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Talking Point

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Silver Lake Resources (SLR) – A clear path to ~200koz pa production

Buy. PT $2.00 (Price: $1.06; Diluted Market Cap $215m).

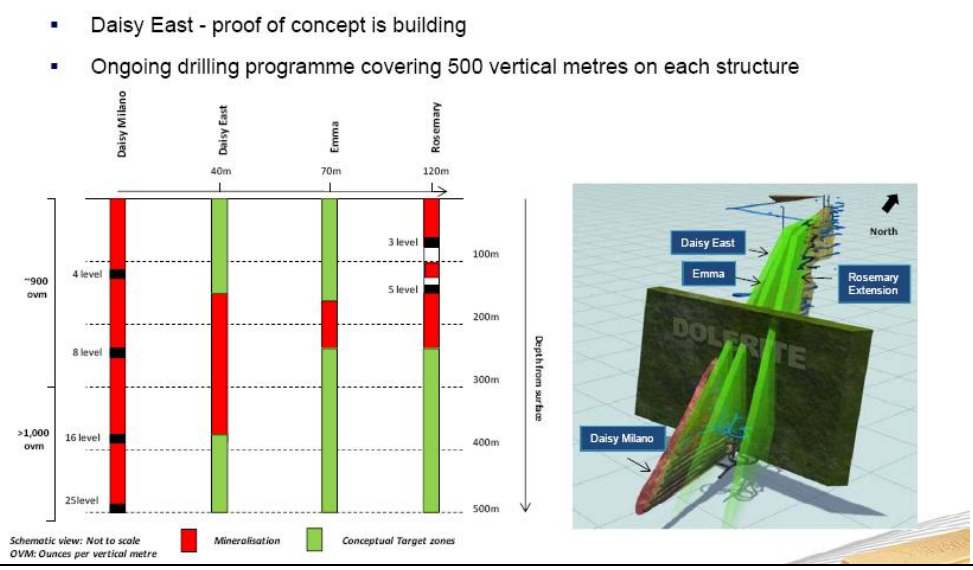
One of our key picks from the RIU Explorers Conference in Perth last week was Silver Lake Resources (SLR). With a continually proven exploration concept and no shortage of low risk, near mine opportunities to increase resources and production, we view SLR as significantly undervalued.

SLR's FY09 NPAT was $10.7m from $58m in revenue and sales of 48.3k ounces and is on track to produce 60-70koz in FY10. **Production in January 2010 was 8.4k ounces or an annualised rate of ~100koz. SLR is targeting sustained production of ~200kozpa by 2014** and, to facilitate this, is aiming to extend current Resources of ~1.5Moz to between 2Moz and 5Moz from identified exploration areas. **SLR has two main project areas in Western Australia:**

1. **The Mount Monger project**, located 50km south-east of Kalgoorlie, is producing ~50kozpa of gold from selective underground mining of the Daisy Milano mine which **currently contains Resources of 257,000 @ 40.5g/t Au**. The 600ktpa mill is being topped up with ore from the Christmas Flat open pit mine which contains 51koz @ 3.5g/t Au and is adding ~10kozpa to Mt Monger production.

   SLR developed a theory that the geology is dominated by near vertical north-south aligned lenses that repeat in parallel sequences quite consistently. Exploration confirmed this theory with the discovery of Daisy Milano East in July 2009, only 40m east of Daisy Milano. The ore drive out to Daisy East is producing 13g/t Au and drilling to date has defined the structure over 200 vertical metres. Exploration has confirmed the main lense, Daisy Milano, repeats at least three times with the further discovery of Emma and Rosemary.

Daisy Milano exploration concept



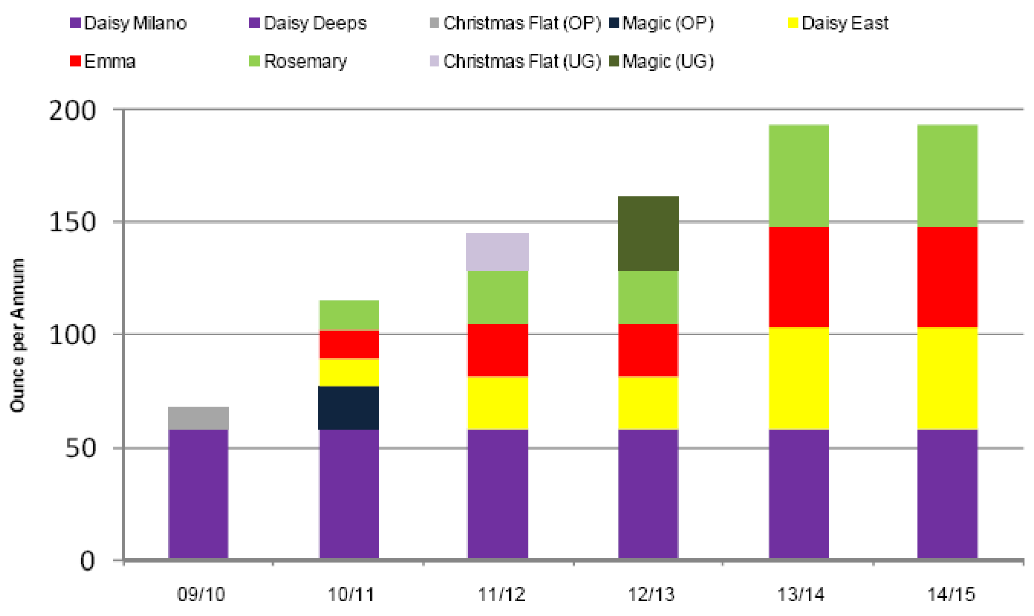
Source: Company

Historical production at Daisy Milano is ~250koz and ~257koz remain in Resources. If this Resource estimate is repeated as exploration to date suggests it does, it is conceivable that Resources at the project increase four or five fold to several million ounces. The ore lense repeating theory is becoming a reality for Daisy Milano, giving us increased confidence that SLR's Resource Targets at Mt Monger, of 2 to 4.5Moz over the next two years, is acheivable.

While the orebodies are narrow with varying widths, making it difficult to get ounces into high confident level Resources, they have proven to be continuous and high grade. Importantly, every lense not only has the potential to increase Resources and realistic Targets, but increases the ounces per vertical metre of depth. This reduces capital development costs per ounce and overall costs per ounce.

2. **The Murchison project**, located ~600km north-east of Perth is also proving up to be a very promising production base for the company. **Current Resources at the Murchison project are 7.8Mt @ 3.8g/t Au for 965koz.** These Resources are contained over three deposits, all located within ~40km from each other where significant milling infrastructure already exists. The company is currently conducting a Definitive Feasibility Study based on 150,000ozpa production from the Comet and Northern pits. SLR's Exploration Leases in the area are surrounded by multi million ounce gold deposits (ie Big Bell – 4Moz) and significant paleoachannels within the Greenstones have been indentified for follow up exploration.

Targeted Production Growth from Mt Monger Projects



Source: Company

Given the nature of the ore bodies at Mt Monger, long mine lives will always be difficult and potentially expensive to prove up. However, our discussions with management have given us increased comfort of the exploration concepts successfully employed to date.

In our view, SLR's Target Resources of up to 5Moz over the next two years and production target of ~200kozpa appears realistic given the company's proven exploration concept at Daisy Milano and quality of tenure at the Murchison project.

SLR had $22.7m in net cash as at 31 December 2009.

Recommendation. BUY SLR, (Price: $1.06; PT $2.00/share; Diluted Mkt Cap. $215m)

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Foster Stockbroking Pty Limited
A.B.N. 15 088 747 148
Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Participant of ASX Group