Post 2011 Diggers ’n Dealers Review
Buy Silver Lake Resources (SLR)

(by Keith Goode : 25 August 2011)

The following comment on SLR has been taken from our/ERA Post DnD review. Our Post DnD 2010 comment on SLR still holds : ***"SLR is still rated as a BUY, now with a target of $3/share, and $4 to $5/share possible in 2 to 3 years’ time".***

The review itself focused on the visual standout of **Silver Lake’s** 1000oz (solid) **Gold Prospector** in their booth as shown in Figure 1a.

Figure 1. Silver Lake’s 1000oz Gold Prospector
a. Silver Lake’s (SLR) 1000oz Gold Prospector

Followed by a descriptive comment on SLR, viz :

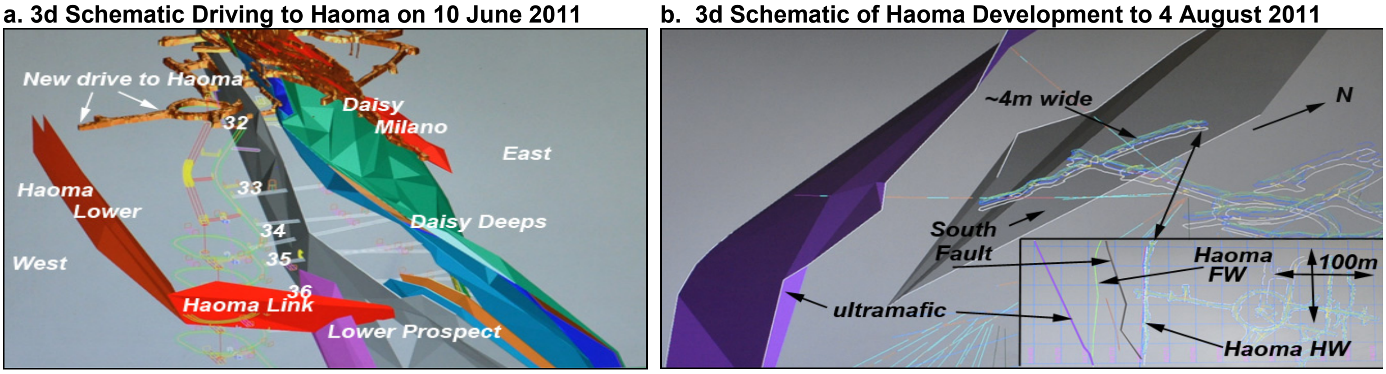
Silver Lake (SLR) – Rated as a BUY (NPV of ~A$3.44 at US$1500/oz and A$1.05/US$)

With a target of >$2.70, we remain of the view that SLR could achieve ~$3/share by the end of 2011 (fueled by the expected board approval of the Murchison operation), increasing to ~$4 or $5/share. The NPV rises by ~75c per US$100/oz, so at US$1800/oz the NPV is ~$5.70/share. And our model does not include Haoma. We believe SLR is undervalued, gold companies that have production targets of ~300,000ozpa by FY 2013 such as Kingsgate (KCN) & Regis (RRL) have market caps ~ $0.84m to $1.2bn ***($4.10 to $6.20/SLR share).***

We revisited Silver Lake's Mount Monger underground mine at Daisy Milano on 4 August 2011 (after Diggers) specifically to look at the progress of the Haoma hangingwall (HW) lode, as it was being driven towards (from Daisy Milano) on our last visit on 10 June 2011 as shown in Figure 6a.

Figure 6. SLR's New Haoma Development from June to August 2011

a. 3d Schematic Driving to Haoma on 10 June 2011 **b. 3d Schematic of Haoma Development to 4 August 2011**

