



# Post 2010 Diggers 'n Dealers Review Buy Silver Lake Resources (SLR)

(by Keith Goode : 8 October 2010)

The following comment on SLR has been taken from our/ERA Post DnD review.

The preamble to our Post DnD review included the following relevant comment :

*In the preamble to our last report on **Silver Lake Resources (SLR)** of June 2010 (at a share price of \$1.73), we stated “....SLR could have a market cap of ~A\$600m within about the next 2 years, and be paying dividends”. Well (yesterday) on Thursday 7 Oct 2010, SLR closed at \$2.45 and on its diluted 203m shares, it had a market cap of **almost \$500m**.*

*Our target was \$2/share by the end of December 2010, with the Murchison adding another \$1 for about \$3/share. The acquisition of the Tarmoola plant enables SLR to have a 1.2mtpa plant at the Murchison (our ~\$1/share was based on a 5yr open-cut life whereas it could easily be >10 years and an underground), and a ~1mtpa plant at Mt Monger (treating Magic and possibly the newly acquired Wombola/North Mt Monger) – and we still haven't factored in that 5m @ 10g/t drive for ~150m on strike at Daisy East, now being developed on a second level.*

**So 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 Miner** in their booth as shown in Figure 1a

**Figure 1. Silver Lake's 1000oz Gold Miner**  
a. Silver Lake's (SLR) 1000oz Gold Miner



Followed by a descriptive comment on SLR, viz :

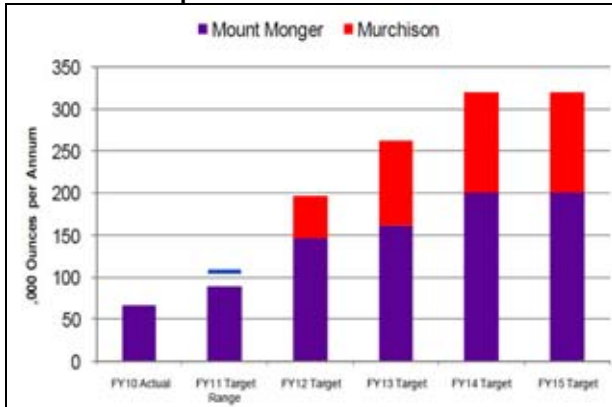
**Silver Lake (SLR) – Rated as a BUY (NPV of ~A\$2.68 at US\$1300/oz and A\$0.97/US\$)**

The NPV is based on \$1.87 for Mt Monger and \$0.81 for the Murchison, but Mt Monger doesn't include the ~5m wide orebody at Daisy East, or a probable 1mtpa mill (from half of the newly acquired plant) at Mt Monger for Magic and North Monger/Wombola, and the Murchison is based on a 5yr o/cut which could be at least 10 years and an underground too). We remain of the view that SLR has an initial achievable target of \$3/share, increasing to ~\$4 or \$5/share or so in 2 to 3 years.

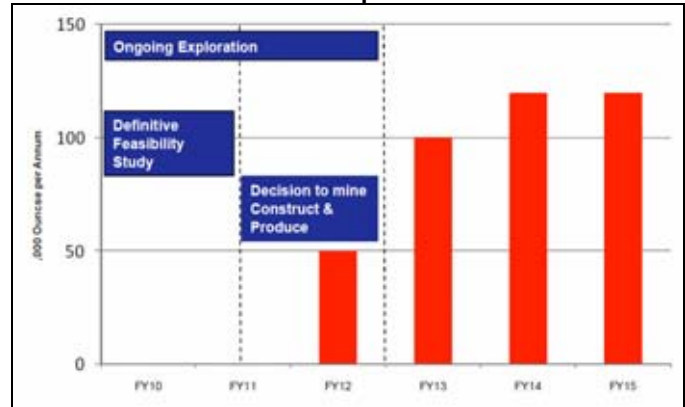
SLR's main announcement at DnD was the acquisition of the ~2.5mtpa Tarmoola plant (3 ball mills etc) for \$3m cash, from which SLR expects to have a 1.2mtpa mill at its Murchison Project and potentially a 1mtpa mill at Mt Monger (possibly keeping Lakewood for higher grade ore). In their DnD presentation, SLR gave a conceptual production forecast and a possible plan for the Murchison as in Figures 9a and 9b.

