



PRICE TARGET REVISION | COMMENT

OCTOBER 24, 2011

Silver Lake Resources Ltd. (ASX: SLR)
Increasing Target to A\$4.50, Maintain Outperform

Outperform
Above Average Risk

Price:	2.98	Price Target:	4.50 ↑ 3.50
Shares O/S (MM):	185.3	Implied All-In Return:	51%
Dividend:	0.00	Market Cap (MM):	552
NAVPS:	4.29	Yield:	0.0%
BVPS:	0.51	P/NAVPS:	0.7x
ROE:	17.0%	P/BVPS:	5.8x
Float (MM):	185.3	Enterprise Val. (MM):	526
Debt to Cap:	0%	Avg. Daily Volume (MM):	0.56

Management holds ~23% fully diluted. Priced at close on the ASX on 24 October 2011.

Event

A solid 17.3koz Sept Q. Rolling price target multiples forward to capture strong growth profile over next 2 years.

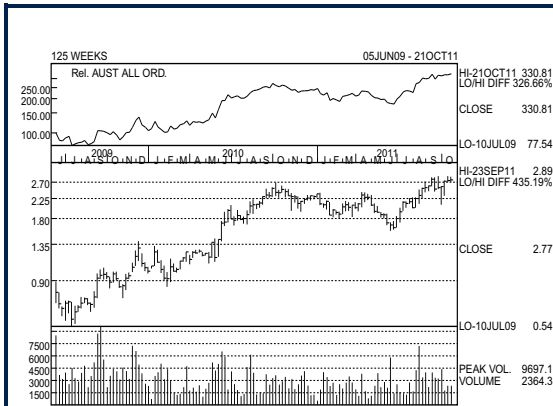
Investment Opinion

Silver Lake's Sept Q production was in line with our forecasts, although costs were 7% higher at A\$739/oz due to increased ore development ahead of stoping activities. We expects costs to improve by ~A\$100/oz by the end of the year as the Lakewood process facility is expanded from 400ktpa to 700ktpa. With several near-team catalysts approaching, we move our target price to a blend of FY12 & FY13 cashflow (previously FY12 only), to capture the strong growth in CFPS expected over the next 2 years. With its strong growth profile and high quality team, Silver Lake remains one of our preferred ASX gold exposures.

- **Near-term Catalysts:** In our view, the three key near-team potential catalysts for Silver Lake are: (1) Confirmation of high-grade copper discovery at Hollandaire, (2) Completion of the stage 1 expansion of the Lakewood processing facility by year end, and (3) Completion of the DFS on the 100kozpa Murchison gold project and formal go-ahead, due in the Dec Q, a project which we believe can be internally funded.
- **High-Grade copper discovery at Hollandaire:** During the Sept Q, Silver Lake released the initial results from its nine hole drilling program. All nine holes reported copper mineralisation including a 12m intersection in massive sulphide at very impressive copper grades of 6-30% at 65m depth (estimated with handheld Niton XRF). Formal assays are due in 3-4 weeks. While still very early stage, in this report we explore what this discovery could be worth.
- **Strong CFPS growth:** On our forecasts, Silver Lake is on track to more than double its CFPS in FY12 and to almost double it again in FY13, as Mount Monger is expanded and Murchison pours first gold.
- **Sept Q:** Production of 17.3koz was in line with our 17.4koz estimate, but gold sales of 19.3koz were ahead of our forecast and offset the impact of the higher costs. FY12 production guidance was maintained at 100-110koz.
- **Valuation:** We increase our target price to A\$4.50 (A\$3.50) based on a blend of 8.0x FY12 & FY13 CFM and 0.8x NAV (Previously 8.0x FY12 CFM and 0.8x 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 7.



