Impressive performance garners attention

Western Australian gold miner Silver Lake Resources Ltd was labeled a "speculative buy" by Hartleys Ltd during April following what the broker believed was an excellent March quarter.

Analyst Andrew Muir said most key metrics of the company's performance were improving, with the production of yellow metal at its Mt Monger project just south east of Kalgoorlie-Boulder in Western Australia up 49% (to 15,537ounces) and cash operating costs down significantly to $490/oz.

In addition, Muir noted, the miner continued to have good exploration success at both Mt Monger and in the Murchison (also in WA), which was pointing the way to a substantial increase in resources by July this year.

Ore mined by the company was up 55% to 140,000 tonnes due to increased production from the Christmas Flat open pit, with both Daisy Milano and Daisy East underground down slightly.

The overall mined gold grade was steady at 5.2 grams/t, though the Daisy East mined grade (development and stoping) increased 358% to 34.8 g/t.

Muir said the first stope from Daisy East produced 1,584 oz at an average grade of 41 g/t.

"However, we do not expect this stope grade to be representative going forward, and expect Daisy East to average 10-12 g/t," he told investors.

The company looks set to clock on for another successful quarter.

"Following the completion of the Lakewood plant upgrade, throughput increased 14% to 674,000.

"We expect quarterly throughput of around 120,000t going forward.

"The milled grade for the quarter was 32% higher at 7.5 g/t due to the processing of a larger proportion of the higher grade underground ore."

Total cash costs fell to $692/oz (from $990/oz), giving a margin of $539/oz.

A 54% increase in revenue to $18.9 million helped the company to achieve a positive operating cashflow of $6.5 million compared to the $3 million loss in the previous quarter.

Meanwhile, exploration success saw Daisy Deeps extended at depth.

Muir said there would be a resource upgrade in July 2010, which should see a significant increase in the resource for the Daisy Milano system and include an initial resource for Daisy East.

"We expect this overall Daisy Milano resource to exceed 500,000 oz," he noted.

"We also expect that ongoing exploration success across a number of Murchison projects should lead to an increase in the resource base and have positive implications for the development of a mine in the area."

Hartleys updated its valuation of Silver Lake to have both a base case as well as an upside case to capture a production scenario for the Murchison.

"Our base case valuation has increased slightly to $1.50/share due to cost improvements at Daisy Milano," Muir explained.

"Our upside case valuation is $2.03/share and assumes Murchison production from open pits at about 100,000 oz per annum from 2012 with costs of around $500/oz over some 5 years."