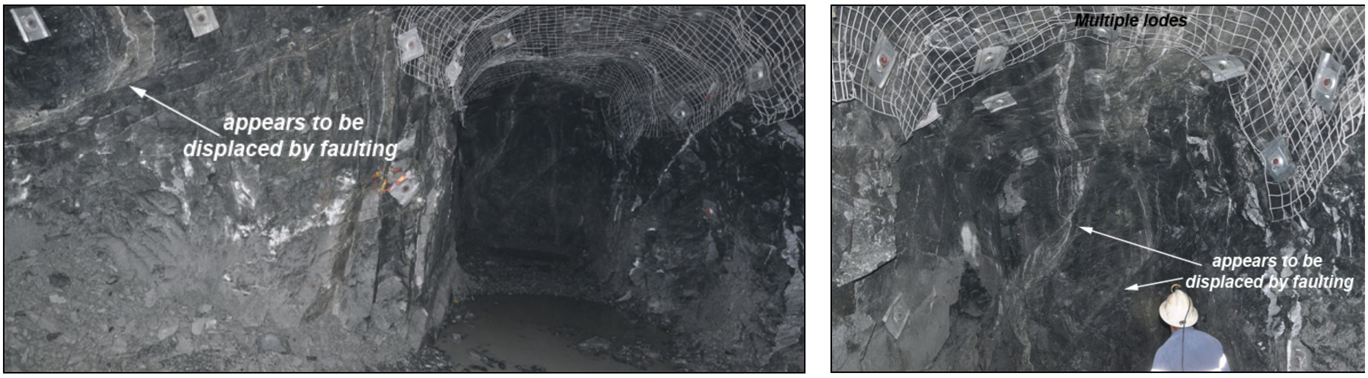


Since then, development has driven on the Haoma HW lode and defined a strike length of ~170m (greater than expected at that point) as shown in Figure 6b. At one stage in the northern drive the face opened up to **~4m and averaged ~83g/t** over ~4 to 5 lodes (a contact, two outers and an ultra high grade inner of up to ~1000g/t) as shown in the roof in Figure 7b, and remained at >30g/t (face grades are top-cut to 30g/t) for 4 to 5 cuts (~2.25m per cut, or ~11m). The ~170m strike length, 3m high drive yielded ~3000oz (being 1000oz per vert metre) compared to Daisy Milano which realises ~1000ozpvm in a ~400m strike length.

At the ends of each drive, the grade had dropped to ~2g/t, in the south probably due to the South Fault, and in the Nth apparently due to shallow faulting (two more cuts may occur to make sure) as shown in Figures 7a and 7b.

Figure 7. 32 Level North Drive on Haoma HW Lode

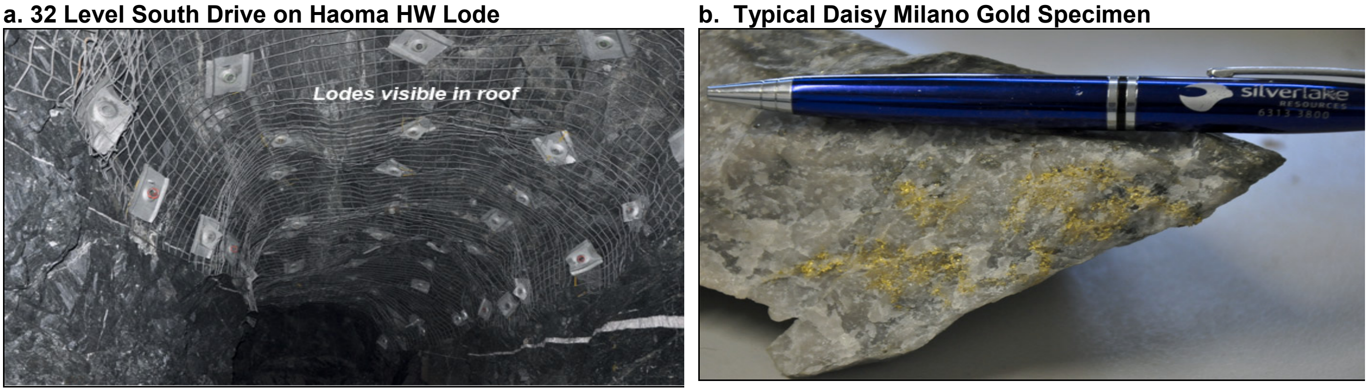
a. 32 Level North Drive on Haoma HW Lode **b. 32 Level North Drive on Haoma HW Lode**



The number of lodes can also be seen in the roof going south as shown in Figure 8a, with a typical Daisy Milano gold specimen in Figure 8b.

Figure 8. 32 Level South Drive on Haoma HW Lode, and Typical Daisy Milano Gold Specimen

a. 32 Level South Drive on Haoma HW Lode **b. Typical Daisy Milano Gold Specimen**



It was then intended to extend the original drive possibly ~40m to 50m across to the Haoma FW (footwall) lode, drive on it and establish its strike length, and then start declining up between the Haoma FW and the ultramafic to the next level.

