. Host Rock Boundary at Mount Monger



b. Daisy Milano’s Southerly Plunge



Host Rock - There appears to be two distinctive type of ore mineralisation according to the main host rock, with Domain 1 (shown in Figure 3a) containing narrow high-grade siliceous veins in felsic andesites and porphyrys, and Domain 2 having thicker massive medium grade shear-hosted veins in ultramafic.

Uniform – We walked along the length of the Daisy Milano lode on 23 level. The lode consists of a fairly uniform, almost straight 325m long main footwall vein in which the mineralisation plunges towards the south as shown in Figure 3b. There is also a less continuous more bendy/sinuuous ~135m long hangingwall vein (about 3m to 5m from the footwall vein) extending from the northern end. Both veins are intersected by the ~30m thick barren dolerite dyke, resulting in ~400m on strike per level $(325 - 30) + (135 - 30) = \sim 400\text{m}$. While the footwall and hangingwall veins have a steady main lode there are sometimes other lodes that bifurcate or open and rejoin along the vein as shown in Figures 4a to 4c.

Figure 4. Daisy Milano’s (DM’s) Footwall and Hangingwall Veins

a. DM Main F/Wall Vein



b. DM Main F/Wall Vein



c. Daisy Milano H//Wall Vein



d. DM H/Wall vein (Nth end)



Discrete - While the Daisy Milano footwall vein slices seemingly regardless across all rock types, it does appear to clearly visually terminate/vanish/disappear both north and south, although the hangingwall vein “feathers” into closure in the north as shown in Figure 4d. Due to this apparent discrete mineralisation, the initial exploration drillhole from the 8 level (at the time of our visit) only intersected the Rosemary structure at ~130m to 150m away, while subsequent drillholes reputedly intersected the Rosemary mineralisation. However, **two unexpected lodes**, at ~40m & ~85m to 90m away were also intersected in the hangingwall on the way to the Rosemary structure in the initial and subsequent drillholes.

Shallower Dipping – It appears to generally be perceived that the mineralisation is confined to steeply dipping lodes, and because the shallower dipping quartz veins have usually been barren. However, it may not be that simple. As shown in Figure 5a of a trench SLR cut at Haoma in preparation for the Christmas Flats open-cut to assess what old mine openings there were and what possible mineralisation there could be, the result was actually more like a stockwork of steeply dipping and shallower dipping veins. Additionally in the recent development on 8 level (802N), an air-leg slot raise as shown in Figure 5b was following a shallower dipping vein averaging up to 20oz/t (yes ~600g/t, and where the visible gold in the samples shown inset in Figure 2b came from - note the presence of galena [lead] – usually a good sign).

Figure 5. Trench at Haoma (Christmas Flats), and DM Lode in the 802 H/W Slot and F/W stope on 8 Level
a. Trench at Haoma (Christmas Flats) b. DM lode in the 802 H/W Slot c. DM lode F/W stope on 8 Level



It is hence very easy to see how AngloGold determined a potential resource in 2003 of 2.0moz to 4.5moz (and this was before Daisy Milano extended beyond the dyke), but (fortunately for SLR) did not exercise its option (because it failed to meet Anglo’s then criteria of a minimum of 5moz). So the option was taken up by Perilya who appeared to have bulk mined DM “large mining house style” with toll treatment, which was not profitable, resulting in SLR’s acquisition and payable selective narrow-vein mining approach.

Ore Reserves and Resources

Table 1. Ore Reserves and Resources for SLR’s Mount Monger (as at June 2008)

Resources	Indicated Resources			Inferred Resources			Total Resources		
	Tonnes 000t	Grade g/t	Gold 000oz	Tonnes 000t	Grade g/t	Gold 000oz	Tonnes 000t	Grade g/t	Gold 000oz
Mt Monger	Note (1) : Daisy Milano’s Measured Resources of 93,600t @ 37.9g/t for 114,100oz are included in the totals								
Daisy Milano (1)	65	20.8	44	92	30.8	91	251	30.9	249
Christmas Flats	207	3.5	23	247	3.5	28	454	3.5	51
Costello				94	3.7	11	94	3.7	11
Lorna Doone				111	4.0	14	111	4.0	14
Magic				288	5.3	49	288	5.3	49
Total	272	7.6	67	832	7.3	194	1198	9.7	375

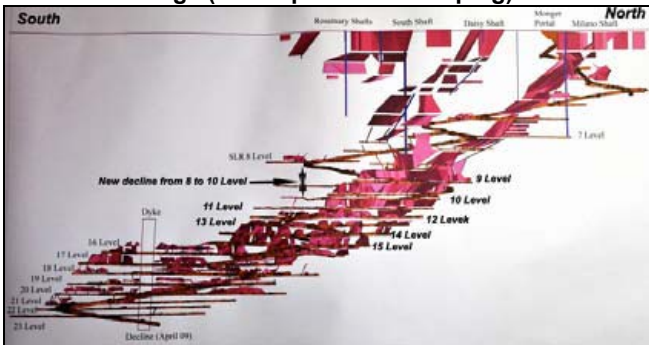
SLR only quotes and uses ore resources and not reserves, probably due to the multiple lodes which would make accurate ore reserve compilation close to impossible, and the fact that measured and indicated resources are often fairly close to proven and probable reserves.

Daisy Milano

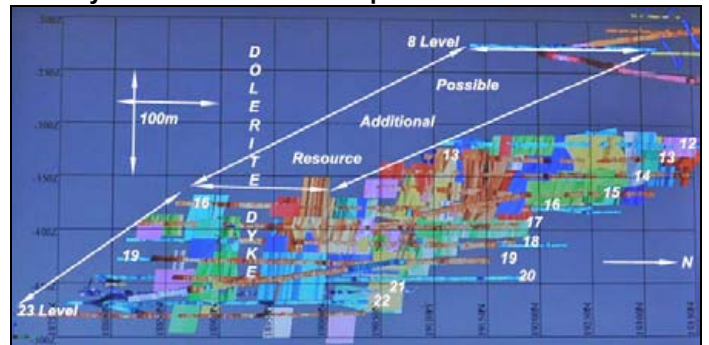
The Daisy Milano lode originally consisted of two lodes, the Daisy and the Milano (with the Milano in the footwall), and they join each other at about the 8 Level as shown in Figure 6a. While the Daisy Main lode was recorded as averaging 28.4g/t to the 8 Level, the Milano averaged 33.8g/t to the 10 Level (upper) and 15.6g/t from the 10 Level to the 20 Level (lower, as mined by Perilya, but may have been over-diluted).