**Figure 9. SLR's Conceptual Production Forecast and Possible Murchison Build up to Production**

**a. SLR's Conceptual Production Forecast**



**b. Possible Murchison Build up to Production**



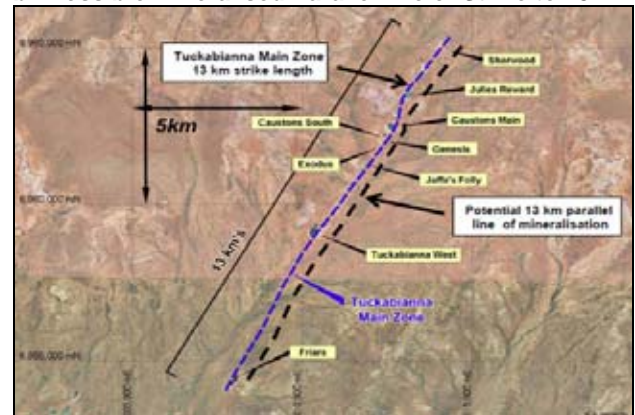
As commented in our last SLR report, **the Murchison plant** is likely to be located on the western side, adjacent to the tailings dams, because a possible parallel line of strike mineralization appears to pass under the old mill location, camp and ROM pad as shown in Figure 10a, and conceptually along the whole line of strike as shown in Figure 10b (as inferred from SLR's discoveries).

**Figure 10. Possible Murchison Plant Location at Tuckabianna, Poss Parallel line of Strike up to 13km**

**a. Possible Murchison Plant Location at Tuckabianna**



**b. Possible Mineralised Parallel line of Strike to 13km**



The production sources for the Murchison are the new SLR discoveries in the Murchison region near the existing Tuckabianna pits, the Lena area and Comet (which is expected to be an open-cut and underground). Our modeling has the Murchison as ~80c/SLR share on the basis of 5years open-cut at 1.2mtpa, but 10 years & an underground should be achievable for potentially >\$2/share.

**Possible "New" ~1mtpa Mill at Mt Monger**

Due to the size of the Tarmoola plant it is possible that SLR may be able to get 2-for-1 and have a 1mtpa plant at Mt Monger too. While the current plan is to mine and treat a Costello open-cut through Lakewood this year to June 2011, there is **the case of what to do with the ore from Magic and the new North Monger/Wombola acquisition.**

**Magic**

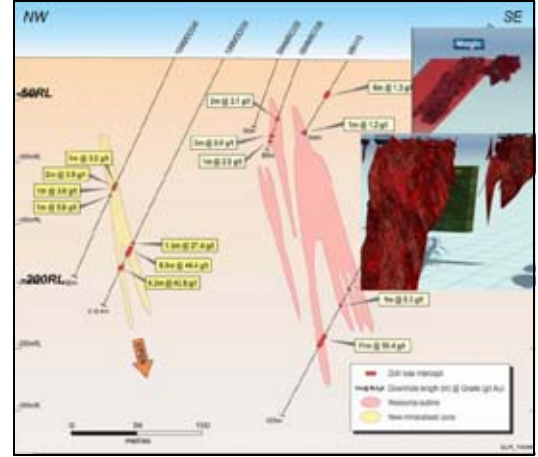
SLR has already released pictures of the blebby pyritic drillcore at **Magic** with intersections of 11m @ 59g/t **resulting in a resource of 1.1mt @ 4.4g/t (153,000oz)**, and some further intersections on 7 September 2010 such as 8.3m @ 44g/t & 4.2m @ ~43g/t. We also saw some similar looking deeper core after Diggers (in Figure 10a), which infers that Magic could become a significant resource. There are also mineralized intersections extending from Mirror (parallel to Magic) to the south too, and there was a conceptual view that Mirror and Magic (~100m apart) may join at depth.