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FY Jun	2010A	2011A	2012E	2013E
CFPS - FD	0.11	0.15	0.44	0.82
Prev.		0.14	0.46	
P/CFPS	27.1x	19.9x	6.8x	3.6x
EPS (Op) - FD	0.07	0.09	0.36	0.68
Prev.			0.37	
P/E	42.6x	33.1x	8.3x	4.4x
DPS	0.00	0.00	0.00	0.00
Div. Yield	0.0%	0.0%	0.0%	0.0%
Payout Ratio - FD	0%	0%	0%	0%
Prod.	60	63	101	191
Prev.			102	

All values in AUD unless otherwise noted.

Increasing target to A\$4.50, a 51% return implied

Silver Lake delivered a solid Sept Q result, producing 17.3koz, in line with our 17.4koz estimate. Cash costs rose 7% on the June Q to A\$739/oz including royalties due to increased ore development at Haoma and Daisy Milano ahead of stoping activities. We expect costs to trend back towards A\$650/oz (and potentially lower) in Q1 next year at the company starts to see the benefits of economies of scale after the Lakewood Gold Processing facility is expanded from 400ktpa (hard rock) to 700ktpa.

We have also rolled our price target multiples forward to FY13 to capture the expected step change in production and cash flow that year. We maintain our price target multiples of 8.0x FY11 CF and 0.8x P/NAV, but now include 8.0x FY13 CF. **We increase our price target to A\$4.50 and maintain Outperform, Above Average Risk.**

It is also worth noting that, as per the exhibit below, our Price Target Multiples for Silver Lake are currently the lowest of any of our ASX-listed gold producers under coverage, which we believe is appropriate given the company does not yet have a defined reserve.

Exhibit 1: RBC Price Target Multiples for ASX-listed Gold Producers

Company	Multiples		Commentary
	CF	P/NPV	
Newcrest	14x	1.4x	The premium & dominant ASX gold stock with low cash costs, long life assets, and strong balance sheet. Now ranked as fourth-largest gold producer in the world offering superior growth and reducing cash costs.
Medusa	11x	1.1x	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.
Evolution	9x	0.9x	We apply modest multiples until the new merged Evolution gets 'runs on the board' and can be readily evaluated as a +400koz pa new producer
Kingsgate	9x	0.9x	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.
Allied Gold	9x	0.9x	An emerging ~220koz producer through its 70koz Simberi mine in PNG, and its 120koz pa Gold Ridge mine in the Solomon Islands. Gold Ridge is ramping up to full production by end-CY11 and Simberi is being expanded to 100koz pa by Q1 CY12.
Silver Lake	8x	0.8x	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.