Figure 6. Daisy Milano’s Mine Workings (development and stoping), and Resources (with possible addition)

a. Mine Workings (development and stoping) on DM



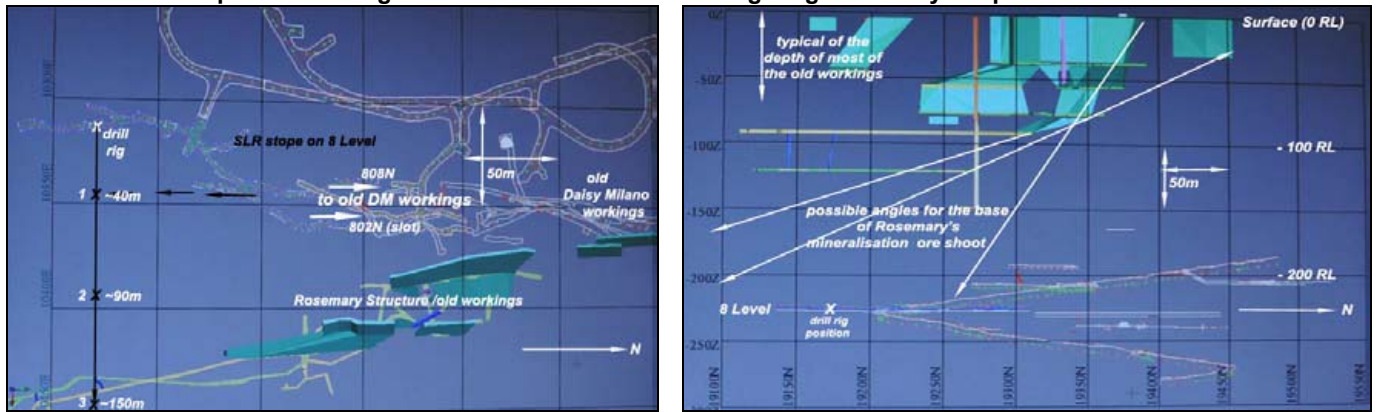
b. Daisy Milano Resources and possible addition



Silver Lake extended the Daisy Milano lode south beyond the dyke and began to establish a consistent strike length, that became significantly long on the 23 Level. In fact like the 21 level’s 6kg/t lode encountered south of the dyke at Diggers in August 2008 (and the picture used in SLR’s current presentations), very high grades were encountered south of the dyke on 23 Level such that the development increased the average grade treated in February 2009 by more than 30% to over 13g/t as shown in Figure 1. The 23 Level is currently expected to be stoped sometime during 2010. Although it is early to draw assumptions/conclusions, average level grades do appear to be increasing with depth.

As part of assessing what happened (geologically to the orebody) on the 8 Level and to provide drilling positions for possible extensions to the old Rosemary mine’s orebody, SLR cut through one of the old stockpiles in the decline (according to a historical section, Nickel Seekers [the owners before Perilya] had taken the decline down to the 6 Level {although they mined deeper}, and Perilya ultimately took it down to the 20 Level). On the other side of the stockpile was a Daisy Milano Lode, which SLR stoped partly as shown in Figure 5c and then began driving back to the old Daisy Milano workings as shown in Figure 7a.

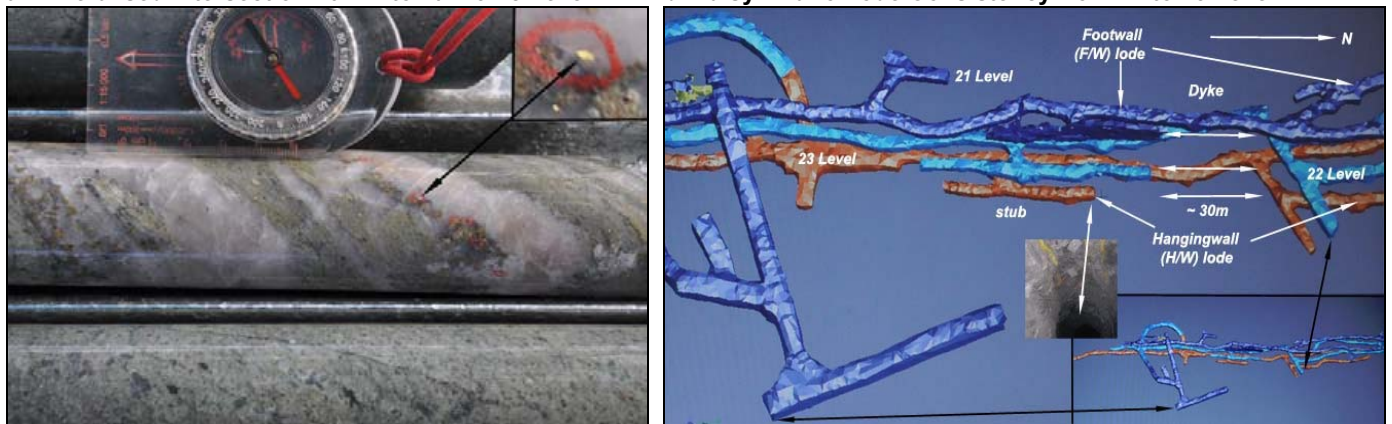
Figure 7. Daisy Milano’s Mine Development Workings on the 8 Level and Targeting Rosemary Deep
a. DM Mine Development Workings on 8 Level **b. Targeting Rosemary Deep**



When we visited 8 Level in early May 2009, we saw the minor stoping in Figure 5c, the development following a lode on 808N and a slot following a lode that had a more shallower dip in 802N (as shown in Figure 5b and where the vg specimens inset in Figure 2b came from). SLR had also started drilling towards the Rosemary structure trying to find the continuation of the Rosemary mineralisation as shown in Figure 7b. While the drilling has apparently intersected the Rosemary structure and mineralisation ~130m to 150m into the hangingwall, **two other mineralised lodes have unexpectedly also been encountered**

The first (1 in Figure 7a) was in the first drillhole ~40m into the hangingwall (which could still line up with the Daisy Milano structure and may mean that the Daisy and the Milano remained separate for a bit deeper than 8 Level, and the second (2 in Figure 7a) was in another drillhole ~85m to 90m into the hangingwall. All intersections have yet to receive their assay results, however, the first (1) intersection appears to include visible gold (it certainly looks like the right “golden yellow” colour as shown inset in Figure 8a). The immediate host rock is apparently different to standard Daisy, but as we have seen these lodes appear to be capable of slicing reasonably uniformly (see page 3) across/through everything.

Figure 8. Mineralised Intersection 40m into the H/W of DM on 8 Level, & Lode Consistency on 21 to 23 Level
a. Mineralised Intersection 40m into H/W on 8 Level **b. Daisy Milano Lode Consistency from 21 to 23 Level**



We did not see the second intersection (2) but it is apparently mineralised and associated with a porphyry. This second intersection-type has been recorded before also associated with porphyry and in the same position in the hangingwall – on the 1075 position, possibly ~70m lower than 8 Level, and ~100m away on strike. Encountering these unexpected lodes could produce significant upside potential for SLR, since **another mineralised lode** with reasonable strike length could feed into a **second mill**.

Silver Lake has decided to cut a shorter and tighter decline from the 8 level to the 10 Level which would provide drill access positions for the new potential mineralisation that has been intersected and enable the Daisy Milano a possible additional resource block area (shown in Figure 6b), that can be mined without affecting haulage from the lower levels up the main decline. The additional decline could also provide production flexibility should the newly intersected lodes prove to be significant.

The consistency in the lodes such as Daisy Milano is clearly shown in Figure 8b of the development on either side of the dyke from the 21 Level to the 23 Level. The dyke occurred about 1bn years after the mineralised veins formed and replaces the lode in that position, resulting in the stub shown in Figure 8b which would have connected to the H/W lode (note the 23 Level stub appears to be shorter because it is currently being developed northwards towards the dyke). However, because the orebody dips through the dyke, the dyke is gradually moving relatively across the orebody and eventually will be outside of it, which gradually should increase the strike length of the parallel (H/W and F/W) lodes.

