



INITIATION | COMMENT

APRIL 5, 2011

**Silver Lake Resources Ltd. (ASX: SLR)**  
**Building a High-Grade West Australian Mid-Tier**

**Outperform**  
**Above Average Risk**

Price:	2.07	Price Target:	3.00
Shares O/S (MM):	178.9	Implied All-In Return:	45%
Dividend:	0.00	Market Cap (MM):	370
NAVPS:	2.71	Yield:	0.0%
BVPS:	0.45	P/NAVPS:	0.8x
ROE:	16.0%	P/BVPS:	4.6x
Float (MM):	178.9	Enterprise Val. (MM):	343
Debt to Cap:	0%	Avg. Daily Volume (MM):	0.61
Institutional Ownership:	43%		

Management holds ~25% fully diluted. Priced at close on the ASX on 5 April 2011

**Event**

Initiating coverage on West Australian gold producer Silver Lake Resources with an Outperform rating and A\$3.00 price target.

**Investment Opinion**

Silver Lake is an ASX-listed, unhedged gold producer through its ~70kozpa Mount Monger mine in West Australia. The company plans to grow production to 300kozpa by FY14E, by increasing Mount Monger to 200kozpa and building a second 100kozpa production centre at Murchison. Silver Lake is characterised by its high quality management team, the high-grade Daisy Milano and Daisy East mines, and its above average exploration potential.

**Experienced, high quality team:** We rate the predominantly ex-Western Mining team highly, and over the past three years it has established a solid track record of delivery. Importantly, the Silver Lake team holds a fully diluted stake of ~25%.

**High-grade mines:** At Mount Monger, the Daisy Milano and Daisy East underground mines are the jewels in the Silver Lake crown, with resources grading an impressive 23g/t and 46g/t, respectively. The emerging open-pitatable Magic deposit is also relatively high grade at 4.7g/t, compared to the West African golds, typically around 2g/t.

**Above-average exploration potential:** In our view, the best place to find gold is where it has been found before: The Kalgoorlie area has produced >60moz to date, and much of Silver Lake's ground has historically had high-grade near-surface mining but has limited drilling beyond depths of 100m. We rate Silver Lake's ground as some of the more prospective we have seen.

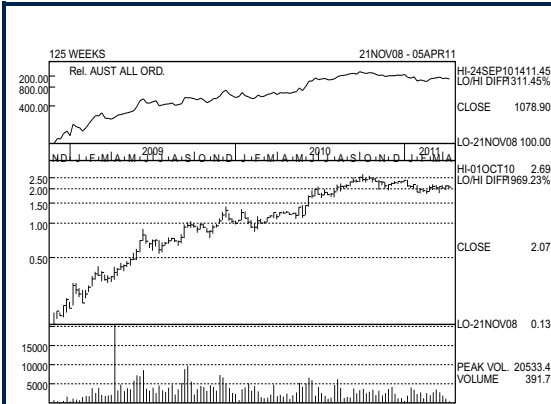
**Strong near-term potential catalysts:** In June 2011, we expect to see completion of the A\$5m vent shaft at Daisy Milano as well as completion of the Murchison DFS and project go-ahead. An updated resource is due in July, and December 2011 should see completion of the Stage 1 expansion at Mount Monger.

**Balance sheet and funding:** Silver Lake has A\$28m in cash and no debt, and on our forecasts can fund planned growth through modest debt of A\$25m in FY12E.

**Valuation:** Our A\$3.00 price target is based on 10.0x FY11E and FY12E CFM and 1.0x NAV, a small discount to comparable peers while key project elements are being de-risked.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 29.



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FY Jun	2010A	2011E	2012E
CFPS - FD	0.11	0.20	0.43
Payout Ratio - FD	0%	0%	0%
P/CFPS	18.8x	10.4x	4.8x
EPS (Op) - FD	0.07	0.14	0.33
P/E	29.6x	14.8x	6.3x
Annual Div.	0.00	0.00	0.00
Div. Yield	0.0	0.0	0.0
Prod.	60	72	127

All values in AUD unless otherwise noted.

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## Investment Thesis - Outperform, A\$3.00 target

### Investment Highlights

- **Experienced team & proven track record:** Silver Lake has a high quality and experienced management team, most of which are former employees of Western Mining Corp. Since inception, the Silver Lake team has added considerable shareholder value through a disciplined approach to capital expenditure – on several occasions the company has illustrated an ability to source and acquire equipment at a substantial discount through its contacts in the industry. Importantly, the management team also has material ‘skin in the game’ holding a fully diluted stake of ~25%.
- **Strong growth profile:** Silver Lake has a stated objective to increase group production from the current ~70kozpa to 300kozpa by FY14E, by increasing Mount Monger to 200kozpa and adding a second 100kozpa production centre at Murchison. We believe this target is achievable given the company’s existing gold resources and management’s track record of delivery. The company also plans to grow its resource base from 3 to 5moz by June 2012, and has an exploration budget of A\$18m pa.
- **Above average exploration upside,** focused around three key areas set out below. Group discovery cost to date are <A\$10/oz.
  - 1) The very high-grade **Daisy Milano** and **Daisy East** underground deposits, where measured and indicated resources are 370koz at **23g/t** and 120koz at **46g/t**, respectively. Other promising nearby deposits include Rosemary and Haoma.
  - 2) The **Magic** open pitable prospect which has resources of 276koz at 4.7g/t and remains open to the south. Promising results to date include 11m at **59g/t**.
  - 3) **Wombola**, where the company has ~8 km of largely untested dolerite, a highly prospective geological setting, and similar geology to the nearby St Ives mine (>5moz, Gold Fields)

### Upcoming Catalysts

We see a number of positive potential catalysts for Silver Lake in the short to medium term:

- **June 2011 – Completion of vent shaft at Daisy:** This A\$5m project is an important milestone, as it will open up a series of high grade mining fronts, therein increasing the company’s capacity to deliver high grade ore to the mill.
- **June 2011 – Murchison DFS & project go ahead:** Murchison is expected to become Silver Lake’s second production centre, and a DFS is due for completion in June 2011. The company is planning a ~100kozpa project from a 1.2mtpa plant processing ore at ~3g/t. A second hand plant has already been acquired for A\$4m, and we estimate pre-production capital of A\$60m – with A\$35m to relocate and commission the plant and a further A\$25m for mine development and stripping.
- **July 2011 – New resource statement:** Given much of the recent drilling has been infill drilling, we expect to see a significant portion of the inferred resource moved into the indicated category, but do not anticipate a large increase in resources at this time.
- **December 2011 – Mount Monger expansion:** Silver Lake is planning to incrementally increase the processing capacity of the Mount Monger plant over the next 18 months, from the current 400/600ktpa (hard/soft) to 1mtpa, at an estimated cost of A\$11-13m. The next expansion is due for completion by Dec 2011 increases capacity to 700ktpa regardless of rock type.
- **March Q 2012 – Maiden reserve at Mount Monger:** Due to the nature of the mineralisation and a focus on early cashflow, Silver Lake does not have a defined reserve, and for some investors this is a concern. The company plans to release a maiden reserve for Mount Monger in Q1 CY12E, which we believe will be well received by the market.
- **Continued exploration success:** Silver Lake has a number of promising exploration targets, including Magic, Rosemary, Haoma and the region of untested dolerite at Wombola. The Moyagee prospect at Murchison also has good potential. Continued exploration success could drive the share price higher.

### Key Risks

- **Reserve risk:** Silver Lake does not yet have a defined reserve at Mount Monger due to the nature of the mineralisation and the company’s focus on early cashflow. While the company has not produced a study to show its resources are economic, we are not too concerned, given the high grade of resources and the fact the mine has been operating profitably for several years. A maiden reserve is expected in the 1Q CY12E.
- **Single mine risk:** 100% of Silver Lake’s revenue is currently generated from the Mount Monger operation, which if interrupted for any reason (i.e., operational problems, labour disputes, natural disasters, etc.) is likely to have an immediate negative impact on the generation of cash flow, profitability and the company’s share price. We expect this risk to be mitigated when the company commissions its second production centre at Murchison, where we expect first gold in mid 2012.
- **Gold price & exchange rate risk:** Gold price volatility and currency fluctuations may affect the company’s profitability, financial position and share price. Silver Lakes does not hedge its gold price or currency exposure.

**Production & Financial Forecasts**

Exhibit 1 provides a summary of our production and financial forecasts for Silver Lake.

**Exhibit 1: Silver Lake Production & Financial Forecasts**

Silver Lake Resources							
<b>ASX: SLR</b>	Share Price: (A\$)	2.07		<b>Stock Rating:</b> Outperform	<b>All-in-return</b> 45%	<b>Price Target:</b> A\$3.00	
Issued Shares (m)	178.9	Market Cap: (A\$m)	370	<b>Risk Qualifier:</b> Above Average	<b>Ent.Value (A\$m)</b> 343	<b>NAV:</b> A\$2.71	
<b>Fiscal Year Ended June</b>							
<b>ASSUMPTIONS</b>		<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
Exchange Rate	A\$/US\$	0.75	0.88	0.97	0.96	0.92	0.89
Gold Price	US\$/oz	875	1,092	1,346	1,394	1,350	1,250
Realised Gold Price	A\$/oz	1,208	1,239	1,390	1,460	1,467	1,412
<b>RATIO ANALYSIS</b>		<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
Issued Shares - period end	m	154	179	179	179	179	179
Underlying Net profit	A\$m	11	12	24	58	108	130
EPS	Ac	6.9	6.9	13.6	32.7	60.4	72.4
P/E	x	29.8x	29.9x	15.3x	6.3x	3.4x	2.9x
CFPS	Ac	10.3	11.4	19.8	43.3	80.2	97.7
P/CF	x	20.0x	18.2x	10.4x	4.8x	2.6x	2.1x
Dividend per share	Ac	-	-	-	-	-	10.0
Dividend yield	%	-	-	-	-	-	4.8%
Payout Ratio	%	-	-	-	-	-	12%
Franking	%	-	-	-	-	-	-
Book value per share	Ac	29.7	45.0	55.8	88.5	148.9	212.5
Price/Book value	x	7.2x	4.7x	3.8x	2.4x	1.4x	1.0x
R.O.E.	%	23%	16%	24%	37%	41%	34%
R.O.A.	%	18%	12%	18%	27%	34%	30%
EBITDA	A\$m	19	24	45	103	189	227
EBITDA per share	Ac	10	13	25	58	106	127
<b>PROFIT &amp; LOSS</b>		<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
Revenue	A\$m	58	69	103	186	346	425
Operating costs	"	(37)	(43)	(55)	(80)	(152)	(194)
<b>Mine Operating Profit</b>	"	<b>21</b>	<b>26</b>	<b>48</b>	<b>106</b>	<b>193</b>	<b>231</b>
Exploration Expense	"	0	0	0	0	0	0
Corporate and Other	"	(2)	(2)	(3)	(3)	(4)	(4)
<b>EBITDA</b>	"	<b>19</b>	<b>24</b>	<b>45</b>	<b>103</b>	<b>189</b>	<b>227</b>
D&A	"	(5)	(8)	(11)	(19)	(35)	(45)
<b>EBIT</b>	A\$m	<b>14</b>	<b>16</b>	<b>34</b>	<b>84</b>	<b>154</b>	<b>182</b>
Net Interest Expense	"	0	1	1	(0)	1	3
Pre Tax Profit	"	14	17	35	84	154	185
Tax Expense	"	(3)	(5)	(10)	(25)	(46)	(56)
<b>Underlying Net Profit</b>	A\$m	<b>11</b>	<b>12</b>	<b>24</b>	<b>58</b>	<b>108</b>	<b>130</b>
Significant Items	"	0	0	0	0	0	0
<b>Reported Net Profit</b>	"	<b>11</b>	<b>12</b>	<b>24</b>	<b>58</b>	<b>108</b>	<b>130</b>
<b>CASH FLOWS</b>		<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Operating Cash Flow</b>	A\$m	<b>25</b>	<b>21</b>	<b>47</b>	<b>103</b>	<b>189</b>	<b>227</b>
Net Interest Expense	"	0	0	0	(0)	1	3
Tax Paid	"	0	0	0	(17)	(38)	(53)
<b>Retained Op. Cash Flow</b>	A\$m	<b>25</b>	<b>21</b>	<b>48</b>	<b>85</b>	<b>152</b>	<b>177</b>
Acquisitions	"	(2)	(8)	(4)	0	0	0
Exploration	"	(8)	(18)	(28)	(18)	(18)	(18)
Capital Expenditure	"	0	0	(11)	(79)	(20)	(12)
Other	"	(0)	(0)	(0)	0	0	0
<b>Funding Surplus/(Deficit)</b>	A\$m	<b>(10)</b>	<b>(25)</b>	<b>(43)</b>	<b>(97)</b>	<b>(38)</b>	<b>(30)</b>
Dividends Paid	"	0	0	0	0	0	(16)
Loan Repayments	"	(0)	(1)	(0)	(10)	(15)	0
Borrowings	"	0	1	0	25	0	0
Equity Issues	"	0	18	0	0	0	0
Other	"	0	0	0	0	0	0
<b>Total Funds Provided</b>	A\$m	<b>(0)</b>	<b>18</b>	<b>(0)</b>	<b>15</b>	<b>(15)</b>	<b>(16)</b>
<b>Net change in cash</b>	"	<b>15</b>	<b>13</b>	<b>5</b>	<b>3</b>	<b>99</b>	<b>131</b>
Cash at start of year	"	2	17	30	34	38	137
Exchange Rate Adjustments	"	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash at end of year</b>	A\$m	<b>17</b>	<b>30</b>	<b>34</b>	<b>38</b>	<b>137</b>	<b>268</b>
<b>BALANCE SHEET</b>		<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
Cash & equivalents	A\$m	17	30	34	38	137	268
Other current assets	"	3	10	12	12	12	12
PP&E & Other Mining Assets	"	10	13	20	80	64	31
Capitalised Exploration	"	29	42	68	86	104	122
Other Non Current Assets	"	2	2	2	2	2	2
<b>Total assets</b>	A\$m	<b>60</b>	<b>97</b>	<b>137</b>	<b>218</b>	<b>320</b>	<b>436</b>
Total liabilities	"	14	22	37	60	53	55
<b>Total Net Assets</b>	A\$m	<b>46</b>	<b>76</b>	<b>100</b>	<b>158</b>	<b>266</b>	<b>380</b>
Total Debt	"	1	1	1	16	1	1
Net Debt (Cash)	A\$m	(16)	(29)	(34)	(22)	(136)	(267)
Gearing (net debt:nd+ equity)	%	(53%)	(62%)	(51%)	(16%)	(104%)	(236%)
Net debt:Equity	%	(35%)	(38%)	(34%)	(14%)	(51%)	(70%)
<b>ATTRIBUTABLE MINE STATS</b>							
<b>Mount Monger</b>							
Ore Treated	kt	160	315	408	645	800	1,000
Head Grade	g/t	9.8	6.2	5.8	6.0	6.0	6.0
Recovery	%	95%	96%	95%	95%	95%	95%
Gold Production	koz	47	60	72	119	147	184
<b>Murchison</b>							
Ore Treated	kt	-	-	-	90	1,000	1,320
Head Grade	g/t	-	-	-	3.0	3.0	3.0
Recovery	%	-	-	-	92%	92%	92%
Gold Production	koz	-	-	-	8	89	117
<b>Group Gold Production</b>	koz	<b>47</b>	<b>60</b>	<b>72</b>	<b>127</b>	<b>236</b>	<b>301</b>
<b>Cash Costs (incl royalties)</b>							
Mount Monger	A\$/oz	626	648	742	621	616	614
Murchison	A\$/oz	-	-	-	758	696	695
<b>Group Cash Costs</b>	A\$/oz	<b>626</b>	<b>648</b>	<b>742</b>	<b>630</b>	<b>646</b>	<b>646</b>
Group Cash Costs	US\$/oz	466	571	719	599	593	571
<b>Reserves &amp; Resources</b>							
<b>(As at 31 Dec 2010)</b>							
		<b>P+P Reserves</b>			<b>M+I Resources</b>		<b>Inferred</b>
	Mt	g/t	koz	Mt	g/t	koz	koz
Mount Monger	-	-	-	2.0	10.3	663	663
Murchison	-	-	-	7.3	2.9	680	829
Rothsay	-	-	-	-	-	-	133
<b>Total</b>	-	-	-	-	-	<b>1,342</b>	<b>1,626</b>
Enterprise Value / oz Reserve	US\$/oz	n.m.		Rsc/Res			
Enterprise Value / oz Resource	US\$/oz	263		n.m.			
<b>EARNINGS SENSITIVITY</b>							
		<b>FY12E</b>	<b>FY13E</b>	<b>FY12E</b>	<b>FY13E</b>		
		A\$m		%			
Gold Price US\$/oz	+10%	12.7	23.9	22%	22%		
A\$/US\$ FX	-10%	14.1	26.5	24%	25%		
<b>PRODUCTION PROFILE</b>							
Annual Production (koz)				Cash costs (US\$/oz)			
<b>EBITDA GROWTH &amp; GOLD PRICE</b>							
A\$m				US\$/oz			
<b>SHARE VALUATION</b>							
		<b>Economic Interest</b>		<b>A\$m</b>	<b>A\$/Shr</b>		
Mount Monger		100%		274	1.53		
Murchison		100%		156	0.87		
Exploration				50	0.28		
Debt				(1)	(0.00)		
Cash & Bullion				28	0.16		
Group & Unallocated				(23)	(0.13)		
<b>Net Asset Value</b>				<b>484</b>	<b>2.71</b>	<b>P/NAV</b> 0.76	