Source: RBC Capital Markets

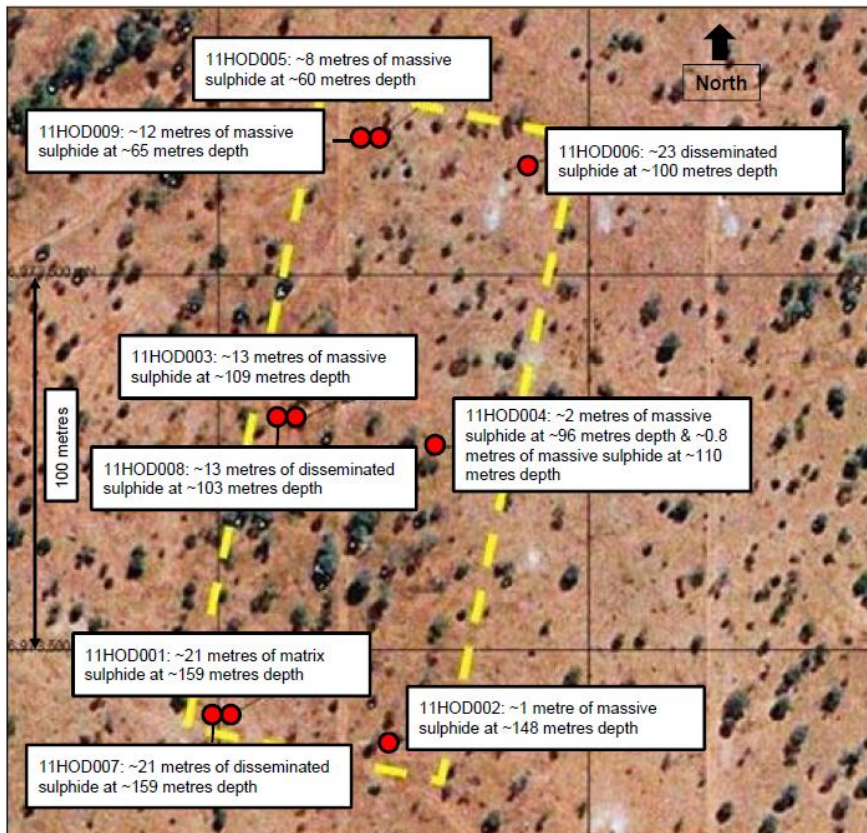
Sept Q Highlights

- **Production in line:** 17.3koz in line with our 17.4koz estimate and 17.4koz in the June Q.
- **Higher sales:** Gold sales of 19.3koz were ahead of our forecasts and essentially offset the impact of slightly higher costs. The company booked revenue of A\$31.1m for the quarter based on an average realized gold price of A\$1,617. Silver Lake remains 100% unhedged.
- **Costs a touch higher:** A\$739/oz including royalties, up 7% on A\$693/oz in the June Q, although we see this as a temporary increase, and expect costs to fall back to ~A\$650/oz from next year.
- **Wombola open pit begins production:** the starter pit at Wombola Dam is set to produce ~13koz over 9 months (to supplement underground production) at an average strip of 4.8:1 and a cash operating cost of only A\$432/oz.
- **FY12 production guidance maintained:** 100-110koz gold produced and sold, split 35-40koz in 1H and 65-70koz in the 2H as the Lakewood mill is expanded.
- **Murchison DFS on track** for completion in the Dec Q. A decision to go ahead with this project is expected in late 2011.
- **Copper Assays at Hollandaire** due in 3-4 weeks. Downhole geophysics on the nine holes drilled to date will be completed in the Dec Q. While it is still early days, in our view, this could be a material discovery, and in the section below we explore what this discovery could be worth.
- **Cash & Bullion** on hand at end Sept was A\$26.4m. No debt.

High-Grade Copper Discovery at Hollandaire

During the quarter, Silver Lake announced the results of nine drill holes at its Hollandaire copper prospect, at its Murchison project. The drill core has not been assayed yet and copper grades have been estimated with a handheld Niton XRF, are subject to variation, and industry standard assays are required to validate the mineralisation type and grade. **Formal assays are due in 3-4 weeks.**

Exhibit 2: Hollandaire drill hole location plan showing electromagnetic conductor



The handheld Niton XRF indicated the following ranges for the copper mineralisation:

- Massive sulphide 6-30% Cu
- Matrix Sulphide 3-15% Cu
- Disseminated sulphide ~1% Cu

These are **much higher** grades than most copper discoveries, and generally speaking, it is highly likely that a resource grading 5% copper would be economically viable.

Importantly, some of these intersections are also **relatively shallow** – i.e. 12m of massive sulphide at ~65m deep.

Source: Company

While Silver Lake has only just pulled the core out of the ground in the last few weeks, we thought it might be prudent to run some high level numbers to estimate what this discovery could be worth. It is also worth noting that the mineralisation is open in all directions and at depth, so these preliminary numbers may prove conservative in time as the company undertakes further drilling.

The exhibit below provides the EV/lb numbers implied by current share prices for a selection of ASX-listed copper companies.

Exhibit 3: EV/lb contained Cu in Resource for other ASX copper companies

Company	EV (US\$m)	Contained Cu in Resource (kt)	EV/lb (USc)
Sandfire	943	644	66
OZ Minerals	2,624	2,542	47
PanAust	1,750	2,216	36
Hillgrove	150	292	23
Straits Resources	192	478	18
Discovery Metals	523	1,400	17
Rex Minerals	166	1,200	6
Intrepid	301	3,168	4
		Average	27

Source: IRESS, RBC Capital Markets estimates. Note: For simplicity the value of gold and other bi-products have been ignored.