Christmas Flats

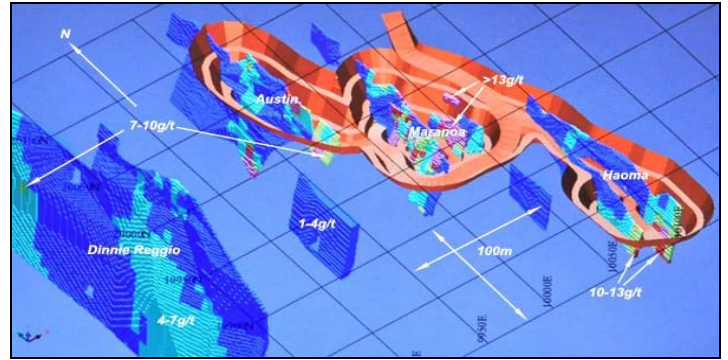
Although the primary target for SLR is to find another “Daisy Milano” lode capable of providing significant hard rock feed for a second mill, SLR’s Mount Monger goldfield also contains a number of possible oxide sources that can provide lower grade oxide feed, while then using the resulting open-cut to cut a portal and examine nearby lode structures, such as at Christmas Flats and declining across to Dinnie Reggio.

Figure 9. Plan of Proposed Christmas Flats Open-cut, and 3d Block Model of the Christmas Flats lodes

a. Plan of Proposed Christmas Flats Open-cut



b. 3d Block Model of the Christmas Flats lodes



Christmas Flats covers the old mining areas and lodes of Austin, Maranoa and Haoma as shown in Figure 9a. A new main road has already been cut as shown in the Figure and was moving towards completion (the old original road passes through the operating mine). Like Daisy Milano, the individual lodes in fact consist of multiple lodes or veins as shown in Figure 9b. Exposure of the lodes could be interesting, especially **Haoma** which historically averaged ~28.9g/t, was mined to a depth of ~140m (the second deepest in the field) and had a winder (shown inset in Figure 10b), but its southern extent was apparently then limited by a lease boundary; while Dinnie Reggio averaged 32.6g/t down to the usual ~50m depth.

Figure 10. View East across Proposed Christmas Flats Open-cut, and Haoma trench at Christmas Flats

a. View East across Proposed Christmas Flats O/cut



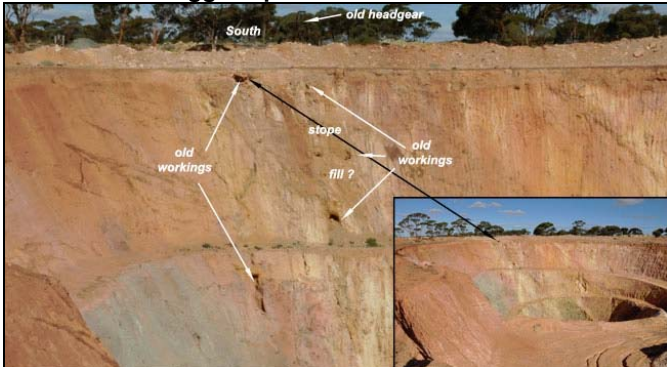
b. Haoma trench at Christmas Flats (and its old winder)



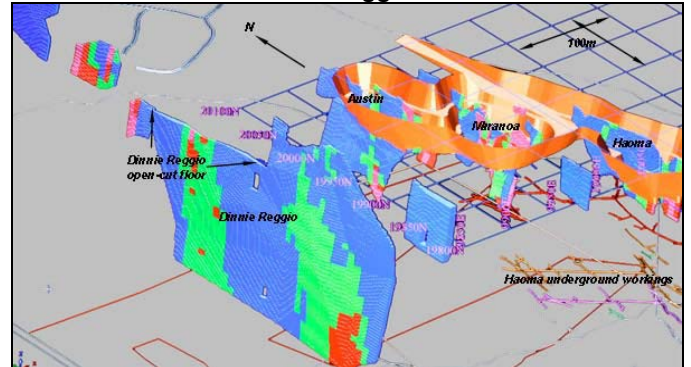
It can be seen in Figure 10a that the area is littered with old workings, and in Figures 5a and 10b that there is negligible cover. The Christmas Flats open-cut is currently expected to commence production in late June or early July 2009 with mining completed possibly in only 3 to 4 months, with the ore being gradually fed through the mill possibly from late SQ 2009. The designed pit is only expected to deliver ~10,000oz, but indications based on observations infer that it could easily be materially higher.

Figure 11. Old Dinnie Reggio Open-cut, and 3d Block Model of Dinnie Reggio (and Christmas Flats)

a. Old Dinnie Reggio Open-cut



b. 3d Block Model of Dinnie Reggio and Christmas Flats

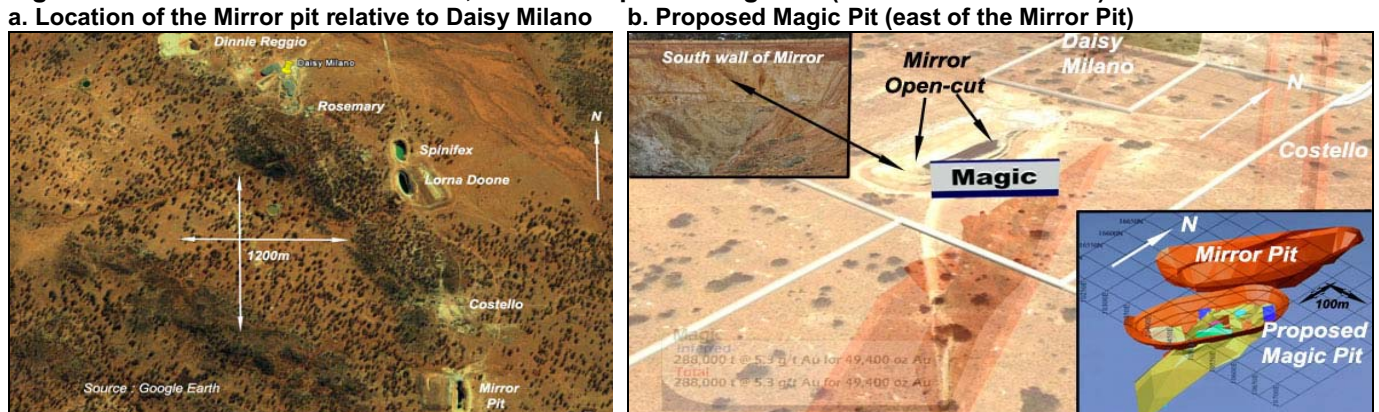


When complete, the intention is to cut a portal in the side of the pit and drive towards Dinnie Reggio. Dinnie Reggio was later mined as an open-cut as shown in Figure 11a. However, it does have a sizeable defined block model extending well beneath the open-cut as shown in Figure 11b. Just how uniform the lode is and its quality should unfold when Dinnie Reggio has been intersected from underground.

Other Possible Open-cuts – Magic, Lorna Doone etc

Although some open-cut ore is expected to be derived at some stage from Lorna Doone and Spinifex, etc, the next planned open-cut after Christmas Flats appears to be Magic. The ~5g/t Magic resource is located at the southern end of most of the old workings, about mid-way amongst SLR's ~10km long tenement package, adjacent and east of the old Mirror pit as shown in Figures 12a and 12b.

