

Watching Brief

Silver Lake Resources Limited (SLR)

Company update

- Silver Lake Resources has a market capitalisation of around A\$250m, has no debt and cash of \$28m.
The company has a resource base of 1.5moz with a major (+0.5moz) update expected in July.
- In the recent March quarter, its production was 23,150oz at a cash cost of \$490/oz at its Mount Monger operation (open cut and underground).
- During the fiscal year to date, it has made three new discoveries at Daisy East, Mount Monger and Genesis in the Murchison. Late last year it raised \$18m to be spent entirely on exploration over 18 months; time wise it is about 25 percent through the program with impressive results. To date, its discovery cost is less than A\$10/oz.
- SLR has provided conceptual production targets of:
100,000oz in 2010/11 to
250,000oz in 2012/13
Our forecast for gold production for this fiscal year is 123,686oz.
- The present exploration program is significant; with \$18m being spent on its granted mining leases. Silver Lake's 'Magic' deposit at Mount Monger is located 3km south of the Daisy Milano mine. The resource at present is 'incidental' at 600,000 tonnes with a grading of 2.9gpt. However, recent drilling down dip has produced intersections of 11m grading 59gpt, 10m grading 19gpt and 3m grading 23gpt. What's exciting is not only the grade, but its different style of mineralisation. Management had earmarked Magic to be mined in the second half of 2010; this has been delayed until a drill program is completed.

Mount Monger (adjacent to Kalgoorlie)

- SLR has identified possible gold potential of 2 to 4.5moz; there are 9 independent zone less than 500 metres from the surface which stretches over a strike length of 10km.
- The present operation processes both open cut (oxide) and underground (hard rock) ore – presently the mix is 30:70 percent. Plant capacity is set at 600,000tpa which is expected to yield gold production of 130,000oz per annum. The next stage is to lift capacity to 200,000oz per annum without additional processing capacity.

Murchison (600km north of Perth)

- The resource base is 7.8mt grading 3.8gpt for 965,000oz contained within a tenement holding which stretches over 65km. The Moyagee project is based on the Lena resource of 820,000t grading 8.5gpt (220,000oz). The other major target areas are Tuckabianna and Comet. Presently, SLR is conducting a definitive feasibility study; there is some milling infrastructure at Tuckabianna. The latter was a previous mining centre which hosted seven open pit mines.

Friday, 28 May 2010

In Brief

Recommendations

Short Term:	Accumulate
Long Term:	Buy
Risk:	High
Price:	\$1.39
Price Target:	\$1.81 - \$2.09

Snapshot

Monthly Turnover	\$22.8m
Market Cap	\$248m
Shares Issued	178.8m
52 Week high	\$1.44
52 Week Low	\$0.54
Sector	Materials

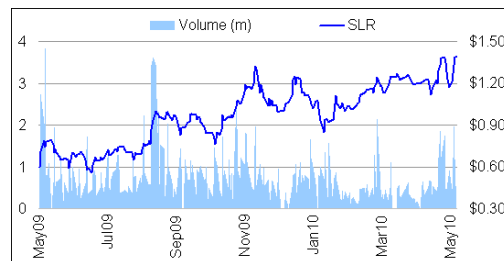
Business Description

Silver Lake Resources Limited (SLR) is a gold producing and exploration company with resources in the prospective regions including Mount Monger and the Murchison goldfields of Western Australia. As at September 2008, the Company's overall resource base was 8.86Mt @ 4.8 g/t Au for 1.4Moz Au across its portfolio of assets.

Investment Fundamentals

Year end 30 June	FY09	FY10	FY11
Reported NPAT (\$m)	10.3	12.9	31.5
Sustainable NPAT (\$m)	10.3	12.9	31.5
EPS (¢)	5.8	6.4	15.5
PE Ratio (x)	24.2	21.9	8.9
Consensus (\$m)	n/a	n/a	n/a