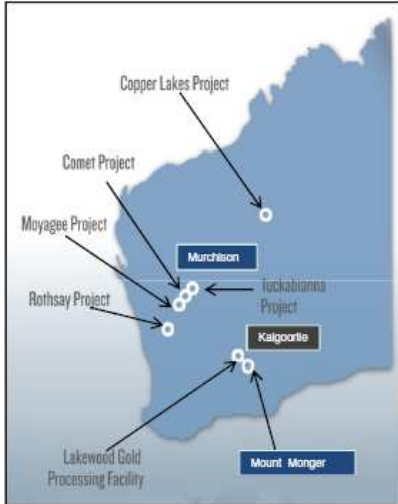
Source: Company reports, RBC Capital Markets estimates



## An Overview of Silver Lake

Silver Lake Resources Ltd. is an ASX-listed, Perth-based and unhedged gold producer through its ~70kozpa Mount Monger operation in Western Australia. The ~A\$400m company plans to grow production to 300kozpa by FY14E (see Exhibit 3), by expanding Mount Monger to 200kozpa and adding a second 100kozpa production centre at Murchison – a target which we believe is achievable given the gold resources defined to date, and management’s track record of delivery. Silver Lake is also targeting resource growth from the current 3moz to 5moz by June 2012. At end December 2010, the company had A\$28m in cash and bullion and no debt.

Exhibit 2: Silver Lake’s Projects in Western Australia

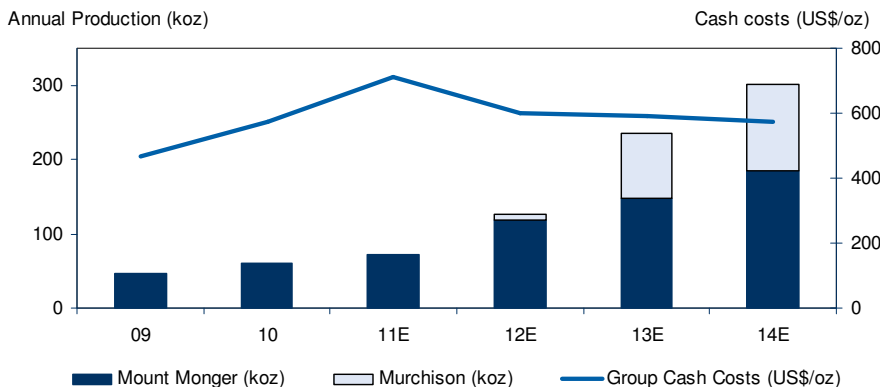


Source: Company reports

The company is characterised by its high quality management team, most of which is ex-Western Mining Corp., and since its IPO in late 2007, it has had a solid track record of meeting targets. On several occasions, the management team has also illustrated an ability to add value through a disciplined approach to capital projects – more specifically, using its experience and industry contacts to source equipment at a significant discount.

The jewel in the Silver Lake crown is undoubtedly the very high grade Daisy Milano and Daisy East underground mines, which form part of the Mount Monger project, and which have M+I resources of 370koz at **23g/t** and 120koz at **46g/t** respectively. The emerging open pitable Magic deposit also looks very promising, with a current resource of 276koz at 4.7g/t with significant additional exploration potential.

Exhibit 3: Growing Production to 300kozpa by FY14E



Source: Company reports, RBC Capital Markets estimates

Our forecast cash costs for Silver Lake are broadly in line with other Tier 3 producers, although we have been quite conservative in relation to the benefit of economies of scale as production ramps up at Mount Monger.

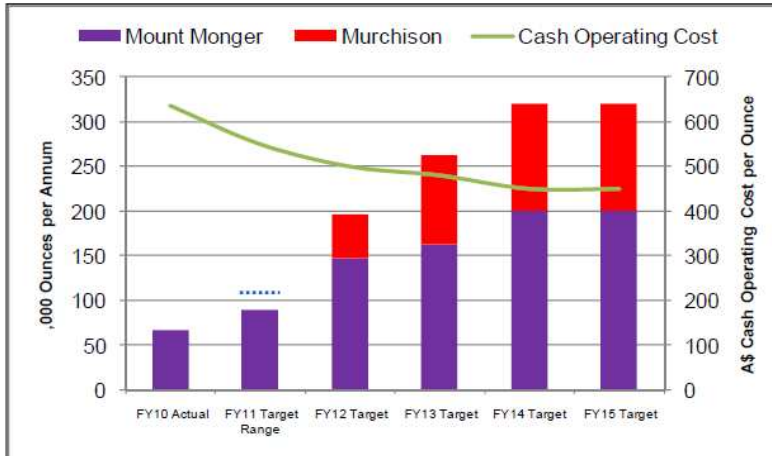
We define Tier 3 producers as those with production of <250kozpa. The average costs of our Tier 3 universe is about US\$600/oz (see Exhibit 12).

Both the existing Mount Monger operation and the planned Murchison project consist of a series of small open pit and underground mines feeding a central mill. In the case of Mount Monger, ore is sourced from two underground deposits, Daisy Milano and Daisy East, with the balance coming from small open pits. The company hopes to add a third underground source in due course.

While the Daisy Milano and Daisy East resources are both high grade (23g/t and 46g/t, respectively), history has shown that there can be significant variability in grades from quarter to quarter, as a result of grade variability in the ore body. As such, we take a somewhat conservative view in our forecasts, assuming a blended head grade of 6g/t at Mount Monger – a forecast which will likely be exceeded by a considerable margin from time-to-time, when mining hits a ‘sweet spot’ in these ore bodies.

On this basis, we forecast the steady state cash costs at Mount Monger will trend towards ~A\$600/oz, and potentially lower during periods of high grade mill feed. We also forecast steady state cash costs at Murchison of ~A\$650-700/oz, for group cash costs of US\$600-650/oz. We expect more clarity on Murchison will be provided in mid CY11 when the Definitive Feasibility Study (DFS) is due to be completed.

Exhibit 4: Silver Lake’s Conceptual Production Targets



There are some key differences between Exhibit 4 and Exhibit 3:

- 1) The company’s conceptual targets represent ounces in ore **mined**, while we forecast ounces of gold **produced**.
- 2) On cash costs, Exhibit 4 is largely based on the now somewhat dated PFS at Murchison. We anticipate group cash costs including royalties will be closer to US\$600-650/oz

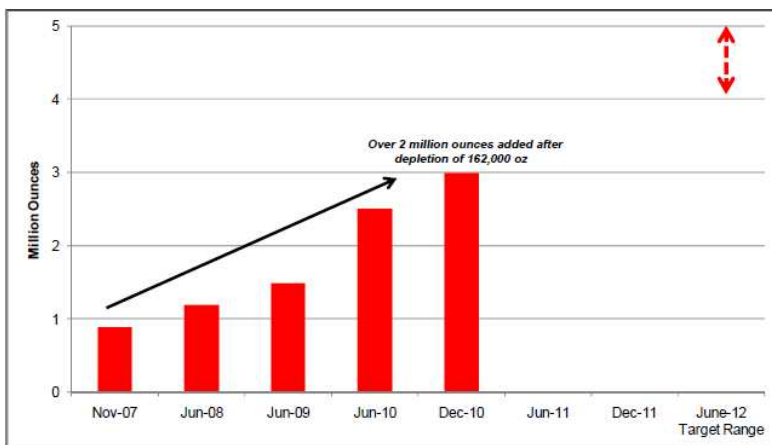
1. Pending exploration success
2. CONCEPTUAL TARGETS ONLY
3. Australian financial years, 1 July to 30 June
4. Contained gold in ore production
5. Cash operating cost includes royalties

Source: Company reports

Production guidance for Mount Monger for FY11E is 90-105koz of gold in ore **mined**, although having mined only 37koz in the 1H, the company needs a strong second half to meet the bottom end of guidance, and we forecast 85koz of gold in ore **mined**. We forecast FY11E gold production of 72koz.

Silver Lake has a current resource base of 3moz and is targeting growth to 5moz by June 2012, through it’s A\$18m pa exploration programme. While Mount Monger has been operating for several years, the project does **not** have a defined reserve, due to the nature of the ore body (high grade narrow veins) and the company’s decision to pursue early cashflow. We expect a reserve for Mount Monger to be released in Q1 CY12E. A reserve on Murchison will likely be released in conjunction with the DFS in mid CY11.

Exhibit 5: Silver Lake’s Resource Growth to date



Silver Lake has a good track record of incrementally adding ounces and is targeting a resource base of 5moz by June 2012.

The company’s discovery costs have been an impressive at <A\$10/oz to date.

Source: Company reports

For valuation purposes, we assume a mine life of 4.25 years at Mount Monger, assuming a ‘mining inventory’ of only 630koz, based on recovery times M+I resources – a conservative position given the majority of the 1.3moz resource grading 8.7g/t is likely to be economic. On a similar basis, we assume a mine life of six years at Murchison, based on a mining inventory of 625koz.

**Exhibit 6: Silver Lake’s Gold Resources, as at end December 2010**

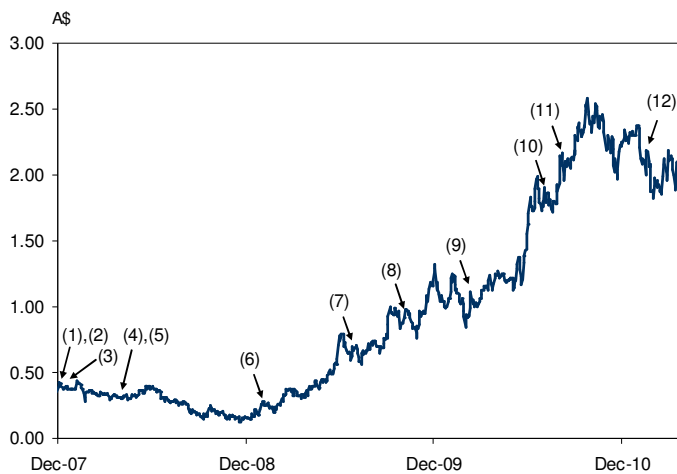
Resources	Measured			Indicated			Inferred			TOTAL		
	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz
Mount Monger	66	34.7	74	1,937	9.5	589	2,726	7.6	663	4,729	8.7	1,326
Murchison	36	0.6	1	7,302	2.9	678	8,175	3.2	830	15,513	3.0	1,509
Rothsay							591.20	7.0	133	591	7.0	133
<b>Total Silver Lake</b>	<b>102</b>	<b>22.7</b>	<b>74</b>	<b>9,239</b>	<b>4.3</b>	<b>1,268</b>	<b>11,492</b>	<b>4.4</b>	<b>1,626</b>	<b>20,833</b>	<b>4.4</b>	<b>2,968</b>

Note: A detailed breakdown of component deposits is provided in Exhibit 26 and Exhibit 35.  
Source: Company reports

**A Brief History**

Exhibit 7 provides Silver Lake’s share price since IPO, accompanied by key company releases and the timing of each. The company has a good history of providing a steady stream of news flow, particularly on exploration results, although these releases have been excluded from the list below. A more detailed history of each project is provided in the section on each asset.