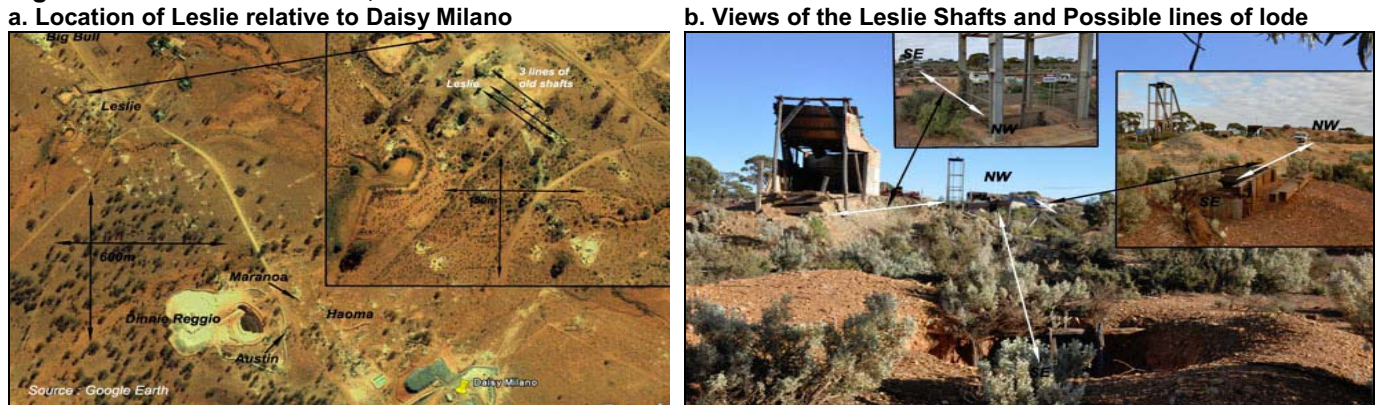
Figure 12. Location of the Mirror Pit ,and the Proposed Magic Pit (east of the Mirror Pit)



Other Possible Underground – Leslie

When we visited Mount Monger in early May 2009, the first RC campaign of about 16 drillholes at Leslie was just being completed. Leslie is located towards the northern end of the field as shown in Figure 13a, and may contain 3 parallel lodes as shown in the inset figure (based on sighting the old shafts), and on the ground as shown in Figure 13b. A first pass RC drilling programme has occurred with intersections of mineralisation (awaiting assays). A follow-up programme was to be decided based on the assay results received, prior to possibly cutting a box-cut and developing into Leslie.

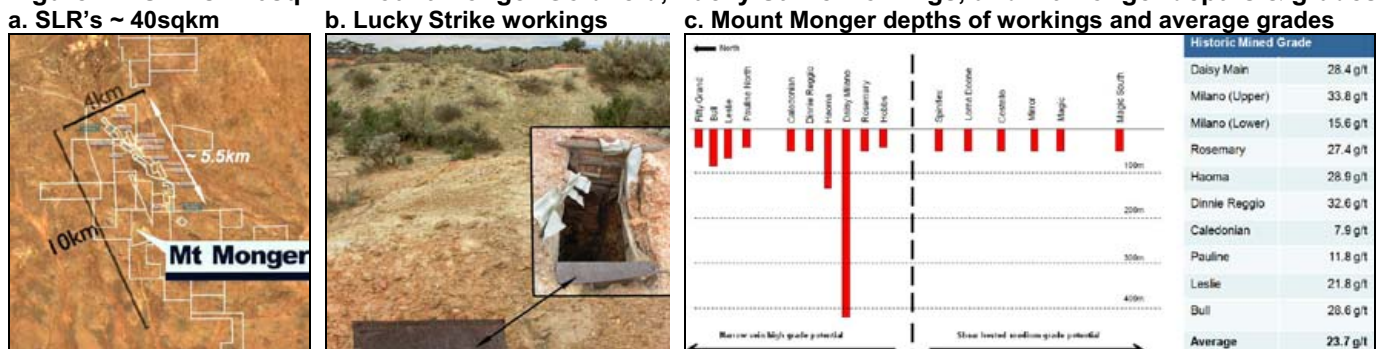
Figure 13. Location of Leslie, and Views of the Leslie Shafts and Possible lines of lode



Additional Upside Potential

Silver Lake's Mount Monger goldfield actually covers an area of ~40sq km as shown in Figure 14a, of which most of the activity was in the north over a strike length of ~5.5km, and most of the shafts were only sunk to ~50m to 60m, while grades per mine often averaged ~20g/t to 33g/t as shown in Figure 14c. North of Leslie is Big Bull (previously called Taurus) which was renowned in the early 1900s for sizeable nuggets in an area of extensive dry-blower workings near the Mt Monger homestead. There are many other prospects such as Fifty Grand, Lucky Strike and the lower grade Pauline as shown in Figure 3a.

Figure 14. SLR's ~40sq km Mount Monger Goldfield, Lucky Strike workings, and Mt Monger depths & grades



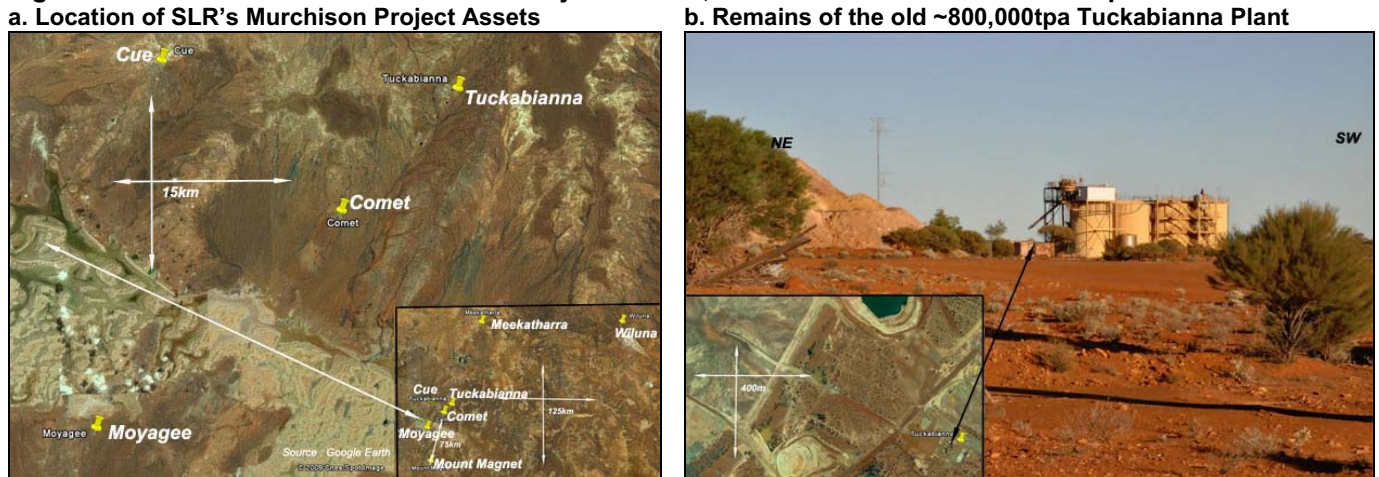
While south of Magic there is about another ~4km to 5km of apparently untested strike with little evidence of old workings (based on Google Earth), probably because the cover increases southwards.

Murchison Project (SLR : 100%)

Current Concept

SLR's Murchison Project consists of the three old goldfields of Moyagee, Comet and Tuckabianna near Cue, ~650km NNE of Perth as shown in Figure 15a. Following the completion of a PFS, SLR's development concept for its Murchison Project is either to toll treat through a nearby mill (the nearest is Mt Magnet ~75km away, & on care & maintenance [was Hill 50 now Harmony, which treated ~2.7mtpa of hard and soft, but could be closer to 1.8mtpa hard]), or have a smaller standalone mill at Tuckabianna. The basic infrastructure is still in place at Tuckabianna as shown in Figure 15b, apart from the front end.