Using the EV/lb numbers from Exhibit 3, the Exhibit below provides the estimated value range based on an initial copper resource at Hollandaire of 50-100kt. i.e. The minimum column employs the Intrepid multiple of ~US4c/lb, while the maximum column uses Sandfire's multiple of US66c/lb.

Exhibit 4: Implied value of a 50-100kt Initial Resource

Initial Resource (kt)	Implied Value (US\$m)	
	Min	Max
50	5	73
75	7	110
100	10	146

Source: RBC Capital Markets estimates.

The takeaway message here, while still relatively early stage, the copper discovery at Hollandaire could be worth anything between US\$5 and US\$146m, and we believe over time the value could be in the range of ~US\$50-100m or A28-56c per share. That said, the project could also be worth *significantly more* depending the degree of success of the follow up exploration.

Given the early stage nature of the discovery and the fact that formal assays have not yet been completed, we do not yet assign any value for the Hollandaire copper project in our base case valuation of Silver Lake.

Further Upside: Another important point to note is the copper discovery at Hollandaire was the first of nine copper exploration targets based on electromagnetic conductors in Silver Lake's Eelya complex tenements (50km²). Given VMS-style deposits tend to occur in clusters, we would consider the company's other targets in the immediate vicinity to be significantly more prospective as a result of this discovery. The company's drilling program at this other copper targets is currently in progress.