At some stage it is also intended to cut a drive across on 27 Level to the Haoma lodes, drive North & South on them and then start declining down to the 32 Level.

Answering questions at Diggers, SLR stated that:

- they expected the levels on Haoma to have strike lengths between 100m and 400m,
- if necessary up to 1mtpa could be hauled up the Daisy Milano decline,
- though if Haoma became significant in its own right, a decline could be cut down from the Christmas Flat open-cut.

And in their presentation, SLR expected to have:

- 3 underground operations at Mount Monger producing ~60,000ozpa with open-cuts adding ~20,000ozpa for a 200,000ozpa target by 2014,
- plus another 100,000ozpa coming from the Murchison (DTM [decision to mine] scheduled for December 2011, commencing construction in January 2012 for initially ~50,000tpm from underground and 250,000tpa from open-cuts [850ktpa, possibly ramping up to 1mtpa].
- with a recent intersection at **Caustons of 7.1m @ 25.6g/t provided further encouragement** for a Murchison underground.

SLR also expected to drill 600m flat holes East and West of Daisy Milano searching / looking for hidden orebodies. Some of the key points to recognise about the Daisy Milano (DM) mineralisation is that each lode often consists of a hangingwall and a footwall (sometimes up to 40m away). For DM its DM and Daisy East, and on each lode there can be a cluster of 2 to 5 sub lodes that join and bifurcate, often including a high to ultra high grade ~100g/t to 1000g/t one. Silver Lake will mine a ~1cm to 2cm thick lode if it is economic, as it could be ~1000g/t and then they will use an air-leg miner and develop along it at ~1m to 1.2m wide with a scraper.

SLR were also making significant further progress on using the aeromag signatures in the ultramafic to find orebodies under or adjacent to the ultramafic.

The market does not appear to realise **just how much money the producing gold companies are making at these high gold prices,** as shown in our sensitivity table for SLR (which is from our 12 July 2011 report [available on our website : www.eagleres.com.au] and does not include Haoma), viz:

Table 1. Gold Price Sensitivity for Silver Lake (SLR) with total cashflow costs ~A$700/oz

Silver Lake Resources		2010a	DH10a	JH11f	2011f	2012f	2013f	2014f
Mt Monger Gold Sold	000oz	55	30	35	65	110	127	154
Murchison Gold Sold	000oz	0	0	0	0	0	27	77
TOTAL Gold Sold	**000oz**	**55**	**30**	**35**	**65**	**110**	**154**	**230**
MM Total Cash(flow) Cost	A$/oz	801	1040	857	981	694	711	712
MUR Total Cash(flow) Cost	A$/oz						666	709
Total Costs	**A$/oz**	**801**	**1040**	**857**	**981**	**694**	**703**	**711**
NPAT	**A$m**	**11.8**	**6.0**	**8.5**	**14.5**	**49.6**	**66.1**	**95.7**
Gold Spot Price	US$/oz	1091	1297	1448	1372	1500	1500	1500

Sensitivity Analysis	**Year**	**NPV**	**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**
Gold Price (at A$/US$1.05)		**A$**	**A/tax Profit (A$m)**			**Earnings per Share (Ac)**		
US$1500/oz (A$1429/oz)	1500	3.44	14.5	49.6	66.1	8.1	27.7	32.5
US$1600/oz (A$1524/oz)	1600	4.19	14.5	60.1	80.7	8.1	33.6	39.7
US$1700/oz (A$1619/oz)	1700	4.93	14.5	70.6	95.3	8.1	39.5	46.9
US$1800/oz (A$1714/oz)	1800	5.68	14.5	81.1	110.0	8.1	45.3	54.1
US$1900/oz (A$1809/oz)	1900	6.43	14.5	91.6	124.6	8.1	51.2	61.3
US$2000/oz (A$1905/oz)	2000	7.18	14.5	102.1	139.2	8.1	57.1	68.5
Sensitivity Analysis	**Year**	**NPV**	**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**

As one gold producer commented around Diggers, we sold 1000oz gold and received more than $1.7m !! And now the gold price is at US$1870/oz (22 August 2011).