Figure 15. Location of SLR's Murchison Project Assets, & the Remains of the old 0.8mtpa Tuckabianna Plant



SLR's ideal concept is to initially have a ~600,000tpa plant with a view to later doubling to ~1.2mtpa. Initial ore could come from Tuckabianna, using Comet as a sweetener, and later treating Moyagee.

Ore Reserves and Resources

The current reserves and resources for the Murchison Project are shown in Table 2, viz :

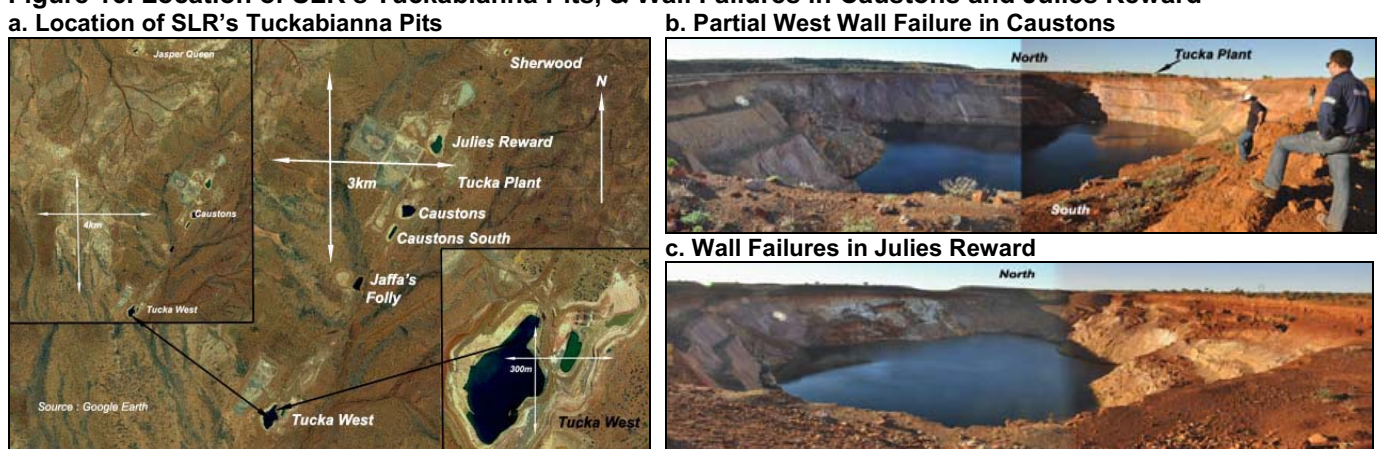
Table 2. Ore Reserves and Resources for SLR's Murchison Project (as at 31 December 2008)

Resources	Indicated Resources			Inferred Resources			Total Resources		
	Tonnes 000t	Grade g/t	Gold 000oz	Tonnes 000t	Grade g/t	Gold 000oz	Tonnes 000t	Grade g/t	Gold 000oz
Murchison									
Comet	1709	3.6	198	572	5.0	93	2281	4.0	291
Tuckabianna	2327	2.8	212	2393	3.1	238	4720	3.0	450
Moyagee				820	8.5	224	820	8.5	224
Total	4036	3.2	410	3786	4.6	555	7822	3.8	965

Tuckabianna

Although the historic mining at Tuckabianna dates back to 1915, it was last mined by Westgold in 1996, after having been bought in March 1994 from Newcrest (see our [ERA] previous SLR report dated 19 May 2008 for a more detailed history). Most of the pits follow a NE/SW striking series of BIF units as shown in Figure 16a, and have varying degrees of wall failure from none through to Julies Reward in Figure 16b.

Figure 16. Location of SLR's Tuckabianna Pits, & Wall Failures in Caustons and Julies Reward



Although the Julies Reward pit walls looked pretty bad (with the failures probably due to the "lake"), SLR was still confident that it would one day be mineable because of the average ~7g/t grades that it contains. However the main Tucka West pit appears to still be largely intact, and containing probably most of the resources as the haul road appears to have unexpectedly cut across the Eastern mineralisation, leaving the (presumably mineralised) BIF unit in the face as shown in Figures 17a and 17b. The main quartz-magnetite-BIF structures at Tucka West appear to be sizeable at ~50m thick and reasonably uniform.

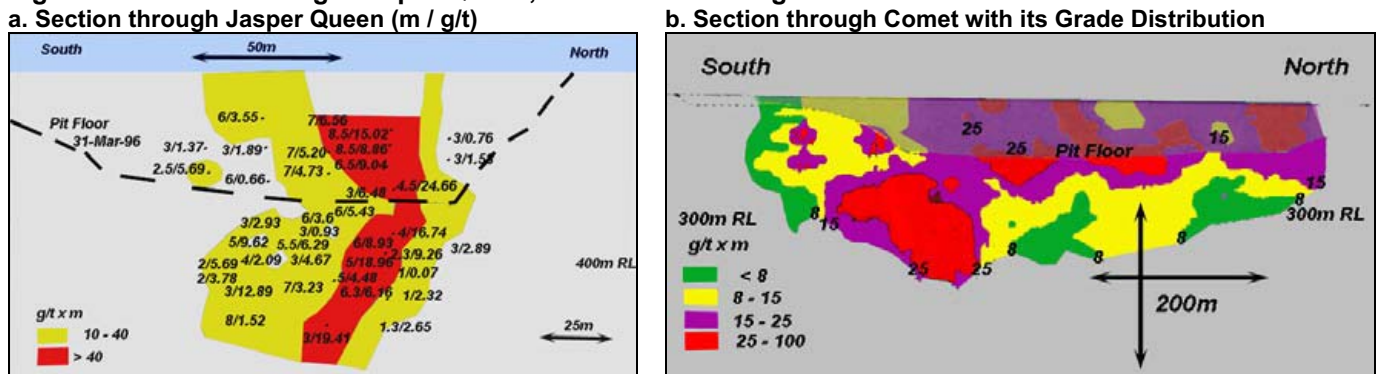
Figure 17. Views (South and North) of the BIF Mineralisation in the walls of the Tucka West Pit



There are occasional references to palaeochannels in some of the pits, and in some pits (such as Big John) they can be seen, however, they do not appear to have been studied or mapped, so SLR intends to map them – as they could provide another source of oxide ore, and lead to other discoveries.

Within the Tuckabianna vicinity are a number of old workings, some recorded, some reputedly not, such as around Jasper Queen in the top left of Figure 16a, which we visited including some of the old workings apparently following clearly defined shoots (based on the near surface drives linking the shallow shafts) on either side of the open-cut and scheduled for exploration drilling. Jasper Queen is supposed to still have high grade ore under the floor of its open-cut as shown in Figure 18a.