**Exhibit 7: Silver Lake’s history & share price since IPO**



- (1) Nov07: SLR IPO on ASX, raising A\$30m at A30c
- (2) Nov07: Acquired 300ktpa Lakewood process plant for A\$2.4m
- (3) Dec07: Mining commenced at Daisy Milano
- (4) Apr08: A\$5.6m refurbishment of Lakewood plant completed
- (5) Apr08: First gold from Lakewood process plant
- (6) Jan09: Group gold resources grow to 1.5Moz
- (7) Jul09: New discoveries: Daisy East, Emma, Rosemary extension
- (8) Oct09: Raised A\$18.3m at A79c to accelerate exploration
- (9) Feb10: A\$4.1m upgrade of Lakewood plant to 600ktpa completed
- (10) Jul10: 70% increase in group gold resource to 2.5Moz
- (11) Aug10: Acquired 2.5Mtpa milling plant for A\$3m
- (12) Jan11: 17% increase in group gold resources to 3.0Moz

Source: IRESS, RBC Capital Markets

## Valuation and Share Price Target

In this section, we review the underlying assumptions of our valuation and share price target, as well as Silver Lake's relative trading metrics compared to its peers.

### Valuation Assumptions

We value Silver Lake in line with RBC's global approach to valuation of gold equities. The key assumptions used to derive our NAV are summarised in Exhibit 8:

#### Exhibit 8: Base Case and Upside Case Assumptions

##### Mount Monger

Annual Production	70koz -> 200koz	Growing from 70 to 200kozpa
Throughput	400ktpa -> 1mtpa	Current capacity 400ktpa hard ore / 600ktpa soft ore
Average Head Grade	6.0g/t	From 2-3 underground sources and balance from open pits
Recovery	95%	
Cash Costs incl royalties	US\$700-600/oz	Potentially lower depending on benefit of economies of scale
Mine life	4.25 years	M+I Resources x recovery (630koz)
Capex	A\$11-13m	Expanding mill to 1mtpa
Sustaining Capex	A\$12m pa	
<b>Valuation</b>	<b>A\$274m</b>	

##### Murchison

BFS complete	End June 2011	
First Gold	June Q 2012	Assumes 9 months to relocate and refurbish mill
Annual Production	~100-120koz	
Throughput	1.2mtpa	
Average Head Grade	3.0g/t	From a series of small underground and open pit mines
Recovery	92%	
Cash Costs incl royalties	US\$650-700/oz	Estimate only, DFS due in June 2011
Mine life	6 years	M+I Resources x recovery (625koz)
Capex	A\$60m	A\$35m to relate/refurbish plant and A\$25m pre-development and stripping
Sustaining Capex	A\$10m pa	
<b>Valuation</b>	<b>A\$156m</b>	

Source: Company data, RBC Capital Markets estimates

We employ a 5% real, or 7% nominal discount rate, consistent with RBC's global gold company valuation.

We value the company's exploration and other projects at a notional A\$50m, although we see considerable upside potential here too – particularly in the underground around Daisy Milano, at the Magic deposit and in the 8 km of dolerite at Wombola.

The components of our valuation are summarised in Exhibit 9.

#### Exhibit 9: NAV & Share Valuation Summary

SHARE VALUATION		A\$MM	A\$/Shr
Mount Monger	100%	274	1.53
Murchison	100%	156	0.87
Exploration		50	0.28
Corporate and Unallocated		(23)	(0.13)
Debt		(1)	(0.00)
Cash & Bullion		28	0.16
<b>Net Asset Value</b>		<b>484</b>	<b>2.71</b>

Source: RBC Capital Markets estimates

## Price Target - A\$3.00

We derive our price target of A\$3.00 on the basis of 10.0x FY11E & FY12E CFM and 1.0x NAV, a discount to Kingsgate and Medusa – an appropriate multiple in our view, based on the company’s stage of development. Exhibit 10 provides our target multiples for other ASX-listed gold producers.

We see potential to increase Silver Lake’s target multiples over time as its second production centre at Murchison progresses towards development and key de-risking milestones are achieved, i.e., DFS completed, funding confirmed, first gold, etc. On our forecasts Silver Lake can fund the Murchison development through modest debt of A\$20-25m.

### Exhibit 10: RBC Target Multiples for ASX gold producers

Company	Multiples		Commentary
	CF	P/NPV	
Newcrest	18x	1.8x	The premium ASX gold stock with low cash costs, long life assets, and strong balance sheet. Now ranked as fourth-largest gold producer in the world.
Medusa	13x	1.3x	Medusa is an ASX-listed gold company which owns the high-grade Co-O underground mine in the Philippines. Medusa’s features include best-in-class cash costs of sub US\$190/oz, a tax holiday until at least FY13 (and potentially FY15), and in our view above average exploration upside.
Kingsgate	12x	1.2x	A Tier 3 gold producer which operates the low -cost open pit Chatree gold mine in Thailand and the Challenger underground mine in South Australia after its takeover of Dominion.
Silver Lake	10x	1.0x	A 70kozpa gold producer from its Mount Monger operation in Western Australia. Silver Lake plans to grow production to ~300kozpa by FY14, by increasing production at Mount Monger to 200kozpa, and adding a second 100kozpa production centre at Murchison.
Catalpa	8x	0.8x	We apply discounted multiples until Catalpa gets “runs on the board” and demonstrates that Edna May is delivering as planned.

Source: RBC Capital Markets estimates

Exhibit 11 provides an example of how we calculate our target prices for our ASX golds. Essentially, we take the average of the shaded figures along the bottom row. Arguably, only half of FY11E remains, and while this figure clearly reduces the average, we include it to maintain a consistent approach to target prices across our ASX gold universe.

While FY13E is not included in our calculation of target price, we include this figure to illustrate the strength of Silver Lake’s growth over the next few years, with cash flow per share essentially doubling between FY12E and FY13E.

### Exhibit 11: Price Target Calculation

Year	FY11E	FY12E	FY13E	-	Average
Metric	CFPS	CFPS	CFPS	NPV	
Value	0.20	0.43	0.80	2.71	
Multiple	10.0x	10.0x	10.0x	1.00x	
Implied price	2.02	4.33	8.02	2.71	3.02

Source: RBC Capital Markets estimates

**Peer Comparison**

Exhibit 11 shows a selection of our Tier 3 gold producers, defined as gold producers which produce less than 250kozpa.

Looking at Exhibit 12, **Silver Lake is generally less expensive than the peer average almost across the board**, with the exception of EV/ resource metrics. We are not too concerned by the EV/resource metric, since we exclude inferred resources from this calculation and more than half of Silver Lake’s resource falls into this category, i.e., 1.6moz inferred in a 3moz resource.

On our estimates, **the company is particularly inexpensive on P/NAV and 2012 & 2013 P/CF & P/E.**

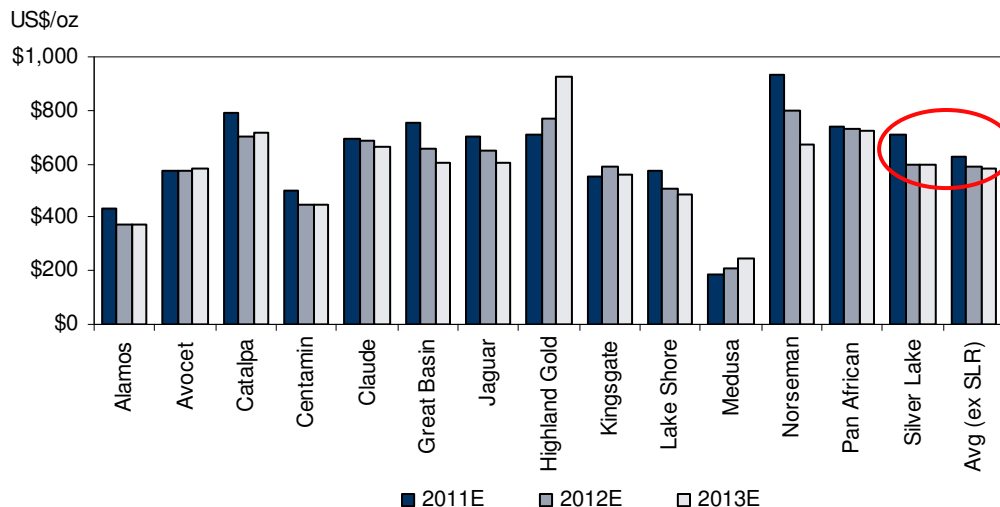
**Exhibit 12: Trading Multiples for Comparable Tier 3 golds**

RBC Tier 3 Golds (<250kozpa)	P/CFPS			P/E			P/NAV	EV/Rsc (US\$/oz)
	'11E	'12E	'13E	'11E	'12E	'13E		
Alamos	18.9x	12.9x	13.7x	24.4x	16.6x	18.1x	0.87x	\$249
Avocet	7.2x	6.8x	6.5x	11.2x	10.3x	7.9x	1.31x	\$212
Catalpa	7.2x	4.6x	4.2x	14.8x	7.3x	6.8x	0.81x	\$225
Centamin	12.7x	7.1x	9.4x	14.7x	7.6x	11.2x	1.44x	\$110
Claude	9.9x	9.1x	8.0x	14.9x	11.4x	9.9x	0.82x	\$205
Great Basin	10.3x	8.5x	7.5x	17.0x	11.1x	9.7x	1.83x	\$100
Jaguar	6.6x	3.9x	2.9x	18.4x	7.9x	5.8x	0.99x	\$100
Highland Gold	6.1x	5.7x	8.0x	6.9x	6.7x	11.6x	1.45x	\$162
Kingsgate	10.9x	7.0x	5.2x	13.5x	8.9x	6.6x	1.57x	\$324
Lake Shore	20.2x	14.7x	7.1x	n.m.	n.m.	16.8x	0.85x	\$504
Medusa	12.9x	10.1x	10.0x	14.2x	10.8x	10.8x	1.34x	n.m.
Norseman	7.6x	3.9x	2.6x	23.7x	5.9x	3.9x	0.89x	\$89
Pan African	6.7x	5.1x	4.0x	8.0x	6.7x	6.4x	0.80x	\$60
<b>Silver Lake</b>	<b>10.4x</b>	<b>4.8x</b>	<b>2.6x</b>	<b>15.3x</b>	<b>6.3x</b>	<b>3.4x</b>	<b>0.76x</b>	<b>\$262</b>
<b>Average (ex SLR)</b>	<b>10.6x</b>	<b>7.6x</b>	<b>6.9x</b>	<b>15.1x</b>	<b>9.3x</b>	<b>9.6x</b>	<b>1.15x</b>	<b>\$195</b>

Source: RBC Capital Markets estimates

The data in Exhibit 12 is presented graphically from Exhibit 14 to Exhibit 21.

**Exhibit 13: Silver Lake’s Cash Costs are in line with Peer Average**

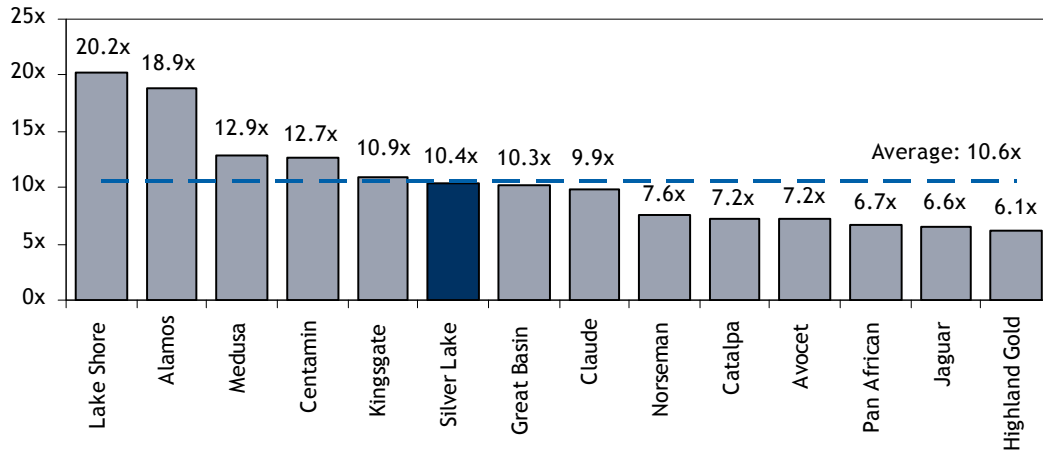


**An important note on cash costs:**

Silver Lake reports its waste development costs per ounce each quarter. These costs are **capitalised** and amortised over the mine life (through D&A) do **not** form part of the company’s C1 cash costs when comparing to peers on an ‘apples-to-apples’ basis.

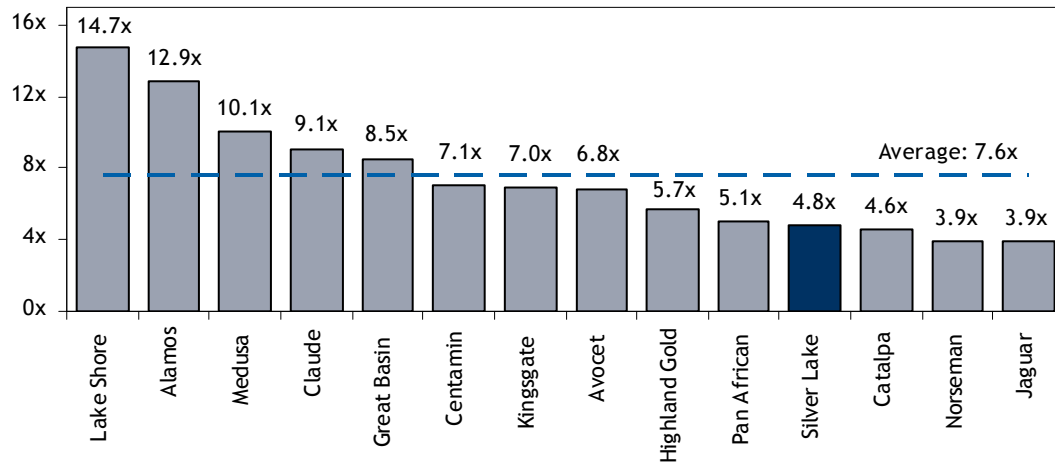
Source: RBC Capital Markets estimates

Exhibit 14: Comparable Tier 3 Golds: 2011E Price to Cash Flow



Source: RBC Capital Markets estimates

Exhibit 15: Comparable Tier 3 Golds: 2012E Price to Cash Flow



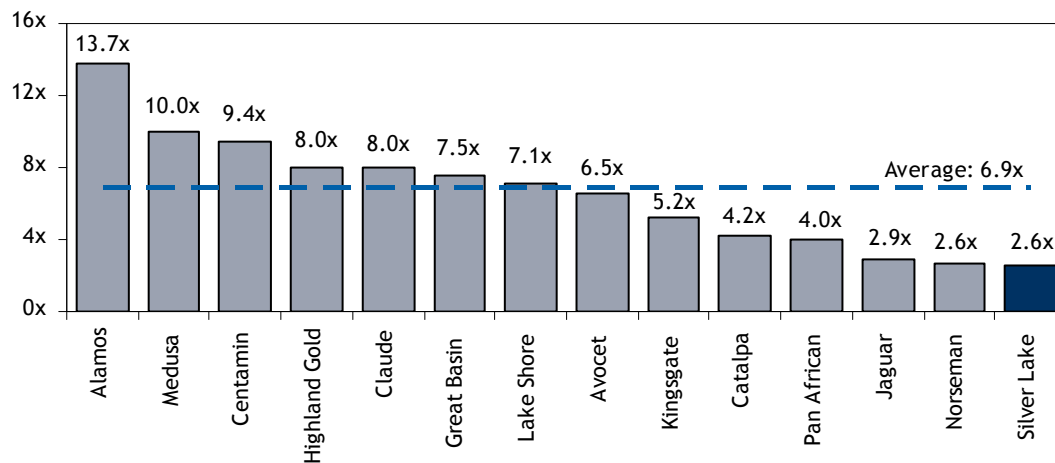
**Price to Cash Flow Multiples**

Silver Lake is trading below the peer average across the board, particularly in 2012 and 2013 as production growth 'kicks in'.

i.e., Silver Lake is generally less expensive than peers on cash flow multiples.