Exhibit 5: Silver Lake Production & Financial Forecasts

Silver Lake Resources							
ASX: SLR	Share Price: (A\$)	2.98		Stock Rating: Outperform	All-in-return 51%	Price Target: A\$4.50	
Issued Shares (m)	Market Cap: (A\$m)	552		Risk Qualifier: Above Average	Ent. Value (A\$m) 526	NAV: A\$4.29	
Fiscal Year Ended June							
ASSUMPTIONS							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Exchange Rate	A\$/US\$	0.75	0.88	0.99	1.01	0.98	0.94
Gold Price	US\$/oz	875	1,092	1,373	1,778	1,800	1,700
Realised Gold Price	A\$/oz	1,208	1,239	1,390	1,757	1,838	1,807
RATIO ANALYSIS							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Issued Shares - period end	m	154	179	179	185	203	203
Underlying Net profit	A\$m	11	12	16	66	135	204
EPS	A¢	6.9	6.9	8.8	35.9	67.6	100.4
P/E	x	42.9x	43.1x	33.7x	8.3x	4.4x	3.0x
CFPS	A¢	10.3	11.4	15.1	44.3	81.9	122.3
P/CF	x	28.8x	26.1x	19.8x	6.7x	3.6x	2.4x
Dividend per share	A¢	-	-	-	-	-	10.0
Dividend yield	%	-	-	-	-	-	3.4%
Payout Ratio	%	-	-	-	-	-	9%
Franking	%	-	-	-	-	-	100%
Book value per share	A¢	29.7	44.3	51.1	86.6	150.3	238.6
Price/Book value	x	11.0x	7.4x	6.4x	3.8x	2.2x	1.4x
R.O.E.	%	23%	16%	17%	41%	45%	42%
R.O.A.	%	18%	12%	12%	31%	37%	37%
EBITDA	A\$m	19	24	33	110	220	331
EBITDA per share	A¢	10	13	18	59	119	179
PROFIT & LOSS							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Revenue	A\$m	58	69	90	183	351	534
Operating costs	"	(37)	(43)	(54)	(70)	(128)	(199)
Mine Operating Profit	"	21	26	36	113	224	335
Exploration Expense	"	0	0	0	0	0	0
Corporate and Other	"	(2)	(2)	(3)	(3)	(4)	(4)
EBITDA	"	19	24	33	110	220	331
D&A	"	(5)	(8)	(11)	(15)	(29)	(44)
EBIT	A\$m	14	16	22	94	191	287
Net Interest Expense	"	0	1	1	0	1	4
Pre Tax Profit	"	14	17	23	95	192	291
Tax Expense	"	(3)	(5)	(7)	(28)	(58)	(87)
Underlying Net Profit	A\$m	11	12	16	66	135	204
Significant Items	"	0	0	0	0	0	0
Reported Net Profit	"	11	12	16	66	135	204
CASH FLOWS							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Operating Cash Flow	A\$m	25	21	34	110	220	331
Net Interest Expense	"	0	0	0	0	1	4
Tax Paid	"	0	0	0	(13)	(43)	(80)
Retained Op. Cash Flow	A\$m	25	21	34	97	178	256
Acquisitions	"	(2)	(8)	(8)	0	0	0
Exploration	"	(8)	(18)	(40)	(18)	(18)	(18)
Capital Expenditure	"	0	0	0	(69)	(30)	(12)
Other	"	(0)	(0)	0	0	0	0
Funding Surplus/(Deficit)	A\$m	(10)	(25)	(47)	(87)	(48)	(30)
Dividends Paid	"	0	0	0	0	0	(19)
Loan Repayments	"	(0)	(1)	(0)	0	0	0
Borrowings	"	0	1	0	0	0	0
Equity Issues	"	0	18	0	2	5	0
Other	"	0	0	(0)	0	0	0
Total Funds Provided	A\$m	(0)	18	(0)	2	5	(19)
Net change in cash	"	15	13	(13)	12	135	207
Cash at start of year	"	2	17	30	16	28	163
Exchange Rate Adjustments	"	0.0	0.0	0.0	0.0	0.0	0.0
Cash at end of year	A\$m	17	30	16	28	163	370
BALANCE SHEET							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Cash & equivalents	A\$m	17	30	16	28	163	370
Other current assets	"	3	10	18	18	18	18
PP&E & Other Mining Assets	"	10	13	16	70	71	39
Capitalised Exploration	"	29	42	76	94	112	130
Other Non Current Assets	"	2	2	2	2	2	2
Total assets	A\$m	60	97	128	211	366	558
Total liabilities	"	14	22	37	52	66	74
Total Net Assets	A\$m	46	76	91	160	299	484
Total Debt	"	1	1	0	0	0	0
Net Debt (Cash)	A\$m	(16)	(29)	(16)	(27)	(163)	(369)
Gearing (net debt:nd+ equity)	%	(53%)	(62%)	(21%)	(21%)	(119%)	(321%)
Net debt:Equity	%	(35%)	(38%)	(17%)	(17%)	(54%)	(76%)
ATTRIBUTABLE MINE STATS							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Mount Monger							
Ore Treated	kt	160	315	357	564	800	1,000
Head Grade	g/t	9.8	6.2	5.8	5.9	6.0	6.0
Recovery	%	95%	96%	95%	95%	95%	95%
Gold Production	koz	47	60	63	101	147	184
Murchison							
Ore Treated	kt	-	-	-	-	490	1,260
Head Grade	g/t	-	-	-	-	3.0	3.0
Recovery	%	-	-	-	-	92%	92%
Gold Production	koz	-	-	-	-	43	112
Group Gold Production	koz	47	60	63	101	191	296
Cash Costs (incl royalties)							
		FY09	FY10	FY11	FY12E	FY13E	FY14E
Mount Monger	A\$/oz	626	648	677	677	655	654
Murchison	A\$/oz	-	-	-	-	717	704
Group Cash Costs	A\$/oz	626	648	677	677	669	673
Group Cash Costs	US\$/oz	466	571	674	682	654	632
Reserves & Resources							
		P+P Reserves		M+I Resources		Inferred	
(As at 30 Jun 2011)		Mt	g/t	koz	Mt	g/t	koz
Mount Monger		-	-	-	2.3	10.2	740
Murchison		-	-	-	9.3	3.0	850
Rothsay		-	-	-	-	-	133
Total		-	-	-	-	-	1,590
Enterprise Value / oz Reserve	US\$/oz	n.m.		Rsc/Res			
Enterprise Value / oz Resource	US\$/oz	364		n.m.			
EARNINGS SENSITIVITY							
		FY12E	FY13E	FY12E	FY13E		
		A\$m		%			
Gold Price US\$/oz	+10%	12.7	23.9	22%	22%		
A\$/US\$ FX	-10%	14.1	26.5	24%	25%		
PRODUCTION PROFILE							
Annual Production (koz) and Cash costs (US\$/oz)							
EBITDA GROWTH & GOLD PRICE							
EBITDA (A\$m) and Gold Price (US\$/oz)							
SHARE VALUATION							
		Economic Interest		A\$m	A\$/Shr		
Mount Monger		100%		438	2.37		
Murchison		100%		307	1.66		
Exploration				50	0.27		
Debt				(0)	(0.00)		
Cash & Bullion				26	0.14		
Group & Unallocated				(27)	(0.14)		
Net Asset Value				795	4.29		
					P/NAV		