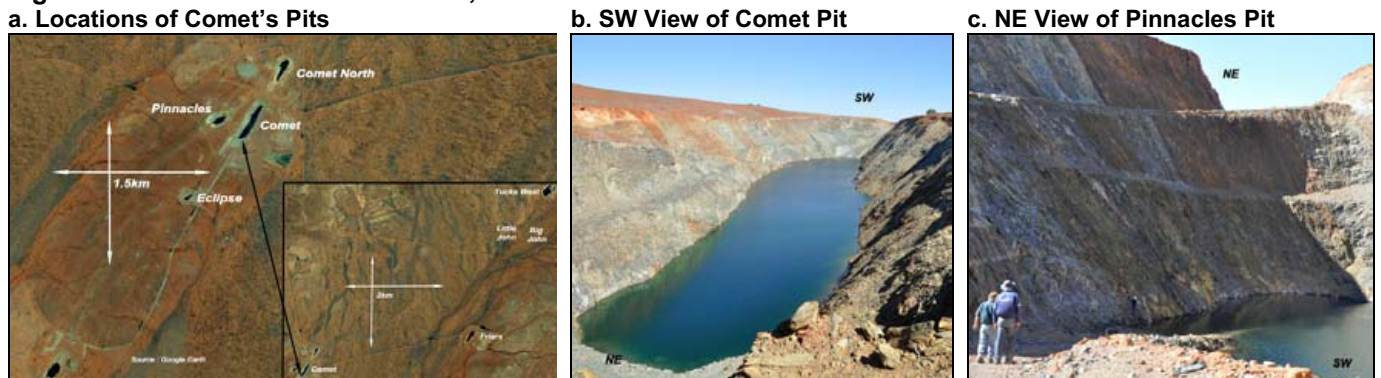
Figure 18. Section through Jasper Queen, and Section through Comet with its Grade Distribution



Comet

However, Comet is perceived as being the sweetener in the Murchison assets, due to its resource of 3.6g/t indicated and 5.0g/t inferred for a total resource of almost 300,000oz, with the grade distribution shown in Figure 18b. As shown in Figure 19a, Comet appears to be located ~9km SW of Tucka West at the NE end of a BIF inlier, & there is a link of old pits via Friars, Big (& Little) John, & then to Tucka West. The Comet pit appears to be in fairly good condition as shown in Figure 19b, only requiring dewatering, its only drawback, if anything, was that the waste dump appears to be on the wall to be cut-back.

Figure 19. Locations of Comet's Pits, Views of Comet and Pinnacles Pits

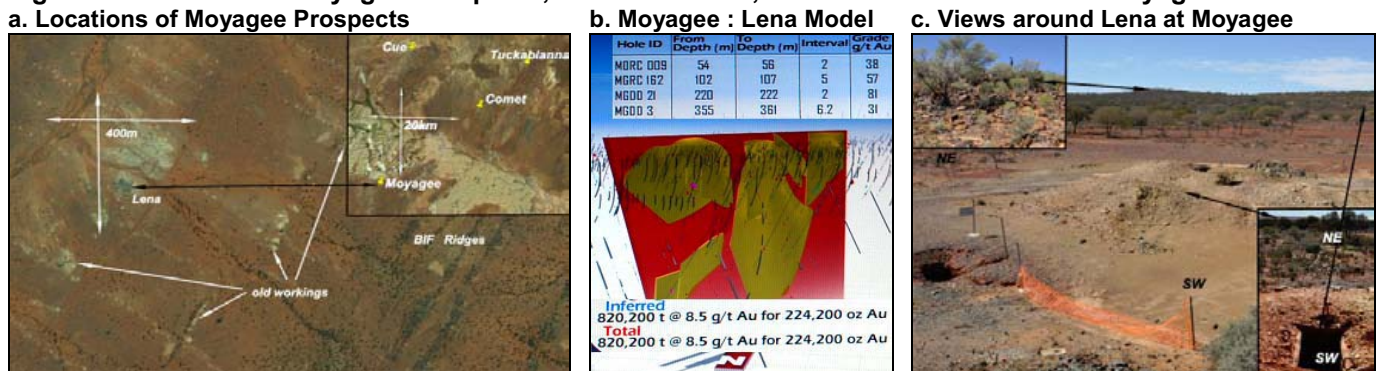


However, it was the Pinnacles pit that visually seemed the more interesting, with the very clear BIF mineralisation as shown in Figure 19c, and again the pit also appeared to be in good condition. There was some strapping on the eastern wall that appeared to have been undertaken after a section may have slid from the wall due to a bedding plane fracture in the northern section, hence most of the other strapping appeared to have been done for "comfort", as the wall had broken on the core barrels – classic hard rock style.

Moyagee

Moyagee is located ~45km SW of Tuckabianna as shown in Figure 20a. The Moyagee workings appeared to be mostly old small shafts and minor dumps, including Lena. Some exploration has already occurred at Lena resulting in an inferred resource of ~225,000oz based on an average grade of ~8.5g/t as shown in Figure 20b, but the area appears to need more work, especially with the degree of old workings.

Figure 20. Location of Moyagee Prospects, the Lena Model, and Views around Lena at Moyagee



Summary - It can be seen that the Murchison Project has the basics to be a standalone operation, initially focusing on Tuckabianna and Comet, but ideally SLR intends to get it into production at low capital cost, and all financed from cashflow (**no debt and no raisings**). SLR is currently undergoing a review of all the possible routes to production and infrastructure required, ground preparation etc (with the old Tuckabianna plant site appearing to be the most logical, depending on cost).

Upside Potential

Ignoring the Murchison assets, and the other exploration properties (not included in this report being Rothsay, Copper Lakes and Kurrajong Nickel – see our May 2008 report for detail), **SLR appears to be undervalued on a market cap comparison basis to its peers**. We have used operating cashflow as the comparison (accepting that some items at the end of DH08 end up in MQ09, so where possible note the MQ09 follow-up) as in SLR's case of \$5.6m (in ramp-up) followed by \$8.8m and then compare the market caps – **the table infers that SLR should be able to increase its share price by at least 40%**, viz :

Table 3. Market Cap Comparison of Silver Lake Resources to its similar producing peers as at 29 May 2009

Coy Name	ASX Code	No Shares m	Sh price \$	Mkt cap A\$m	Net cash A\$m	Adj Mkt Cap A\$m	Resources moz	Prodn MQ09 000oz	Target 000ozpa	Op Cashflow MQ09 A\$m	Op Cashflow DH08 A\$m
Dominion	DOM	103	4.900	505	47	458	1.1	25	~100	ng	28.6
Avoca	AVO	249	1.800	448	-124	572	1.2	29	>170	ng	20.8
Silver Lake	SLR	153	0.705	108	11	97	0.4	13	>50	8.8	5.6
Nth Qld Met	NQM	147	0.305	45	6	39	0.3	7	45	2.8	5.6
Beaconsfield	BCD	400	0.170	68	-13	81	0.4	18	~75	ng	5.4
Focus Min	FML	2650	0.028	74	-30	104	1.4	9	>50	-2.0	5.2
Norton Gflds	NGF	420	0.225	95	-34	129	5.0	36	~150	ng	4.4
Citigold	CTO	736	0.170	125	-16	141	10.0	3	>50	-2.0	3.7
Troy Res	TRY	70	1.580	111	56	55	0.7	15	~50	ng	0.2
St Barbara	SBM	1494	0.255	381	-118	499	6.7	60	~250	ng	-0.2
Dioro	DIO	92	0.795	73	-11	84	2.6	19	~65	ng	-1.4
Ramelius	RMS	219	0.620	136	20	116	0.1	6	50	3.9	-1.6
Tanami	TAM	3540	0.035	124	-4	128	0.3	6	50	-0.8	-2.8
Bendigo	BDG	496	0.290	144	41	103	>0.2	10	~40	4.4	-5.4
Apex Mins	AXM	532	0.205	109	-112	221	1.5	17	>120	-17.4 (na)	-22.0 (n/a)

Note : Net Cash = Cash & Receivables less Payables & Int brg debt; Operating Cashflow = as reported in the cashflow statement, but before interest; ng : not given

Financial Considerations

The SLR "way" appears to be: to make maximum use of existing or underlying infrastructure and refurbish equipment to reduce required capex. Consequently, SLR has already completed a study to double the Lakewood plant's capacity that allows flexibility as a regrind circuit, at an estimated (fully itemised costed) ~\$6m to \$8m. Lakewood currently needs a tailings dam lift per year (\$0.2m to \$0.5mpa?), but has available land to put new cells on (\$1m?) and later combine the relatively "small" tailings dams together.