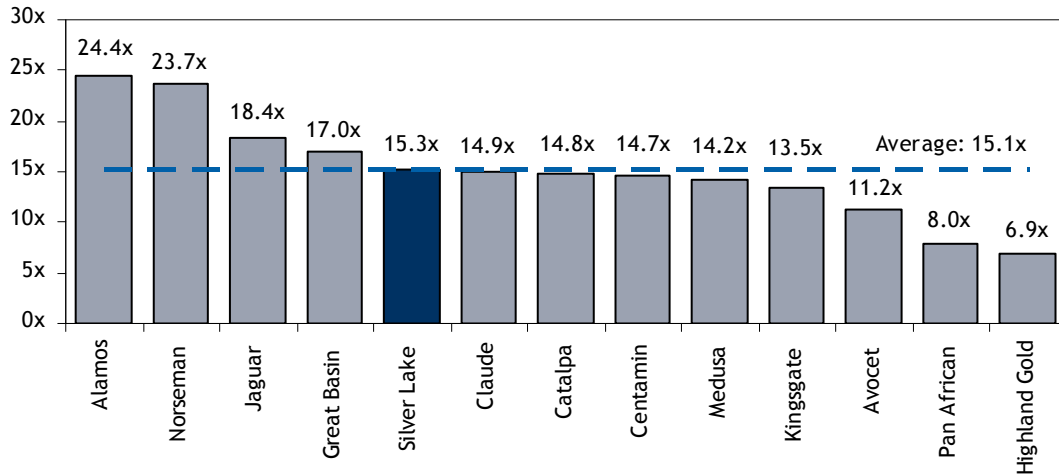
Source: RBC Capital Markets estimates

Exhibit 16: Comparable Tier 3 Golds: 2013E Price to Cash Flow



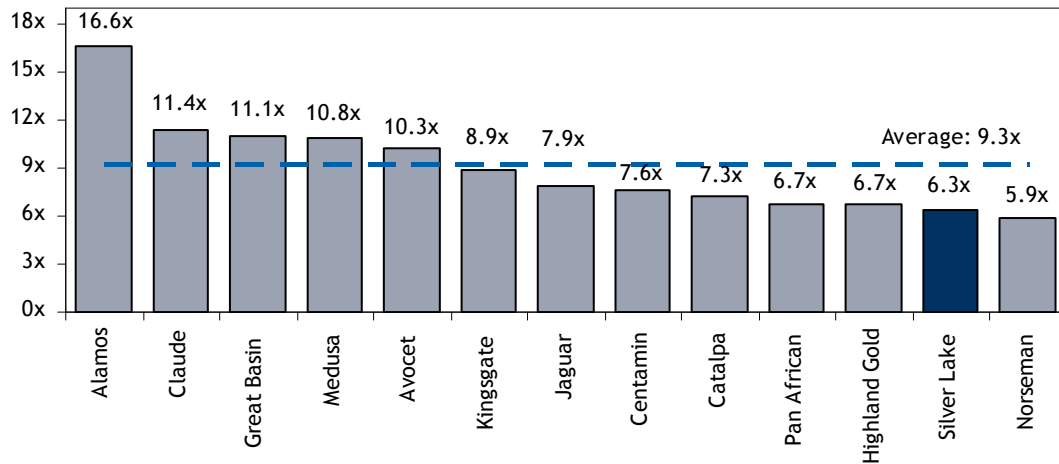
Source: RBC Capital Markets estimates

Exhibit 17: Comparable Tier 3 Golds: 2011E Price to Earnings



Source: RBC Capital Markets estimates

Exhibit 18: Comparable Tier 3 Golds: 2012 Price to Earnings



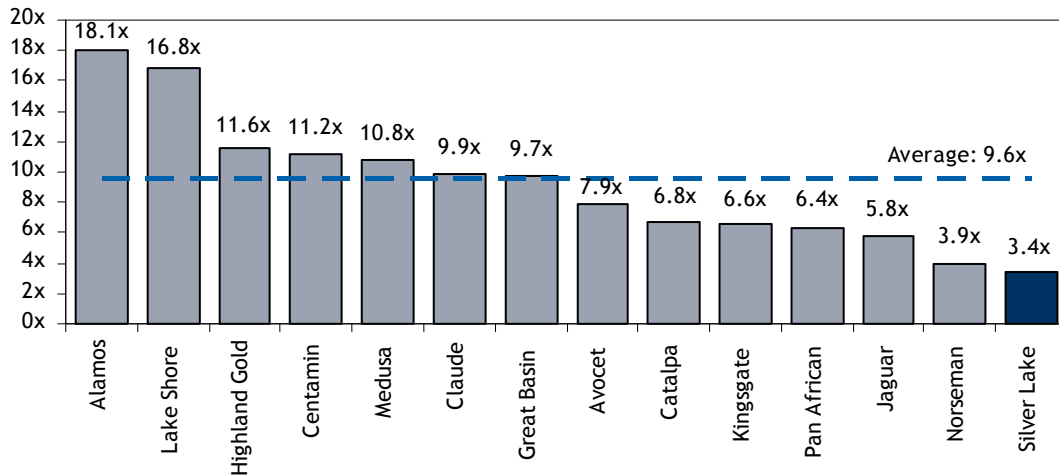
**Price to Earnings Multiples**

Similarly, Silver Lake is trading in line with the peer average in 2011, but at a discount in 2012 and 2013.

i.e., Silver Lake is inexpensive on earnings multiples.

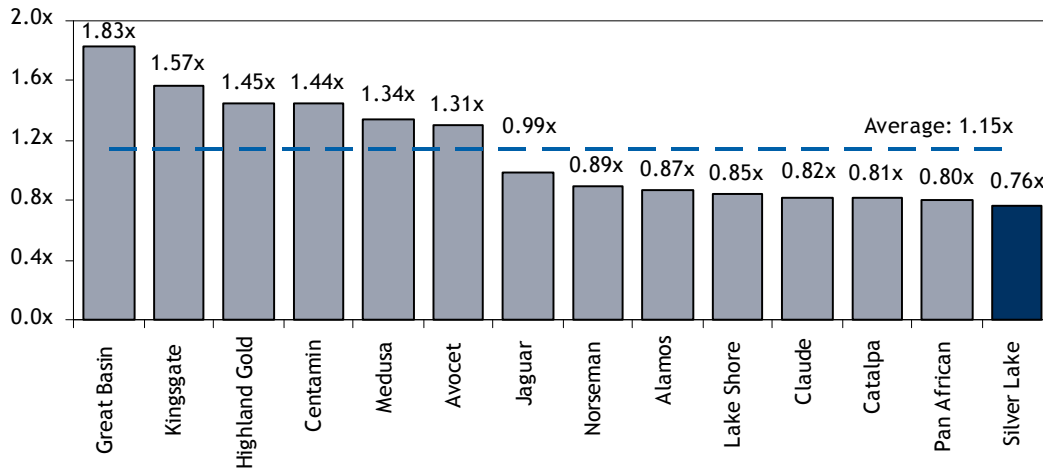
Source: RBC Capital Markets estimates

Exhibit 19: Comparable Tier 3 Golds: 2013 Price to Earnings



Source: RBC Capital Markets estimates

Exhibit 20: Comparable Tier 3 Golds: Price to NAV



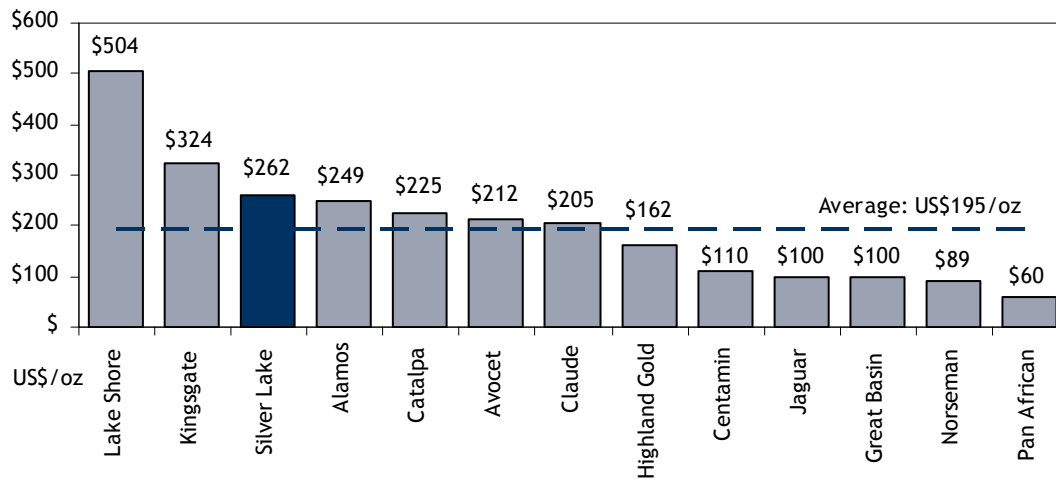
**Price to NAV**

Silver Lake is trading at a discount to the peer average on price to NAV.

i.e., Silver Lake is the least expensive Tier 3 gold in our selected universe on P/NAV

Source: RBC Capital Markets estimates

Exhibit 21: Comparable Tier 3 Golds: EV/oz Resource

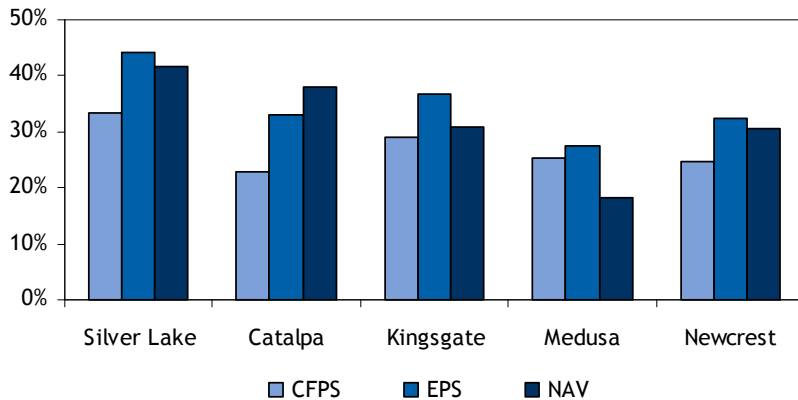


**EV/oz Resource**

Silver Lake is trading above the peer average on EV/oz resource, although we are not too concerned by this since we exclude inferred resources from this calculation and more than half of Silver Lake's resource falls into this category, i.e., 1.6moz inferred in a 3moz resource.

Source: RBC Capital Markets estimates

Exhibit 22: Silver Lake - Above Average Leverage to ASX gold peers (2013E)



**Leverage**

This chart shows the percentage increase in FY13E CFPS, FY13E EPS and NAV for a 20% increase in the gold price.

Medusa has the least leverage because of its low cash costs. Catalpa also has good leverage, although somewhat reduced by its hedgebook, while Kingsgate is middle of the road. Newcrest has lower leverage due to its copper credits, which represent ~20% of revenue.

Source: RBC Capital Markets estimates

## Silver Lake's Assets

Silver Lake has two primary assets in Western Australia:

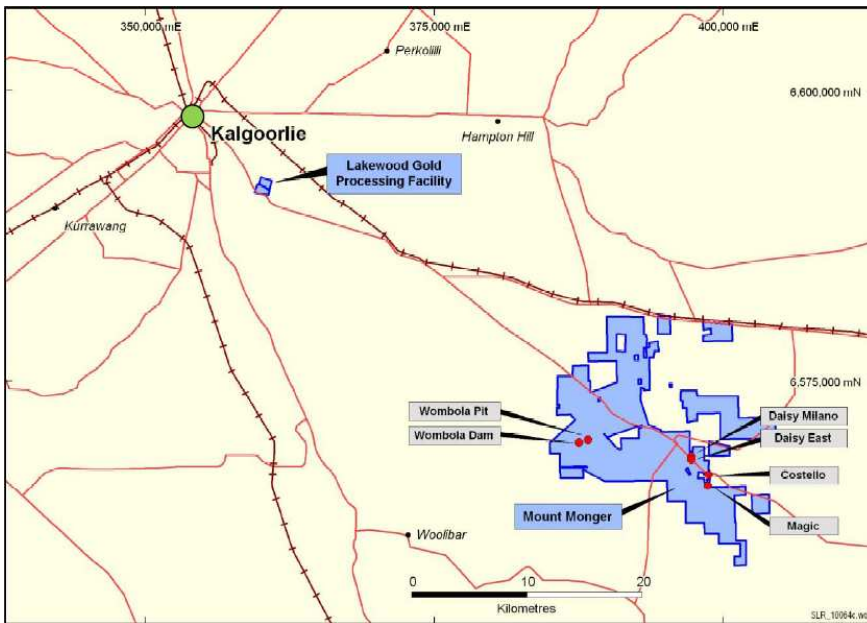
- **Mount Monger:** The Daisy Milano / Daisy East underground mine, several open pits and the Lakewood process plant.
- **Murchison:** A second production centre in development comprising the Tuckabianna, Comet and Moyagee deposits, and the relocation and refurbishment of recently acquired milling infrastructure.

