



Preamble to Silver Lake Resources Report (SLR) dated 29 May 2009

(by Keith Goode : 1 June 2009)



Herewith our latest report on **Silver Lake Resources (SLR)** rating it as a **BUY** at **70.5c** with an **NPV of A\$1.08**.

The sensitivities to the NPV (regarded as approximately equivalent to estimated share price value) are :

- Increase the grade through the mill by 10% (could be up to 30% higher) add 25c,
- Increase the gold price above US\$950/oz (at 78USc per A\$) by US\$50/oz, add 13c, **ie at the current US\$980/oz, the NPV is \$1.16.**
- Increase the mill throughput from underground ore (for our model) by 10%, add 10c.
- Reduce the operating costs by 10% (we think our cost [and capex] assumptions are overconservative), add 13c.

According to BMO (a major North American broker)'s analysis (shown in Andean's presentation at the last RIU), based on reduced development risk, the major golds were currently (April 09) trading on a 1.6 x NPV, with mediums on a 1.5 x NPV and juniors on a 1.1x NPV rating.

In our previous SLR report's preamble in May 2008, we wrote :

*"Every once in a while you come across a potential "double-your-money" stock, and with a PE ratio of less than 3 in 2010, SLR has all the hallmarks. Even on a straight market cap comparison to its peers, it should at least double from its current market cap of only A\$61m. **Could SLR be the next Avoca** - well, **YES**. It is only just over 3 years' ago since our first report on Avoca at 26c on 27 April 2005 (when AVO was not then a household name [and its diluted market cap was only \$33m]) and AVO had already intersected 7m @ 72g/t, 1m @ 162g/t & 60m @ 7.6g/t at Trident – but AVO wasn't on the market's radar screens...."*

In just over the past year since that last SLR report dated 19 May 2008, **SLR has more than doubled** from 34c to close on Friday 29 May 2009 up through the ~A\$100m market cap vicinity at **70.5c**. Its rise has been even meteoric given that at about the bottom of the resource market in late Nov/early Dec 2008 it was trading at lows of ~13c to 15c. But then, it is currently making ~\$2m per month in free cashflow at current gold prices of ~A\$1200/oz or so, and **in the March Qtr 2009, its operating cashflow was ~A\$8.8m on production of only ~13,000oz.**

Our previous NPV was 73c with a target of >\$1, and our **latest NPV is \$1.08 with a target of >\$1 – but what could SLR actually be worth?**

Silver Lake (SLR) could be able to have a market cap of ~A\$300m to A\$450m, ie trading at ~\$2 to \$3 per share (possibly within 2 years) – and that's just on its Mount Monger Project with Daisy Milano as the “jewel in the crown”.

So how does SLR get to \$2 to \$3 per share, well :