SLR **may pay a final dividend** in August 2009 of 1c or 2c [\$1.5m or \$3m] depending on its capital requirements as it could have enough to pay for : the Lakewood expansion, exploration & ongoing capex (declines etc) at Mt Monger, and build up enough for Murchison by the end of 2009, if the gold price can stay ~A\$1200/oz so that SLR can **continue generating cashflow of ~\$2m per month**.

For our modelling analysis shown in Table 4, we have used a base gold price of US\$950/oz and applied sensitivities of +/- US\$50/oz in the sensitivity table. We have also allowed for a hard rock expansion at Lakewood (in production from January 2010) as it is easy to envisage where the additional ore (below SLR's own open-cuts and additional underground lodes) can come from. We have made no provision for the Murchison either in capex or production, assigning it its nominal ~\$5m purchase price. **It should be recognised that this production scenario is an ERA scenario, and is just one of a number of possible scenarios that could occur.**

Table 4. Production and Cashflow Estimate for Silver Lake Resource's Operations at Mount Monger

We have assumed that underground grades average 10g/t through the mill...

...but they could easily be significantly higher at up to 30% more

Similarly for the open-cut...

...we have used a diluted 3.5g/t but there could be material mineralisation as can be seen in Figure 10b

We also think that our cost estimates are probably too conservative...

...but it is early to determine clear figures...

...especially with the possible combinations of increases in mill treatment rates

It can be seen that SLR is generating sufficient cashflow to meet its needs..

...and may pay a nominal dividend...

... or with-hold it to finance its Murchison Project

Silver Lake Resources		2008a	DH08a	JH09f	2009f	2010f	2011f	2012f
Mount Monger		0.70			1	2	3	4
Gold Spot Price	US\$/oz	897	833	913	873	950	950	950
Exchange Rate	A\$/US\$	0.944	0.772	0.707	0.737	0.780	0.780	0.780
Est Gold Price Realised	A\$/oz	937	1064	1314	1208	1218	1218	1218
Underground Production								
Daisy-Milano Milled	000t	21	65	85	150	180	180	180
	g/t	9.6	9.4	10.7	10.2	10.0	10.0	10.0
Haoma and/or....	000t	0	0	0	0	46	135	180
	g/t	0.0	0.0	0.0	0.0	10.0	10.0	10.0
Total Underground	000t	21	65	85	150	226	315	360
	g/t	9.6	9.4	10.7	10.2	10.0	10.0	10.0
Total open-cuts	000t	0	0	0	0	100	100	100
	g/t	0	0	0	0	3.5	3.5	3.5
Total Milled	000t	21	65	85	150	326	415	460
	g/t	9.6	9.4	10.7	10.2	8.0	8.4	8.6
Recovery 95%	%	88.8%	94.2%	94.9%	94.6%	95.0%	95.0%	95.0%
Total Gold Produced	000oz	6	19	28	46	80	107	121
Total Gold Sold	000oz	3	20	27	48	80	107	121
Revenues								
Total Revenue	A\$m	2.9	21.6	36.1	57.7	97.1	130.2	146.9
Costs (based on mining ~\$120/t, mill \$60, Transport \$9, admin \$2/t, ocut: SR 10:1 falling to 6:1 (Sth), ~\$3/t mined)								
SLR's Costs :								
Site Operating Cost	A\$/oz			552		589	575	567
Waste Component	A\$/oz			131		113	118	119
Royalties	A\$/oz			40		39	39	39
SLR's Total Cash(flow) Cost	A\$/oz			724		741	732	725
Direct Mining & processing	A\$m	6.1	15.6	17.2	32.7	51.4	67.8	75.6
Royalties	A\$m	0.1	0.8	1.3	2.1	3.1	4.2	4.7
Total Cash Cost (on produce	A\$/oz	1067	878	662	749	684	673	666
(on produced)	US\$/oz	1007	678	468	552	534	525	519
Total Cash Cost (on sold)	A\$/oz	1975	806	672	729	684	673	666
(on sold)	US\$/oz	1864	623	475	537	534	525	519
Corp & other cost	A\$m	-1.8	-1.6	-1.0	-2.6	-2.0	-2.0	-2.0
EBITDA	A\$m	-5.0	3.7	16.6	20.3	40.5	56.2	64.6
D & A	A\$m	0.0	-3.7	-5.6	-9.3	-14.3	-16.0	-18.1
Total Costs (on produced)	A\$/oz	1067	1078	862	949	864	823	816
	US\$/oz	1007	833	610	699	674	642	636
Interest Paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPBT	A\$m	-3.7	-0.1	11.1	11.0	27.0	41.2	47.5
Tax Paid	A\$m	0.0	0.0	0.0	0.0	7.7	12.4	14.3
NPAT	A\$m	-3.7	-0.1	11.1	11.0	19.3	28.8	33.3
EPS	c	-2.4	-0.1	7.2	7.2	12.6	18.8	18.5
Simple Cashflow	A\$m	-3.7	3.6	16.7	20.3	33.6	44.9	51.4
CFPS	c	-2.4	2.4	10.9	13.2	21.9	29.2	28.6
DPS	c	0.0	0.0	0.0	0.0	5.0	10.0	10.0
No Shares	M	153.4	153.4	153.4	153.4	153.4	153.4	179.7
Cashflow		2008a	DH08a	JH09f	2009f	2010f	2011f	2012f
Sales Revenue	A\$m	2.9	21.6	36.1	57.7	97.1	130.2	146.9
+ Equity Raised	A\$m	28.2	0.0	0.0	0.0	0.0	0.0	7.9
+ Borrowings	A\$m	0.8	0.0	0.0	0.0	0.0	0.0	0.0
+ Interest Received	A\$m	0.5	0.1	0.2	0.2	0.8	1.0	1.0
Total Receipts	A\$m	31.9	21.7	36.2	57.9	97.9	131.2	155.8
- Operating Costs	A\$m	-6.1	-15.6	-17.2	-32.7	-51.4	-67.8	-75.6
- Corporate Costs	A\$m	-1.9	-0.9	-1.0	-1.9	-2.0	-2.0	-2.0
- Royalties	A\$m	-0.1	-0.8	-1.3	-2.1	-3.1	-4.2	-4.7
- Other	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Interest Paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Tax Paid	A\$m	0.0	0.0	0.0	0.0	-7.7	-12.4	-14.3
- Divs Paid	A\$m	0.0	0.0	0.0	0.0	-7.7	-15.3	-18.0
- Explorn	A\$m	-13.6	-3.0	-2.0	-5.0	-4.0	-4.0	-4.0
- Capex	A\$m	-9.5	-0.1	-0.5	-0.6	-9.0	-2.0	-1.0
- Sustaining Capex	A\$m	0.0	0.0	-1.9	-1.9	-4.5	-6.3	-7.2
- Loans Repaid	A\$m	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0
= Expenditures	A\$m	-31.2	-20.5	-23.8	-44.3	-89.4	-114.0	-126.8
Total Expenditures	A\$m	-31.2	-19.5	-23.8	-43.3	-89.4	-114.0	-126.8
Net Cash Flow	A\$m	0.7	2.2	12.4	14.5	8.5	17.2	29.1
Effective Cashflow	A\$m	6.7	2.2	12.4	14.5	8.5	17.2	29.1
Add divs / other murchison	A\$m			0.0	5.0	7.7	15.3	18.0
Underlying Cashflow	A\$m			12.4	19.5	16.1	32.6	47.1
Net cash for NPV	A\$m			12.4	16.9	16.1	32.6	47.1
NPV	Yrs	5.00%	6	A\$m	A\$ps			
				166	1.08			