### Mount Monger

The Mount Monger project is located 50 km southeast of Kalgoorlie, as per Exhibit 23. Ore is mined from a series of underground mines and open pits, and trucked to the Lakewood processing facility near Kalgoorlie. Kalgoorlie is historically a prolific gold district with >60moz produced to date. Silver Lake's Mount Monger tenements cover 160 km<sup>2</sup>.

Silver Lake plans to increase production at Mount Monger from the current ~70kozpa to 200kozpa by FY14E.

#### Exhibit 23: Mount Monger & Lakewood Process Plant



Source: Company reports

### A Brief History of Mount Monger

The Mount Monger goldfield is situated within the Kalgoorlie terrane subdivision of the Eastern Goldfields Province. Gold mining began in the Mount Monger area during the early 1900s. The field is marked by a series of historic workings extending northward under recent shallow alluvial cover towards a significant drainage channel. Only sub-cropping mineralisation appears to have been exploited by early miners, with historic workings in the field typically extending to depths of no greater than 80m below the surface.

Previous explorers in the Mount Monger goldfield concentrated on finding near surface, oxidised mineralisation suitable for open pit mining, however, historical mining points to the high-grade quartz reef hosted nature of the mineral field, indicating that the real thrust should have been directed towards finding more Daisy Milano look-a-like structures, where ore grades of over 10 g/t Au could be expected.

AngloGold initiated a gold potential study of the Mount Monger field in June 2003. Interpretation of the mineralised structures identified targets with the potential to host between 1.8moz and 4.5moz over nine independent zones down to a depth of 500m. AngloGold did not proceed with a transaction because the project did not meet its minimum 5moz endowment criteria.

In 2007 Silver Lake began to acquire tenements around Mount Monger and, for the first time, consolidated the tenements in the region under one company. The Daisy Milano ore body has produced over 300koz to date, and with close to 600koz in resources the total endowment is now approaching 1moz.

Silver Lake discovered the Daisy East ore body in July 2009, only 40m to the east of Daisy Milano.

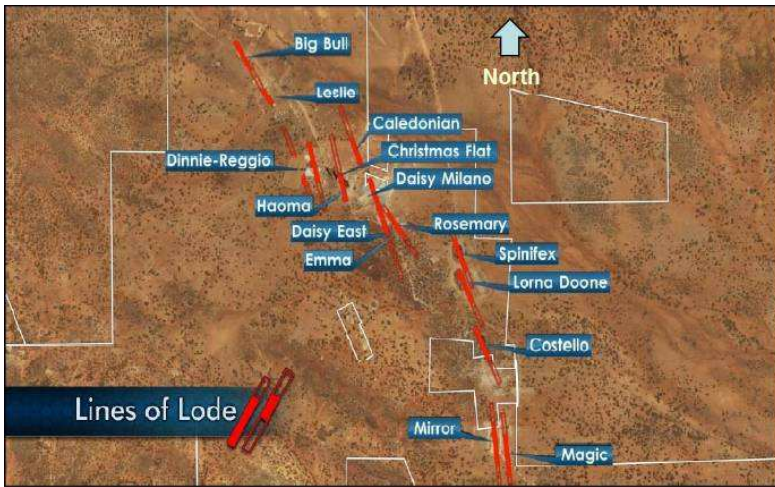
**Geological Setting**

The dominant rock types hosting the gold mineralisation are felsic and mafic units. The former comprises felsic to intermediate pyroclastic rocks and coarse volcanogenic sediments. The overlying mafic unit comprises high magnesium basalt with thin chert members. Both units are intruded by layered ultramafic to mafic sills and dykes of felsic porphyry.

Gold mineralisation is hosted by thin (1.0-2.0 cm up to 1m wide), sub-vertical dipping quartz veins within north to northeast trending shear zones. Some east-west trending crosscutting zones are also reported to be mineralised.

According to the company, its ground is ‘grossly under explored’ along strike and at depth, with **only 3% of holes deeper than 100m**. Mineralisation has been confirmed at Daily Milano to 800m and remains open at depth.

**Exhibit 24: Mount Monger Lines of Lode**



Source: Company reports

The Daisy Milano gold deposit is hosted by a dilational zone within a north-south trending shear zone. The mineralisation occurs as a swarm of thin quartz veins in two major lodes, typically less than 2m in width, dipping at about 80° east, plunging to the south and lengthening in strike extent at depth.

The mineralised lodes observed underground have many similarities to lode structures of Kalgoorlie’s Golden Mile (located to the northwest), in terms of the nature of shearing and veining, alteration assemblage and gold tenor.

The mine is accessed via a decline from the surface. The decline is well advanced ahead of ore development and stope activities, and currently extends down to a vertical depth of approximately 550m.

**Exhibit 25: Daisy Milano Mineralisation**

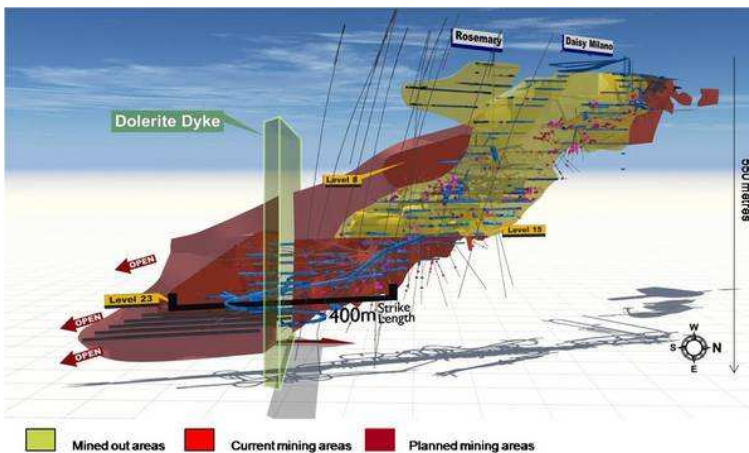


Figure 2: April 2009, Outline of Daisy Milano mineralisation

Source: Company reports

## Resources

As Exhibit 26 illustrates, the higher grade ore at Mount Monger is primarily contained at Daisy Milano (26g/t), Daisy East (38g/t) and Haoma (19g/t) – all three of these are underground deposits. Some of the open pitable deposits are also relatively high grade, namely Christmas Flat (5.5g/t) and Magic (4.7g/t).

Exhibit 26: Mount Monger Resources

	Measured			Indicated			Inferred			TOTAL		
	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz
Daisy Milano	38	24.7	30	457	23.5	339	227	31.3	228	722	25.8	598
Daisy East	28	48.1	44	54	44.9	77	28	15.7	14	110	38.3	135
Christmas Flat				339	4.1	44	449	6.3	91	787	5.5	136
Haoma							109	18.7	66	109	18.7	66
Costello				81	3.3	9	128	3.1	13	209	3.2	21
Lorna Doone							111	4.0	14	111	4.0	14
Magic				749	4.1	98	1,071	5.2	178	1,820	4.7	276
Wombola Pit				132	2.6	11	171	2.9	16	303	2.8	27
Wombola Dam				125	2.6	10	432	3.1	43	557	3.0	53
<b>Total Mount Monger</b>	<b>66</b>	<b>34.7</b>	<b>74</b>	<b>1,937</b>	<b>9.6</b>	<b>589</b>	<b>2,726</b>	<b>7.6</b>	<b>663</b>	<b>4,729</b>	<b>8.7</b>	<b>1,326</b>

Source: Company reports

At Mount Monger, Silver Lake has a pipeline of underground and open pit ore sources and mining studies are underway for Magic, Haoma, Wombola Dam and Wombola Pit.

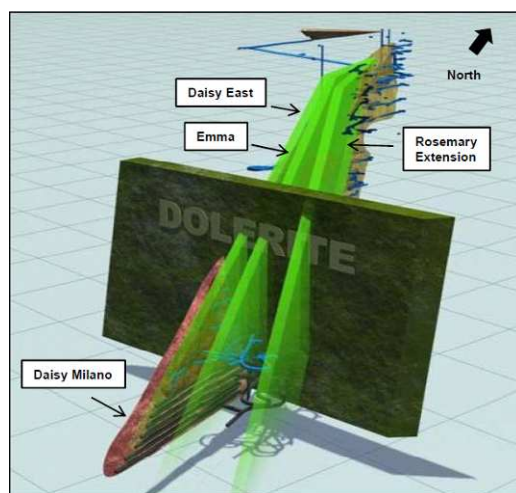
### The ‘Three Daisy Milano Strategy’

Silver Lake plans to grow production at Mount Monger from ~70kozpa to 200kozpa from a series of underground and open pit sources. The company’s objective is to implement what it refers to as the ‘**Three Daisy Milano Strategy**’, i.e., **three independent underground mining fronts producing 60kozpa each**. The remaining 20kozpa is expected to come from open pit ore sources.

In terms of the status of this objective, Daisy Milano has been established as the 60kozpa base load. Daisy East is due to ramp up post completion of the ventilation upgrade in the June Q CY11, and ongoing exploration is targeting the third underground ore source, with a number of nearby lodes accessible from the current decline and infrastructure including Emma, Rosemary, Haoma, Maranoa and Dinnie Reggio.

We rate Silver Lake’s ground as very prospective and believe continued exploration success is highly likely. In our view, the company has done an excellent job establishing itself over the past three years and is increasingly well placed to deliver the targeted 200kozpa rate by FY14E.

Exhibit 27: Schematic View Showing Eastern Flank Lodes



Source: Company reports

**Mining and Processing**

Silver Lake uses Luca Mining as its contract miner and employs three different mining methods, depending on deposit geometry:

- 1. Hand held air-leg mining** is used at Daisy Milano to minimise dilution while mining the narrow veins. The company employs 12-13 air-leg miners. While hand held mining tends to be more expensive than bulk mining techniques, Silver Lake has been working to keep costs down by limiting these development drives to 3.0m by 2.4m, i.e., minimising the amount of development. Opening up several underground mining fronts should also help reduce unit costs as the relatively high fixed costs are spread over more ounces. The right hand picture in Exhibit 28 is taken from the drive looking up to the face at an angle – you can just make out the air-leg hose on the slope leading up to the face.

Exhibit 28: An Air-Leg Miner (LHS) and an Air-Leg Mining Face (RHS)



Source: Company reports, RBC Capital Markets site visit March 2011

- 2. Long Hole Open Stopping** is the mining method used at Daisy East where the geometry of the gold mineralisation is conducive to 5m wide stopping blocks. The company plans to have 120koz in stopping blocks at Daisy East by July 2011 ready for ramp up post the ventilation upgrade. The right hand picture in Exhibit 29 shows a mined stope only a few metres wide.

Exhibit 29: Level 9, Daisy East: Multiple structures (LHS) and Looking up into a mined stopes (RHS)

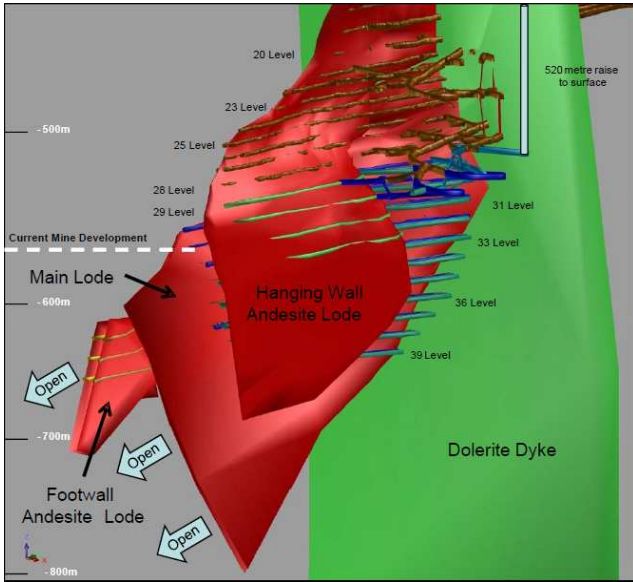


Source: Company

- 3. Open pit mining:** Employed at Christmas Flat, Costello and other deposits where the gold ore is near surface and of sufficient thickness and continuity to make open pit mining economic. While Silver Lake has a number of economic open pits, this source of ore is only used to ‘top-up’ the mill, and the aim is to keep this material to a maximum of 20-30% of mill feed, because it is generally lower grade. The average stripping ratio of existing open pit ore sources is ~6:1, although some of the smaller pits have a stripping ratio as high as 12:1.

**Ventilation Upgrade at Daisy Milano:** One of the key development projects at Daisy Milano is the A\$5m ventilation upgrade, which is due for completion in the June Q CY11. The project involves drilling a 520m raise bore hole to surface which will **open up access to multiple high grade ore sources** at depth, and should allow mining to depths of up to 1,500m. The decline is currently down to 550m with drilling down to 800m. The ventilation shaft is shown in top tight hand corner of Exhibit 30.

Exhibit 30: Daisy Milano ore structures



This exhibit shows the Daisy Milano ore body, where the decline is down to 550m and drilling is down to 800m.

The haul distance from the bottom of the mine is currently 3.5 km.

Daisy Milano has gold endowment of more than 1,000oz per vertical metre and the average ore width is 0.5m.

The Daisy Milano ore structures remain open at depth.

Source: Company reports

**Processing:** Ore is trucked ~45 km to the Lakewood process plant, which has a current capacity of 400ktpa hard rock, or 600ktpa of blended material. Recoveries to date have been very good with more than 80% gravity recovery from hard rock (more than 65% soft) and total recovery of 97% (92% soft).

Exhibit 31: Lakewood processing facility



Silver Lake has a proven track record in acquiring and refurbishing processing equipment for a fraction of the cost of a new plant.