12 month Price and Volume

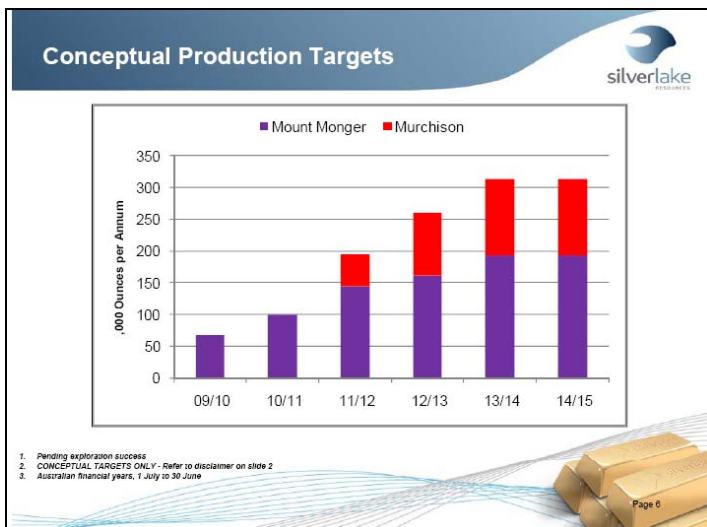
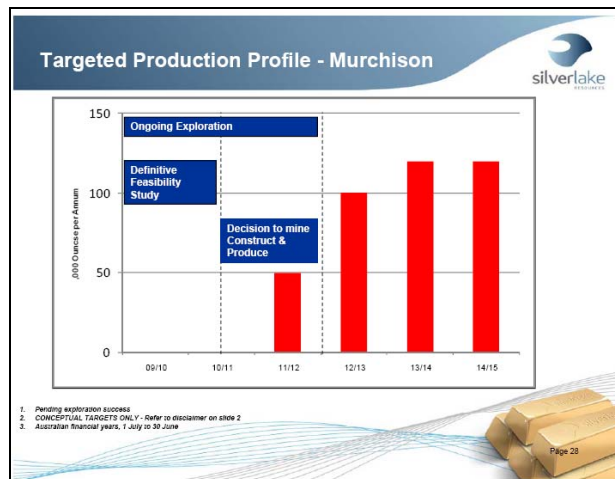


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Disclosure: The author owns no shares in SLR.

The result of the feasibility study should be ready by year end with a decision to proceed, leading to production in fiscal year 2011/12 ramping to 100,000oz in 2012/13 with a 20 percent increase in production the next year.

Prestripping of the initial open pit would cost around \$20m so combined with the mill upgrade, there is a potential CAPEX of \$50m. SLR anticipates that by the end of calendar year 2010, it will have sufficient funds on hand to push the go button.



Murchison - Overview

- Located 600 km north of Perth
- Tuckabianna, Comet & Moyagee
- Historic production
 - 500,000 oz (A\$400 oz gold price environment)
- Large high grade resource
 - 7.8 million tonnes at 3.80 g/t gold for 965,400 oz
 - 65 km strike, under drilled >100 m
- Surrounded by multi million ounce gold deposits
- Moyagee is a world class exploration project:
 - 35 km long Lena shear zone
 - Lena: 820,200 tonnes at 8.5 g/t Au = 224,200 oz
- 3Moz gold potential!

1. Refer to slide 2 - Exploration Targets

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Silverlake Resources							
Share Price	<i>slr</i>	\$ 1.39	\$ 1.39	\$ 1.39	\$ 1.39	\$ 1.39	\$ 1.39
Year Ending .	30-Jun	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Market Capitalisation	\$m		249.64	282.17	282.17	282.17	282.17
Valuation	\$m			367.1	367.0	410.4	424.1
Valuation per share				\$ 1.81	\$ 1.81	\$ 2.02	\$ 2.09
Issued Ordinary Shares	m	120	154	179	179	179	179
Options	"	26	26	24	24	24	24
Fully diluted		146	180	203	203	203	203
ASSUMPTIONS							
Spot Gold	\$US/oz	773	880	1,016	1,033	941	878
Spot Gold	A\$/oz	972	1,041	1,359	1,215	1,069	1,033
hedged Price	A\$/oz						
Realised Price	A\$/oz	972	1,200	1,359	1,215	1,069	1,033
Hedging	oz	-	-	-	-	-	-
Hedging as a prop. Of prod.		-	-	-	-	-	-
Silver	\$US/oz	13.2	12.9	16.1	16.6	15.5	14.8
Spot Exchange Rate	\$/A\$	0.795	0.845	0.747	0.850	0.880	0.850
Gold production	oz	6,414	48,422	53,728	123,686	189,379	225,508
Gold Reserves	m.oz						
Gold Resources		1.1	1.49	1.99			
Cash Cost	A\$/oz	413	682	556	581	578	572
Full Cost	A\$/oz	498	777	716	731	717	707
FINANCIALS							
Sales Revenue		6.2	58.1	73.0	150.2	202.4	232.9
- Operating Costs		5.0	35.7	38.4	71.9	109.5	129.0
EBITDA		1.2	22.4	34.6	78.3	92.9	104.0
- Depreciation/Amortisation		0.5	5.1	8.6	18.6	26.3	30.4
-Other		3.7	3.4	5.7	8.5	7.9	7.3
EBIT		-3.0	13.9	20.2	51.3	58.7	66.2
Pre Tax		-3.1	12.3	17.4	45.0	50.1	56.2
Tax		0.0	2.0	4.5	13.5	15.0	16.9
Net Profit (pre Abnormals)	\$m	(3.1)	10.3	12.9	31.5	35.1	39.4
-Half year result			0.0	1.5			
EPS	cents	(2.1)	5.8	6.4	15.5	17.3	19.4
EPS Growth	%	59%	-368%	10%	145%	11%	12%
P/E ratio	x	-65	24.2	21.9	8.9	8.0	7.2

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