Source: Company, RBC Capital Markets estimates



Valuation

We increase our target price to A\$4.50 (A\$3.50) based on a blend of 8.0x FY12 & FY13 CFM and 0.8x NAV (Previously 8.0x FY12 CFM and 0.8x 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 Sept 2011, the company had A\$26m in cash and bullion and no debt.

Required Disclosures

Non-U.S. Analyst Disclosure

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Conflicts Disclosures

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

The author is employed by Royal Bank of Canada - Sydney Branch, a securities broker-dealer with principal offices located in Sydney, Australia.

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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.

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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.

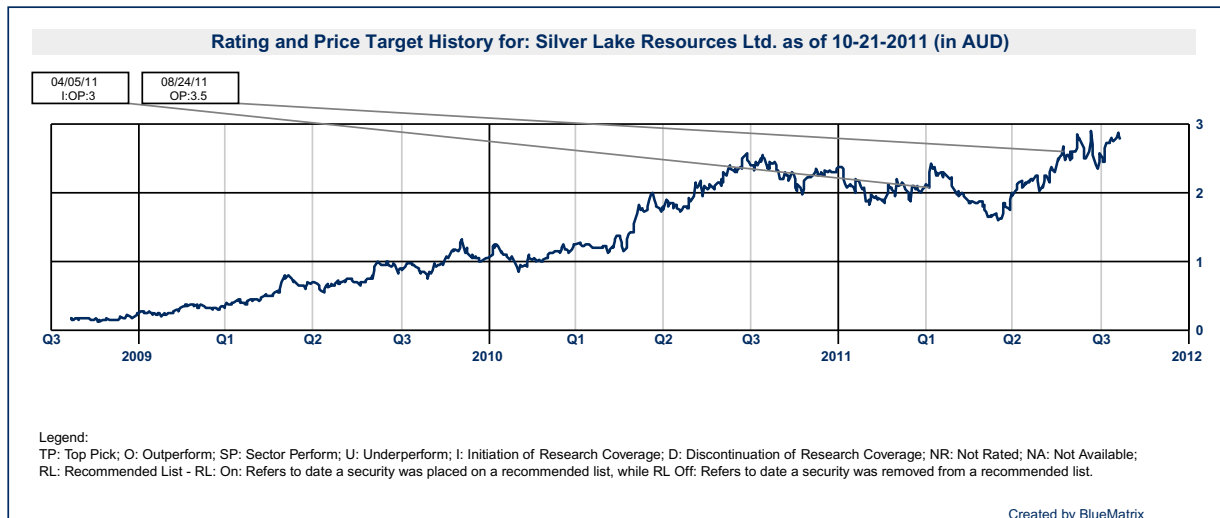
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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

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Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	775	53.10	232	29.94
HOLD[SP]	624	42.80	137	21.96
SELL[U]	60	4.10	9	15.00



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