The company's spend to date on Lakewood is only A\$12.1 million:

- Acquisition cost: A\$2.4 million
- Refurbishment: A\$5.6 million
- 600ktpa upgrade: A\$4.1 million

Source: RBC Capital Markets site visit March 2011

The company plans to incrementally expand the process plant to 1mtpa at an estimated cost of A\$11-13m, comprising:

- **Stage 1 Expansion to 700ktpa** by December CY11, capex A\$7-8m:
  - Relocation, refurbishment and recommissioning of 1.6MW ball mill
  - Duplicating existing gravity circuit
  - Construction of 1,500m<sup>3</sup> leech tank and modifications to CIL circuit
  - Upgrading material handling system and power supply to accommodate new ball mill

- **Stage 2 Expansion to 1mtpa** by Sept Q CY12, capex A\$4-5m:
  - Upgrade crushing circuit to 1mtpa
  - Expansion of tailing storage facilities
  - Tie in current 640kw mill as a regrind mill

**Power:** The Lakewood process plant is connected to mains power, and the mine runs on diesel generators with 3MW installed on site.

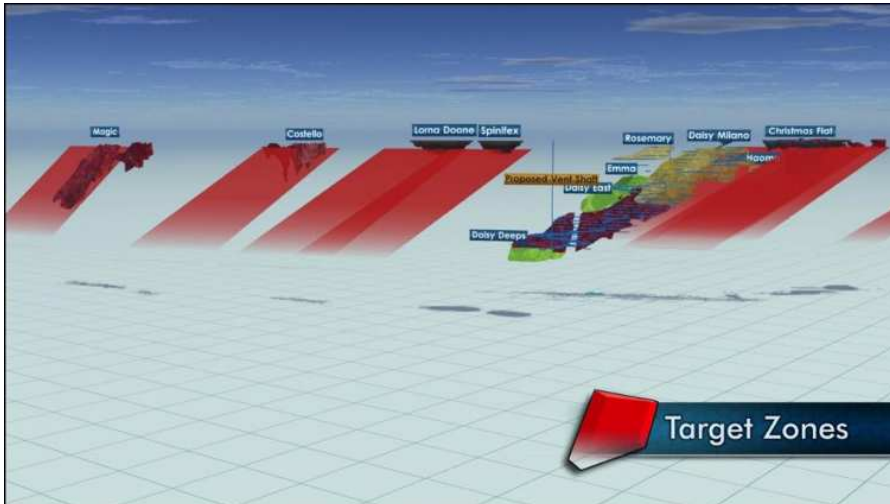
**Personnel:** The close proximity to Kalgoorlie provides Silver Lake with an abundant source of skilled labour. The Lakewood process plant is only 5 km from Kalgoorlie and the mine is 50 km away.

**Royalties:** Silver Lake pays the standard 2.5% West Australia Government gross royalty on gold revenue and a series of small royalties tied to previous owners which amount to a further 0.6% gross royalty. All up, royalties equate to ~A\$45/oz at the current gold price of a little more than US\$1,400/oz.

**Exploration**

Silver Lake is the first company to consolidate the tenements around Mount Monger under one company and to consider the geological story of the region collectively. Exhibit 32 shows the Daisy Milano ore body plunging to the south and a similar trend emerging at the Magic deposit. The red areas in Exhibit 32 are the areas targeted for exploration based on the idea that these trends are repeated. We like the company’s strategy, and in our view, it is highly likely the company will continue to find economic gold.

**Exhibit 32: Mount Monger Regional Targets**

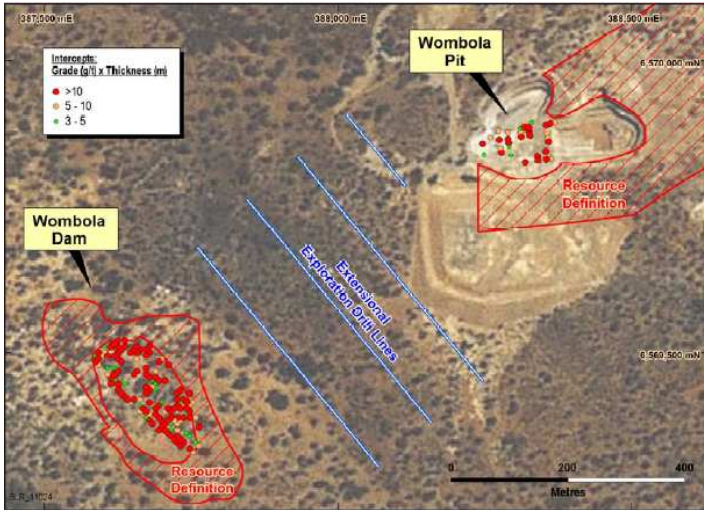


Of these target zones, the Magic deposit is probably one of the more promising, delivering hits to date including 11m at 59g/t and 8.3m at 44g/t

Source: Company reports

The company is also exploring in the northern area of Mount Monger, at Wombola Dam and Wombola Pit where recent drilling delivered very encouraging results, all within 30m of surface. Targets are also being generated along the company’s 8 km of Wombola dolerite, which contains numerous shallow workings but little to no drilling to date.

**Exhibit 33: Mount Monger: Wombola Dam & Wombola Pit**



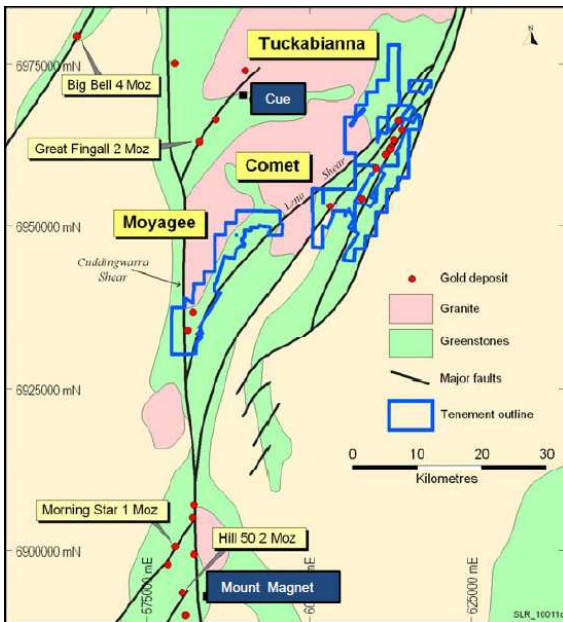
Source: Company reports

**Murchison**

Silver Lake’s Murchison project is located in the Murchison Goldfields near several multi-million ounce gold producing areas of Mount Magnet and Cue, 600 km northeast of Perth. The Murchison assets consist of the Tuckabianna, Comet and Moyagee projects, representing ~65 km of strike.

A DFS on Murchison is due in June 2011, which envisions the relocation and refurbishment of nearby milling equipment, which was acquired in August 2010. The company envisions a 1.2mtpa project fed by head grades averaging 3g/t to produce up to 120kozpa.

**Exhibit 34: Murchison Tenements & Gold Deposits**



Source: Company reports

Tuckabianna is host to historical drilling of 26,000 holes, but only 3% of these holes are deeper than 100m.

There is also visible gold mineralisation in the floor of the pits.

**A Brief History of Murchison**

The Murchison region is host to several multi million ounce deposits including Big Bell (4moz), Great Fingall (2moz) Hill 50 (2moz) and Morning Star (1moz).

**Tuckabianna:** Gold was discovered at Tuckabianna in 1915 with intermittent small-scale production from rich mineralised pods within the hostbanded iron formation (BIF). During the period leading up to the commencement of modern open-pit mining operations in 1988, total gold production was 53,000 oz at an average grade of 18 g/t Au.

Between 1988 and 1997, approximately six million tonnes of ore was treated from the Tuckabianna area for a **total production exceeding 500,000 oz Au, at a time when the gold price was ~A\$400/oz**. Most of this production came from 17 different open pits located within Silver Lake's project area.

**Comet:** The Comet project is a pre-development gold project that also has advanced exploration targets. Mining activities commenced in the Comet project area in 1913 with underground mining being carried out until 1983. Before the 1980s gold mining activities were largely limited to intermittent underground mining and in the late 1980s, open pit mining was undertaken at the Comet and Pinnacles deposits with production being 638,335 tonnes at 3.45 g/t Au. Up to 1996, the project area was subject to active mining operations.

**Moyagee:** The Moyagee project has been the subject of several phases of exploration since the early 1980s. Past gold production from the project area totalled 11,780 oz from some 9,400 tonnes of ore mainly from small high grade quartz veins.

### Geological Setting

Gold mineralisation at Tuckabianna is mostly developed within brittle zones associated with well laminated BIF units. Gold is also found along the margins of quartz-feldspar porphyry dykes and in narrow isolated rafts of BIF within the greenstone stratigraphy. These mineralised zones are interpreted as having resulted from faults which cut the stratigraphy at a low angle. Gold is generally associated with quartz-carbonate-pyrite-pyrrhotite stringers developed within these zones.

Silver Lake's project area covers a significant strike extent of a regionally extensive shear zone, the north-northeast trending Moyagee Shear, which sub-parallel the Lena Shear to the east. In the eastern portion of the project area, gold mineralisation is spatially associated with the Tuckabianna Shear, which is regarded as a low-angle splay off the Moyagee Shear.

**Resources**

Exhibit 35 summarises Silver Lake’s resources at Murchison, comprising a series of small, shallow, open pits as well as several targets which look promising for underground mining.

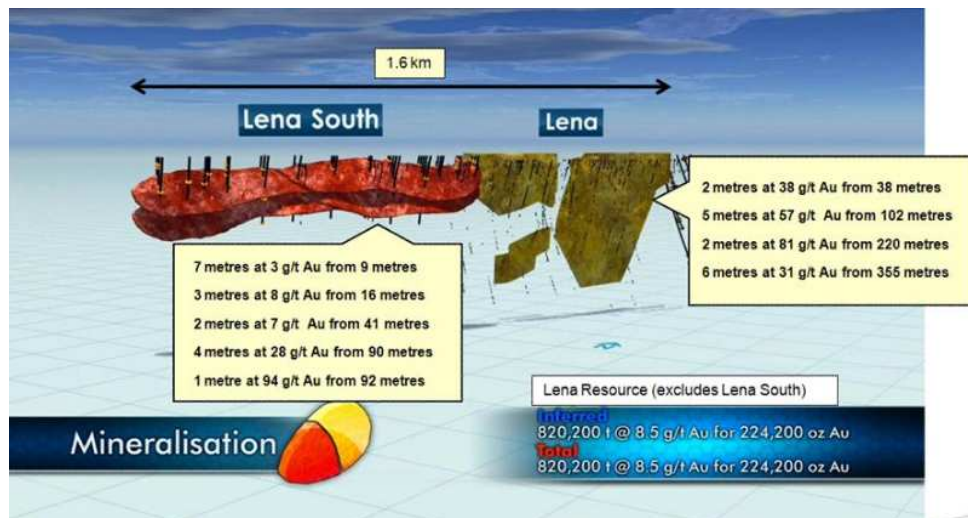
**Exhibit 35: Resources at Murchison**

	Measured			Indicated			Inferred			TOTAL		
	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz	kt	g/t	koz
Caustons				626	3.9	78	462	3.3	49	1,088	3.6	127
Caustons South				425	2.0	28	297	4.2	40	721	2.9	67
Tuckabianna West				1,658	2.2	117	1,822	2.9	170	3,480	2.6	287
Friars							402	1.9	25	402	1.9	25
Jasper Queen							175	2.6	15	175	2.6	15
Gilt Edge				63	3.0	6	33	5.2	6	96	3.7	11
Genesis				354	1.8	20	12	2.4	1	366	1.8	21
Exodus				457	1.6	24	101	2.8	9	559	1.8	33
Julies Reward				461	3.2	48	255	3.4	28	716	3.3	75
Sherwood							349	2.2	25	349	2.2	25
Jaffas Folly				6	4.3	1	202	1.4	9	208	1.5	10
Little John							1,201	1.8	70	1,201	1.8	70
TMC/Katies				476	2.1	32	626	2.4	48	1,102	2.3	80
<b>Subtotal Tuckabianna</b>				<b>4,526</b>	<b>2.4</b>	<b>353</b>	<b>5,936</b>	<b>2.6</b>	<b>492</b>	<b>10,462</b>	<b>2.5</b>	<b>845</b>
Comet	36	0.6	1	2,776	3.7	325	1,150	2.5	91	3,963	3.3	418
Moyagee							1,088	7.0	246	1,088	7.0	246
<b>Total Murchison</b>	<b>36</b>	<b>0.6</b>	<b>1</b>	<b>7,302</b>	<b>2.9</b>	<b>679</b>	<b>8,175</b>	<b>3.2</b>	<b>829</b>	<b>15,513</b>	<b>3.0</b>	<b>1,509</b>

Source: Company reports

Probably the most exciting area at Murchison is at the Moyagee prospect to the south, which has the highest grade resource of **1.1Mt at 7.0g/t for 246koz**. At present, Moyagee is made up of four deposits: Lena, Lena South, Leviticus and Numbers, with the Lena inferred resource representing **820kt at 8.5g/t for 224koz**.

**Exhibit 36: The Moyagee Deposits - Lena & South Lena**



Lena deposit comprises a high-grade inferred resource of **820kt at 8.5g/t for 224koz**

Source: Company reports

**Mining and Processing**

While the DFS on Murchison is not due for completion until June 2011, the company has released a target base case production rate of 1.2mtpa at 3.0g/t. The company plans to relocate and refurbish a portion of the milling infrastructure acquired in August 2010 for

A\$3m, which ensure low start up capital and also a shorter lead time. The Murchison mining lease has also been granted and the project fully permitted from a previous operation.

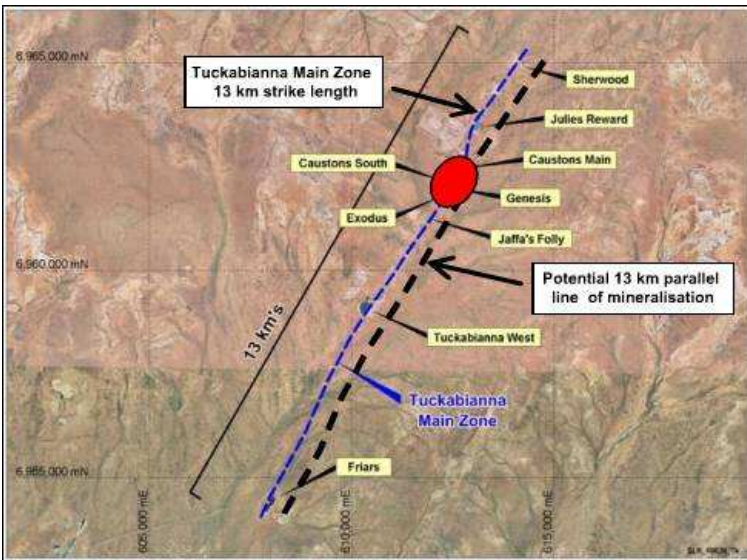
**Exhibit 37: 2.5mtpa mill infrastructure acquired for A\$3m**



Source: Company reports

At this stage, it looks likely that the process plant will be relocated to the Tuckabianna leases where there is existing infrastructure in place from previous operations. Exhibit 38 shows the likely location of the starter pit, which contains ~250koz at relatively shallow depths, grading 2.8g/t. We expect the next ore source to be the high grade material at Moyagee, which would need to be trucked 30-40 km to the new plant.