- **Comparing SLR's operating cash flow** (in Table 3 on page 10) to Avoca's (\$448m market cap [adjusted \$572m]) and Dominion's (\$505m market cap [adjusted \$458m]), SLR's operating cashflow was \$8.8m on 13,000oz in MQ09, AVO's was \$20.8m in DH08 with 29,000oz in MQ09, and DOM's was \$28.6m in DH08 with 26,000oz in MQ09. Both AVO and DOM are expected to have a life of at least 5 years.
- **Currently Daisy Milano (DM) is providing 50,000ozpa** based on 50 to 55m vertical mining per year (the orebody is about 1,000oz per vertical metre for the ~400m strike length), filling the current mill with 180,000tpa of hard ore averaging 10g/t. The DM orebody is a dream with high grade spots such as the 6kg/t on 23 Level, and the 20oz/t on 8 Level (shown in the attached figure – *on page 1 of this preamble*). Life should be >5yrs.
- **SLR has already bought a second mill** (needs refurbishing) which can be incorporated in tandem to the existing one, utilising another 180,000tpa of hard rock, or used as a regrind taking the combined capacity beyond 400,000tpa hard.
- **So SLR just needs another lode or lodes of similar grade covering ~400m on strike** (if the lodes are of similar width), that can be vertically mined ~50m per year, for a total of ~100,000ozpa or so.
 - **SLR has already found probably another 30% resources of 150m or so on strike on Daisy Milano** that was missed from the 8 Level down to the 15 Level or about 150m vertical (*what happened was that SLR was developing a drilling position from Daisy to Rosemary on the 8 Level and unexpectedly found the Daisy lode beyond its perceived hangingwall position as shown in Figure 6b on page 4*).
 - **Then drilling to Rosemary, SLR unexpectedly found two new lodes** at ~40m and ~90m into the hangingwall (no one has been able to drill between Daisy and Rosemary before due to historic tenement boundaries) as announced on 29 May 2009.
 - **Assays are pending, but the first lode intersection appears to have the “right colour” spot** or spots in the drill core (as shown in the announcement and in Figure 8a on page 5). The **second lode** (~90m away) **has historically been intersected before**, also associated with a porphyry on the 1075 about 70m lower than 8 Level (which is ~250m below surface) and ~100m away on strike.
 - **There could be enough between these new lodes and the Rosemary to fill the new mill and take production to 100,000ozpa.**
 - **But there's also Christmas Flats :**
 - which has a designed Stage 1 pit resource on it of ~66,000t at 4.5g/t with a 15 to 1 Strip ratio (SR). And the current plan is to probably get the rest of the ~400,000t at 3.5g/t resource from underground (grades should be higher and tonnes lower) and drive a decline towards Dinnie Reggio (see Figure 9b).
 - However, if you walk along the floor of the trial trench along **the Haoma workings it looks like a stockwork** (see Figures 5a and 10b), which could mean a resource of anything up to 1mt at 1-2g/t – we have used 100,000t at 3.5g/t and a 10 to 1 SR. *It should become clearer when the open-cut starts in July 2009.*
 - **In fact looking at all the workings on surface extending over ~5km long (broadly north-south), SLR appears to have secured an almost untouched gold field** because most shafts stopped at ~50m (probably due to the water table, but the area didn't develop - probably because of its location and lack of water).
 - **Haoma was the second deepest mine** at Mount Monger and was serious as shown by the winder inset in Figure 10b – and could have a significant lode; or the three lode areas of Maranoa, Austin and Haoma may have enough to fill the second mill...
 - **Alternatively (or in addition) there is still perhaps Dinnie Reggio** and that new drilling on possibly 3 parallel lodes at Leslie.
 - **Plus of course the underground areas to the south** under Magic etc, and maybe even some to **the west** in the undrilled ultramafic.
- **It can be seen** (from the above) **that there are potentially a number of ways to fill the second mill and produce an additional 50,000ozpa** for total production ~100,000ozpa for probably > 5 years.

- It is also **easy to see how AngloGold estimated a potential resource of 2moz to 4.5moz** for the field in 2003 (this was before the Daisy-Milano decline extension, the levels extending beyond the dyke or the Haoma trench) - but fortunately for SLR, Anglo left it because it failed to meet their then 5moz minimum requirement.
- **The potential ingredients certainly appear to be there for SLR to have production >100,000ozpa for >5years at relatively high operating cashflow and hence have a market cap (comparable to some of its peers) of \$300m to \$450m or \$2 to \$3 per share.**

As for dividends, SLR may pay a final nominal 1c or 2c in August 2009, depending on capex requirements, or it could have a 50% payout ratio from 2010, which could mean 5c (fully franked) in 2010 and 10c per year (fully franked) from 2011. **5c fully franked on 70c is a 7% fully franked dividend yield, 10c is a 14% fully franked dividend yield** - if SLR does that, it should not stay at 70c much longer, simply based on dividend yield.

And this is without even considering SLR's Murchison Project which we have covered in some detail in the report having spent almost two days on-site there in early May 2009.

It should also be noted that SLR's reported total cash costs (of ~A\$650/oz to A\$750/oz) are more like **cashflow costs** for underground and include some capital development as it tells SLR just how viable they are. We have also included the conventional total cash costs (<A\$700/oz) in our modelling too.

So SLR is rated as a BUY with significant upside potential.....(buy and keep them).

(Note : Figure and page references refer to ERA's report on SLR dated 29 May 2009)

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.**

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.

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