Table 5. Sensitivity Analysis of Silver Lake Resources

SLR has a very high sensitivity to its mill grades which could easily be up to 30% higher

The NPV rises by ~25c per 10% increase in grades

Sensitivity Analysis		Year	NPV	2009e	2010e	2011e	2009e	2010e	2011e
Gold Price (at A\$/US\$0.78)			A\$	A/tax Profit (A\$m)			Earnings per Share (Ac)		
US\$/oz	950	1.08		11.0	19.3	28.8	7.2	12.6	18.8
	1000	1.21		11.0	22.7	33.5	7.2	14.8	21.8
	900	0.95		11.0	15.8	24.2	7.2	10.3	15.8
Gold Grade (g/t)			A\$	A/tax Profit (A\$m)			Earnings per Share (Ac)		
Grades unchanged	0%	1.08		11.0	19.3	28.8	7.2	12.6	18.8
Grades + 10%	+10%	1.33		11.0	25.9	38.0	7.2	16.9	24.8
Grades + 20%	+20%	1.59		11.0	32.6	47.2	7.2	21.2	30.8
Grades + 30%	+30%	1.84		11.0	39.3	56.5	7.2	25.6	36.8
Operating Costs			A\$	A/tax Profit (A\$m)			Earnings per Share (Ac)		
	0%	1.08		11.0	19.3	28.8	7.2	12.6	18.8
	-10%	1.21		11.0	22.8	33.6	7.2	14.9	21.9
	+10%	0.95		11.0	15.6	24.1	7.2	10.2	15.7
Underground Production			A\$	A/tax Profit (A\$m)			Earnings per Share (Ac)		
	0%	1.08		11.0	19.3	28.8	7.2	12.6	18.8
	+10%	1.18		11.0	20.8	31.6	7.2	13.6	20.6
	+20%	1.28		11.0	22.3	34.4	7.2	14.5	22.5
Sensitivity Analysis		Year	NPV	2009e	2010e	2011e	2009e	2010e	2011e

Management

Board of Directors

Paul Chapman – Executive Chairman. Paul is a chartered accountant with over 20 years' resource industry experience in Australia and the US. Paul has worked in a number of commodity businesses including gold and nickel. Paul holds and has held other chairman, managing director and director roles.

Les Davis – Managing Director. Les has over 30 years' mining experience, 17 years' of which were hands on in mine development and narrow vein mining. For the past 13 years, Les has held senior mine management positions such as Mine Manager, Technical Services Manager, Concentrator Manager, Resident Manager and GM Expansion Projects, with WMC, Reliance Mining and Consolidated Minerals.

Chris Banasik – Director (Exploration and Geology) Chris is a geologist with over 20 years' experience including senior management positions up to Chief Geologist with WMC, Reliance Mining, Goldfields Mine Management and Consolidated Minerals.

Peter Johnston – Non-Executive Director. Peter is a mining engineer with over 30 years' experience who is currently CEO of Minara Resources, and holds and has held other directorship positions. Peter has had an extensive management career mostly with WMC and Minara.

Brian Kennedy – Non-Executive Director. Brian is a general engineer with over 25 years' experience in coal, iron ore, nickel, gold and fertilisers, and was Construction Manager for Munali Nickel in Zambia.

David Griffiths – Non-Executive Director. David has over 30 years' strategic communication experience in human resources and employee relations. David is currently Managing Director of Gryphon Management – a communications strategy and public relations company.

Peter Armstrong – Company Secretary and CFO. Peter has over 25 years' industry experience including senior commercial management roles with Normandy Mining, WMC and Newcrest. Peter has experience across a range of commodity businesses including gold, nickel, copper, coal and iron ore.

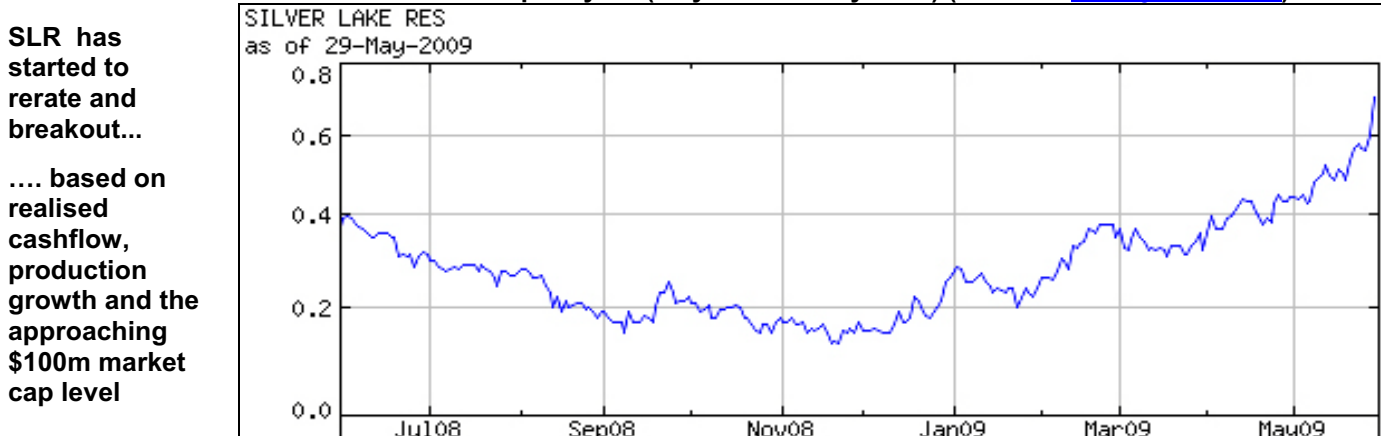
Senior Management and Technical Team

David Crockford – Resident Manager - Mt Monger Operations. David is a mining engineer with extensive experience in narrow vein mining methods and contract mining.

Graham Crew – Project Manager – Murchison Study. Graham is a mining engineer with extensive underground mining and project management experience in Australia and overseas, having held a number of senior operational and management positions with a number of different companies.

Adrian Hall – Mill Manager. Adrian is a metallurgist with extensive experience in R & D, and the commissioning and optimisation of milling operations and concentrators in gold, copper, nickel etc.

Chart of Silver Lake Resources over the past year (May 2008 to May 2009) (Source : www.yahoo.com)



Disclosure

Silver Lake Resources Limited commissioned Keith Goode (who is an Authorised Representative with Taylor Collison Ltd ACN 008 172 450, and is a consultant with Eagle Research Advisory Pty Ltd ACN 098 051 677) to compile this report, for which Eagle Research Advisory Pty Ltd has received a consultancy fee. At the date of this report Keith Goode and his associates held interests in shares issued by Silver Lake Resources Limited. At the date of this report, Taylor Collison Limited or their associates within the meaning of the Corporations Act, may hold interests in shares issued by Silver Lake Resources Limited.

Disclaimer

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