**Exhibit 38: Murchison Start Pit at Tuckabianna**



Source: Company reports

**Exploration**

Silver Lake has 35 km of strike along the shear zone (see Exhibit 39) at the Moyagee project, but is currently only exploring the northern 5 km. The southern 30 km travels under a salt lake named Lake Austin, where there has been no historical drilling to date. Silver Lake is currently preparing to explore this area.

Some of the highest yielding gold deposits in Western Australia have been located near and under salt lakes, i.e., Norseman, Wallaby, St Ives and Sunrise Dam.

In August 2010, Silver Lake acquired 2.5mtpa of milling infrastructure for A\$3m, located 350 km from Murchison. The acquisition included:

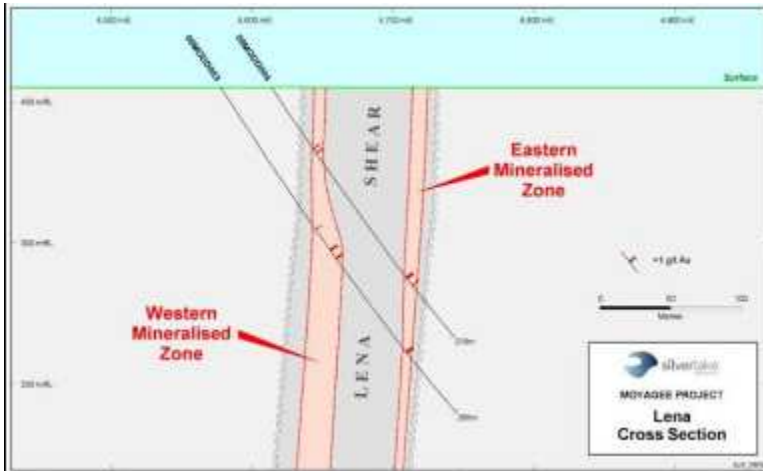
- 500tph crushing circuit.
- 3 ball mills.
- 7 stage CIL circuit.
- critical spares.

This acquisition was the second time that Silver Lake managed to acquire second-hand equipment at a substantial discount.

The blue line represents the 13 km of known mineralisation at Tuckabianna where historically 375koz was mined from seven shallow open pits.

Silver Lake recently discovered mineralisation at the Genesis deposit, about 200 m to the east of this trend, and has postulated that there may be a parallel line of mineralisation 200 m to the east, as shown by the black line.

## Exhibit 39: Murchison: The shear zone at Moyagee



Source: Company reports

### Other Projects & Exploration

Silver Lake has an **annual exploration budget of A\$18m**, most of which is evenly spent between Mount Monger and Murchison. However, the company also has several other small exploration stage projects which it is developing, including Rothsay and Copper Lakes.

#### Rothsay

The Rothsay gold deposit was first discovered in 1894, and several of the veins making up the deposit were mined up until 1994. It has been estimated that approximately 56 koz of gold was produced from the small scale open pit and underground mining operations. The Rothsay project is located 300 km north-northeast of Perth and 70 km east of the town of Perenjori.

Rothsay is situated on the eastern margin of the Mount Gibson / Golden Grove greenstone belt. Gold mineralisation at Rothsay is hosted by quartz veins contained within four parallel northwest trending shear zones within mafic and ultramafic rocks.

The resource at Rothsay is a well defined zone of often high grade gold mineralisation along the 'A' shear, comprising **an inferred resource of 591kt at 7.0g/t for 133koz**. There has been limited drilling completed at depth or along strike of this resource. Some open pit production and drilling has been completed along the 'B' shear, however there has been very limited exploration carried out along the other two shear zones.

The combined length of the shear systems at Rothsay is more than 6 km, and currently, only 1 km of 'A' shear has been tested to a depth of greater than 300 m. The company's exploration plan is to systematically test the complete length of each of the four shear systems.

#### Copper Lakes

The Copper Lakes project consists of a single exploration licence application covering an area of 267 km<sup>2</sup> and is located 520km southeast of Port Hedland. The project covers rocks of the Rudall Complex, which is the Proterozoic core of the Paterson Orogen. The Paterson Orogen is host to several major mineral deposits, including Telfer (gold and copper) and Kintyre (uranium).

Exploration of the area commenced in the 1960s with regional reconnaissance and geophysical surveys conducted by Government agencies. During the 1980s and 1990s, various groups completed geological mapping, geochemical surveys and airborne and ground geophysical surveys. The previous work yielded surface samples of up to 10 g/t Au, 26% Cu and over 0.1% Co from various locations on the licence. Drill testing of some EM conductors and magnetic anomalies failed to return significant results, however not all anomalies were followed up.

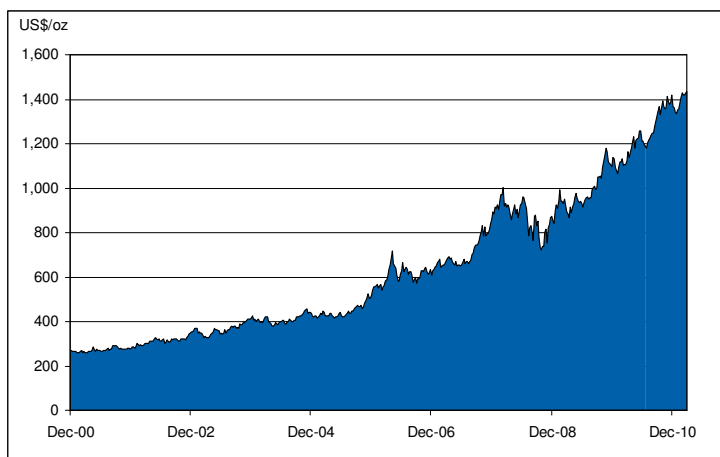
The Copper Lakes project is relatively under-explored, but this has not hindered the delivery of some very significant gold and copper assays from past exploration efforts. It is awaiting grant of the exploration tenement at which time exploration activities will commence.

## Outlook for Gold - Positive Momentum for Gold Expected to Continue

In 2011, we expect the gold price to continue to be volatile and trade in a broad range of \$1,300 to \$1,500 per oz. For equity valuation purposes, we assume an annual gold price average of \$1,400/oz in both 2011 and 2012. Longer term, we forecast \$1,300 in 2013, \$1,200 in 2014, and then our long-term price is \$1,000/oz, in line with the trailing three-year average that the gold producers will likely be using for their year end 2010 reserve assumptions.

**We believe any upside surprise in the gold price will likely occur in the first half of 2011** as there remain a number of positive catalysts, including uncertainty surrounding euro zone sovereign debt, support from the QE-2 program, net central bank gold purchases and seasonal demand. However, later in 2011 and in 2012, we believe there is a risk of lower gold prices as the U.S. and European economies recover and central bankers look to tighten monetary policy. While inflation concerns appear to be driving demand for gold to record levels in China and India, we do not expect inflation to be a key demand driver in developed economies. Rather, it would be sustaining record levels of investment demand due to higher financial and/or geopolitical risk<sup>1</sup>.

Exhibit 40: Spot US\$ Gold Price over last ~10 years



Source: IRESS

### Gold Price Catalysts & Risks

The following potential catalysts are expected to support the gold price in a \$1,300 to \$1,500 trading range; however, we see very few catalysts to push gold significantly above this range in 2011:

- Continued investment demand driven by uncertainty surrounding success of euro zone sovereign debt restructuring and escalating geopolitical risk in the Korean peninsula and the Middle East;
- The positive trend of strong demand from China and India, as well as net buying by Central banks, is expected to be a key factor. However, it is expected to be offset in part by increasing mine supply and significantly reduced hedge book buybacks;
- The positive impact of the QE-2 deployment, as well as accommodative monetary and fiscal policy with low real rates has historically been positive for gold. However, if the economy recovers as expected in 2011, this factor's impact could shift from positive to negative;
- Positive impact on seasonal demand from year end holiday restocking, Chinese New Year buying and seasonal Indian demand in the first five months of 2011.

Risks to our outlook would include the following scenarios:

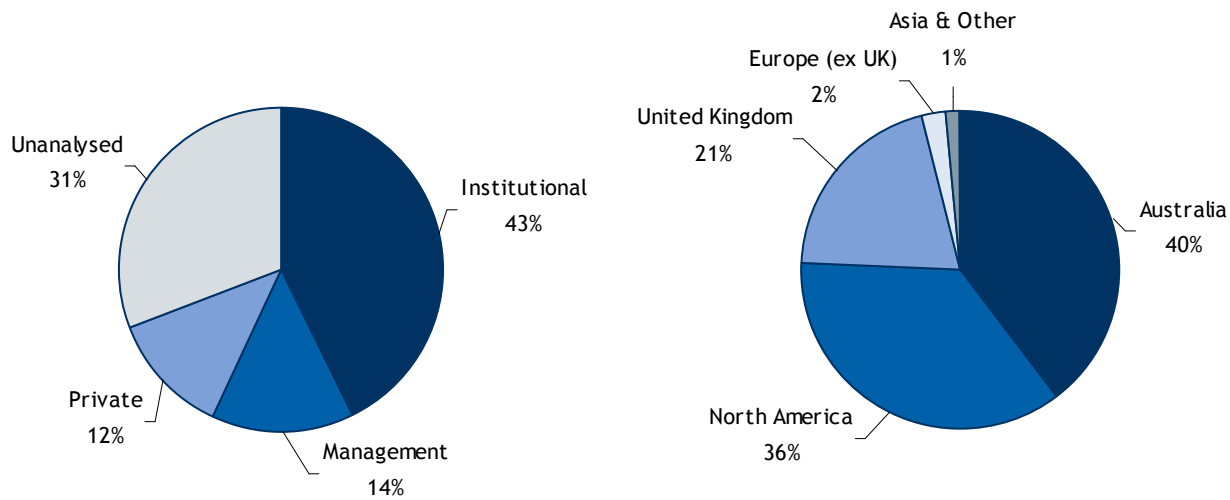
- Liquidation of COMEX net speculative long positions and the unwinding of record levels of ETF products backed by holdings of physical gold.
- With the prospect of an economic recovery in developed market economies, central banks start tightening monetary policy.
- An increase in global deflation pressures.

<sup>1</sup> RBC Global Gold Outlook: Sovereign Debt and QE-2 Provide H1/11 Catalysts; However, Investment Demand Is Key for Higher Prices, 26 Jan 2011

### Institutional Ownership and Liquidity

Silver Lake’s shareholder composition and regional distribution of institutional shareholders is illustrated in Exhibit 41:

Exhibit 41: Shareholder Composition (LHS) & Regional Distribution of Institutional Shareholders (RHS)



Source: Company reports (January 2011)

We believe that much of the ‘unanalysed’ component in the left hand figure in Exhibit 41 represents retail shareholders. On a fully diluted basis, management holds close to 25% of the company, which we see as very positive.

### Liquidity

Based on a 12-month rolling average, Silver Lake’s liquidity has historically been ~615k shares per day or a value of A\$1.2m per day.

## Board and Management

The Silver Lake board is made up of:

- Paul Chapman (**Non-Executive Chairman**) is a chartered accountant and has more than 25-years experience in the resources sector gained in Australia and the United States. Mr. Chapman has experience across a range of commodity businesses including gold, nickel, uranium, manganese, bauxite and alumina, and oil and gas. Mr. Chapman has held Managing Director and other senior management roles in public companies of various sizes and is chairman of ASX-listed explorers Encounter Resources Ltd. (ASX:ENR) and Rex Minerals Ltd (ASX:RXM).
- Les Davis (**Managing Director**) has 30-years industry experience including 17-years hands-on experience in mine development and narrow vein mining. Mr. Davis' career incorporates 13 years of senior management experience including roles as Mine Manager, Technical Services Manager, Concentrator Manager, Resident Manager and GM Expansion Projects with organisations including Western Mining Corp. Resources Ltd., Reliance Mining Ltd. and Consolidated Minerals Ltd.
- Chris Banasik (**Executive Director, Exploration**) has a 21-year career in resources including 10-years hands-on experience in mine geology resource and reserve calculation and a history of successful exploration in the Kambalda region of West Australia. Mr. Banasik has extensive experience in leading geology and exploration teams, and managing drilling programmes, surveying, mine planning and other technical services during 11 years in management roles with Western Mining Corp. Resources Ltd., Reliance Mining Ltd. and Consolidated Minerals Ltd.
- Peter Johnston (**Non-Executive Director**) has an extensive career in management spanning 30 years. That time includes senior management roles at Western Mining Corp. Resources Ltd, Alcoa of Australia Ltd. and Lion Nathan Ltd. Mr. Johnston has been Chief Executive Officer of Minara Resources Ltd. since 2001. As Executive General Manager at Western Mining Corp. Resources Ltd. for more than eight years, Mr. Johnston was at various times responsible for nickel and gold operations, Olympic Dam operations, Queensland Fertilizers Ltd. and human resources. Mr. Johnston is an Executive Council member of the Chamber of Minerals and Energy, a Director of the Minerals Council of Australia and the Nickel Institute, and a member of the Australian Mines & Metals Association.
- Brian Kennedy (**Non-Executive Director**) has operated a successful resource consultancy for more than 25 years and has worked in the coal, iron ore, nickel, gold and fertiliser industries. During this time, Mr. Kennedy managed large-scale mining operations such as Kambalda and Mount Keith on behalf of Western Mining Corp. Mr. Kennedy was a founding shareholder and director of Reliance Mining Ltd. before its takeover by Consolidated Minerals Ltd.
- David Griffiths (**Non-Executive Director**) has more than 30-years management and strategic communications experience developing from an initial focus on human resources and employee relations to broader, group-wide strategic roles. Previously, Mr. Griffiths was employed by Western Mining Corp. Resources Ltd. and held the roles of Group Manager – Employee Relations and more recently, General Manager Corporate Affairs and Community Relations. Currently, Mr. Griffiths is the Managing Director of the communications strategy and public relations company Gryphon Management Australia Pty. Ltd., which he established in 2004.

In addition, senior management at Silver Lake includes:

- Peter Armstrong (**CFO, Company Secretary**) has more than 30 years of accounting experience, including the last 25 years in the resources sector. He has extensive experience in senior commercial management roles with Normandy Mining, Western Mining Corp. and Newcrest, involving working across a wide range of commodity businesses including gold, nickel, copper, coal and iron ore.
- David Crockford (**Mine Manager, Mount Monger**) is a Mining Engineer with extensive experience in narrow vein mining methods and contract mining. Mr. Crockford's career incorporates roles at MPI Mines Black Swan Nickel Mine and held the position of Underground Manager with Leviathan Resources in Coolgardie.
- Adrian Hall (**Mill Manager**) has a Bachelor of Science (Extractive Metallurgy) and has worked extensively in the resource industry as a metallurgist. He has vast experience in research, development and commissioning of milling operations and concentrators, to increase extraction and recovery, improved throughput capacity and reduced operating cost working with the following commodities; gold, copper, nickel, cobalt, antimony and uranium.

### Companies Mentioned

Catalpa (ASX: CAH; A\$1.74; Outperform, Above Average Risk)

Kingsgate (ASX: KCN; A\$8.83; Sector Perform, Above Average Risk)

Medusa (ASX: MML; A\$7.09; Outperform, Above Average Risk)

Newcrest (ASX: NCM; OTC: NCMGF; A\$40.54; Outperform, Average Risk)

## Valuation

We initiate coverage with an Outperform, Above Average Risk rating and a A\$3.00 price target based on 10.0x FY11E and FY12E CFM and 1.0x NAV, a small discount to comparable peers while key project elements are being de-risked.

## Price Target Impediment

Impediments to Silver Lake reaching our forecasted earnings and price targets include expansion commissioning risk, lower metallurgical recoveries and thus gold production, and normal operating risks. Additional risks include higher than normal mining risks at Mount Monger due to the lack of defined reserves. Gold price and currency fluctuations may also affect the company's profitability, financial position, and share price. Silver Lake does not hedge its gold price or currency exposure.

## Company Description

Silver Lake is an ASX-listed, unhedged gold producer through its ~70kozpa Mount Monger mine in West Australia. The company plans to grow production to 300kozpa by FY14E, by increasing Mount Monger to 200kozpa and building a second 100kozpa production centre at Murchison. Silver Lake is characterised by its high quality management team, the high-grade Daisy Milano and Daisy East mines, and its above-average exploration potential.

Silver Lake had its IPO on the ASX in November 2007, when the company raised A\$30m at A\$0.30. In the same month, the company acquired the nearby Lakewood processing facility for A\$2.4m, and by December 2007, the company had begun to mine Daisy Milano. In April 2008, the A\$5.6m refurbishment of the Lakewood plant was completed and the Mount Monger project poured first gold. A key milestone in the company's fairly short history was the discovery of Daisy East in July 2009, a high-grade ore body 40m east of Daisy Milano and grading an impressive 46g/t.

In October 2009, the company raised A\$18.3m at A\$0.79 to accelerate exploration, and in August 2010, the company acquired 2.5mtpa milling infrastructure for A\$3m.

At end December 2010, Silver Lake had resources of 3Moz with a stated objective to grow to 5Moz by June 2012. At end December 2010, the company had A\$28m in cash and bullion and no debt.

## Required Disclosures

### Non-U.S. Analyst Disclosure

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An analyst involved in the preparation of this report has visited certain material operations of Silver Lake Resources Ltd..

An analyst involved in the preparation of this report has visited certain material operations of Kingsgate Consolidated Limited.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

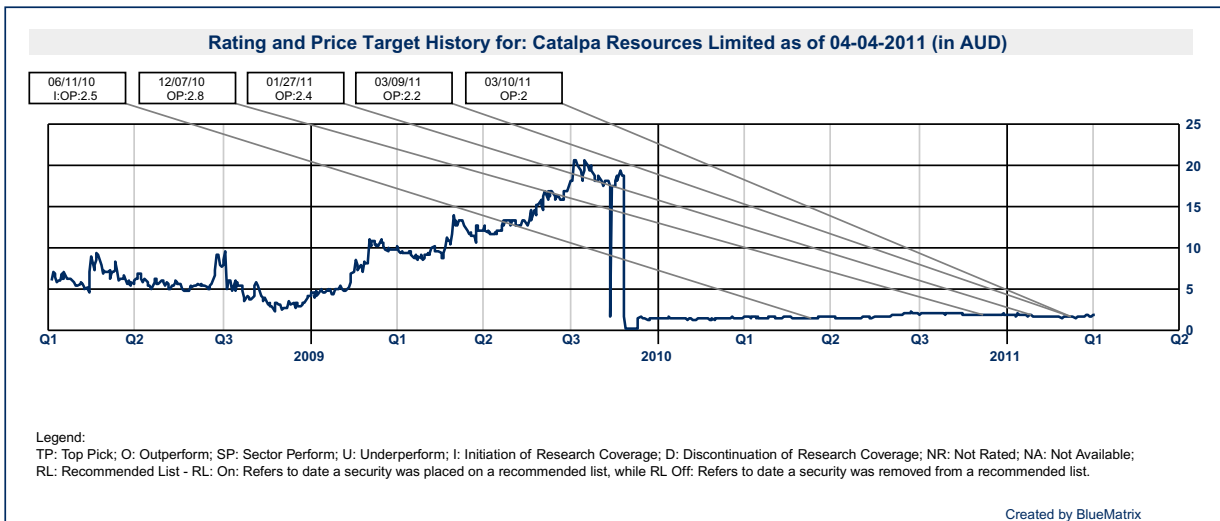
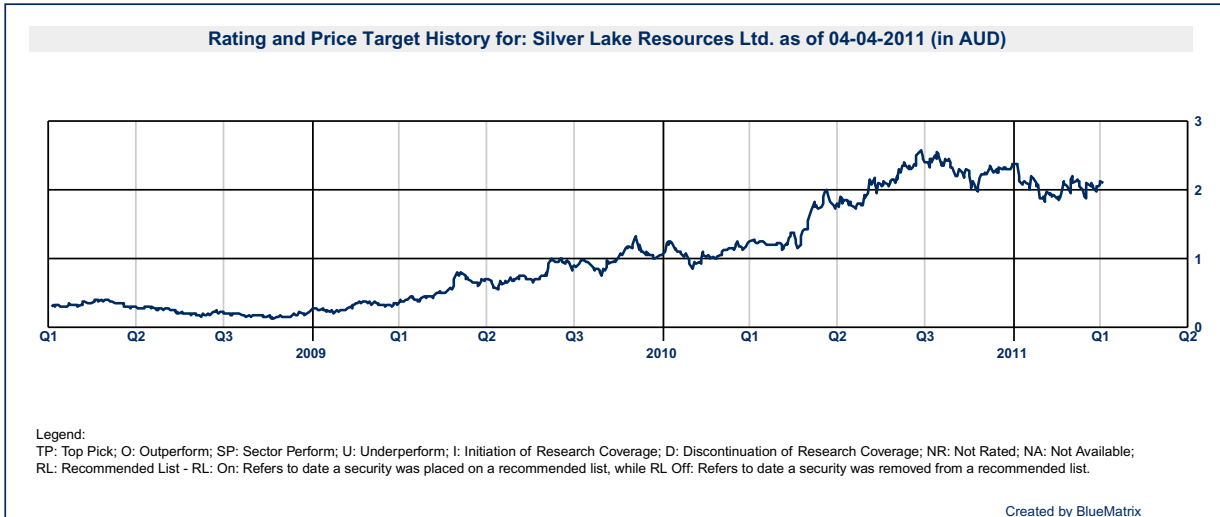
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

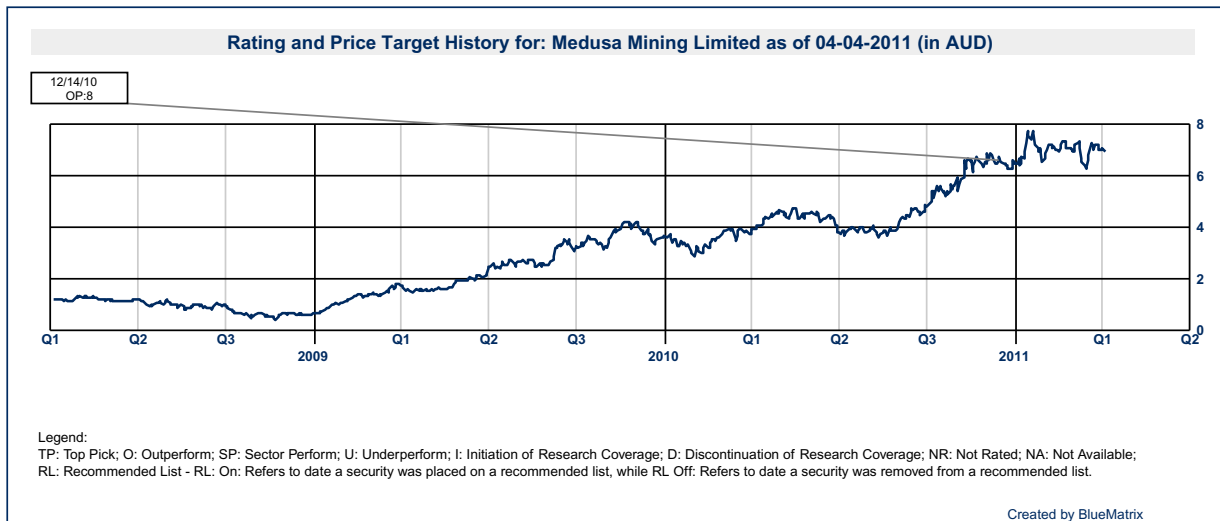
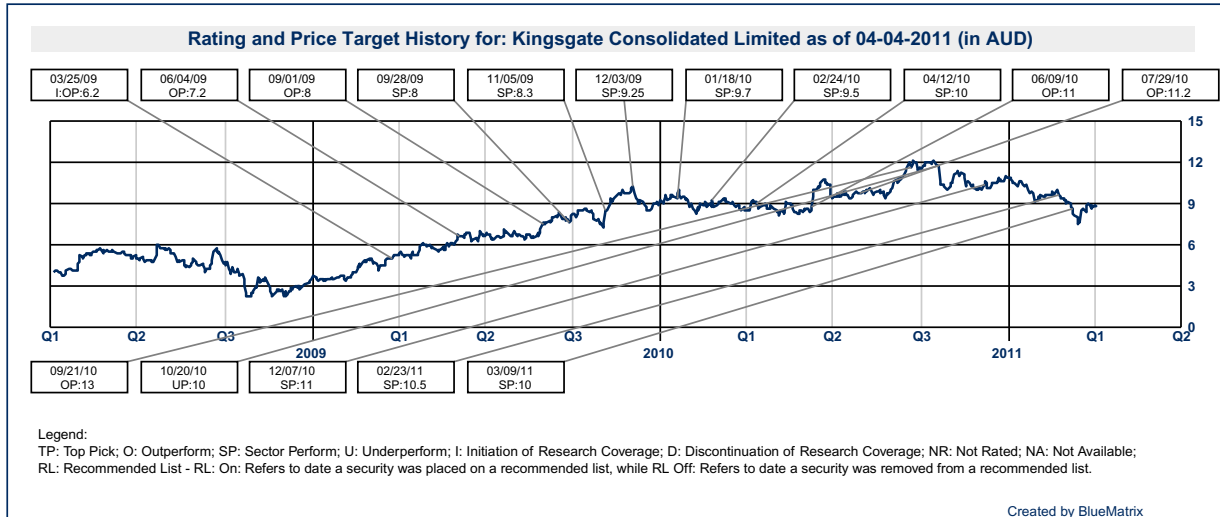
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

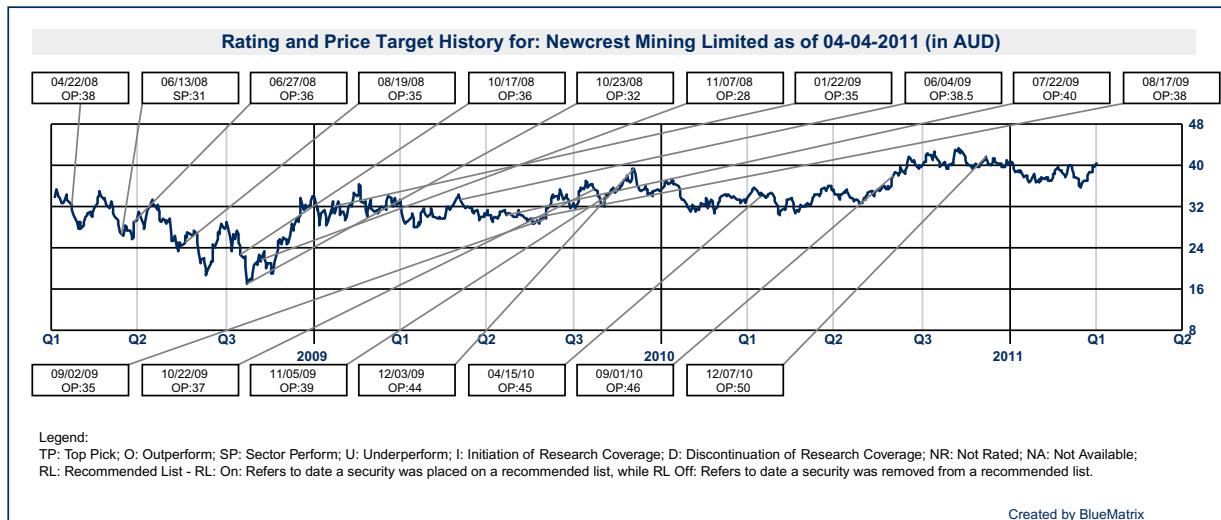
### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Rating	Distribution of Ratings		Investment Banking	
	Count	Percent	Count	Percent
BUY[TP/O]	702	51.70	208	29.63
HOLD[SP]	595	43.80	134	22.52
SELL[U]	61	4.50	10	16.39







References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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