Figure 11. Magic and its Blebby Mineralisation, and Section through Magic

a. Magic and its Blebby Mineralisation



b. Section through Magic



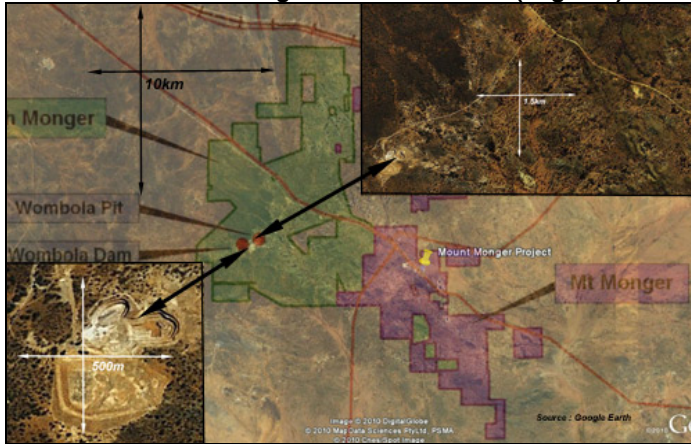
Apparently Magic's mineralization is comparable to that seen at Britannia in the Victory-Defiance goldfield of St Ives, and which reputedly averaged 11g/t. SLR have a resource target of 0.4moz to 0.5moz for Magic/Mirror – if that happens then SLR should need its own 1mtpa mill at Mt Monger, especially if Wombola/North Monger comes through.

**Wombola / North Monger**

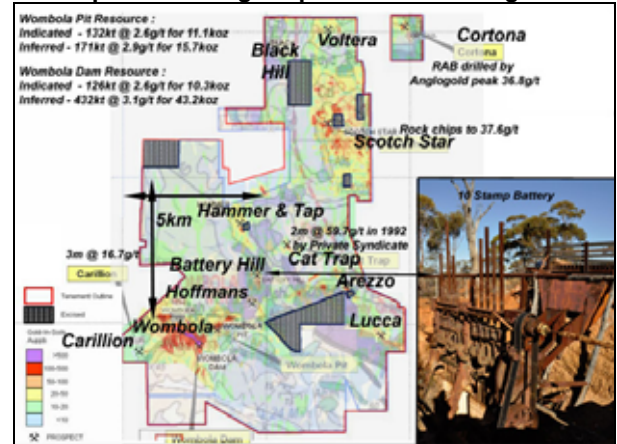
SLR bought 100% of North Monger from Cortona (& Peter v d Borgh) for \$3m on 5 July 2010, covering the “green” area shown north and adjacent to SLR's Mt Monger tenements in Figure 12a.

Figure 12. Additional North Monger Area & Wombola, Simplified Geological Plan of North Monger

a. Additional North Monger area & Wombola (in green)



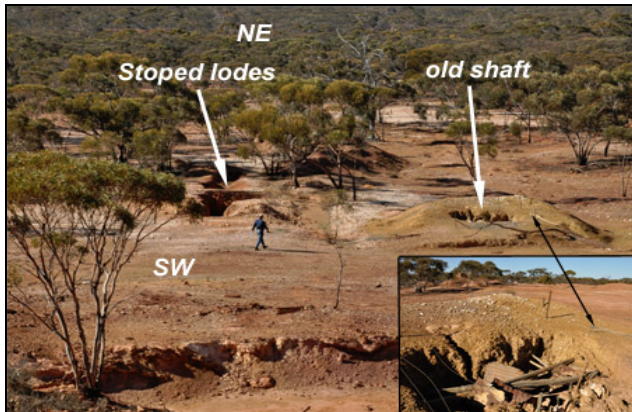
b. Simplified Geological plan of North Monger



The North Monger tenements are littered with old workings and a small open-cut occurred in the early 1990s in the Wombola area, with remaining ore resources defined by Cortona as shown in Figure 12b. Also shown inset in Figure 12b, is an operational 10-stamp battery at Battery Hill in a more metallic form than the mostly wooden 5-stamper at SLR's Rosemary at Mount Monger.

Figure 13. Views NE from and SW to the Wombola Pit

a. View NE from Wombola Pit



b. View SW to Wombola Pit



Looking in the Wombola pit area (NE of the pit), it could be seen that there are appeared to be a number of old workings stoped on strike NE/SW through to surface in a stacked lode system extending NE into an area of old workings as shown in Figures 13a & 13b. There appeared to be no drillholes around the old workings, just a couple between the workings and the pit – but even then, those RAB drillholes appeared to have been drilled parallel to the dip of the stopes.

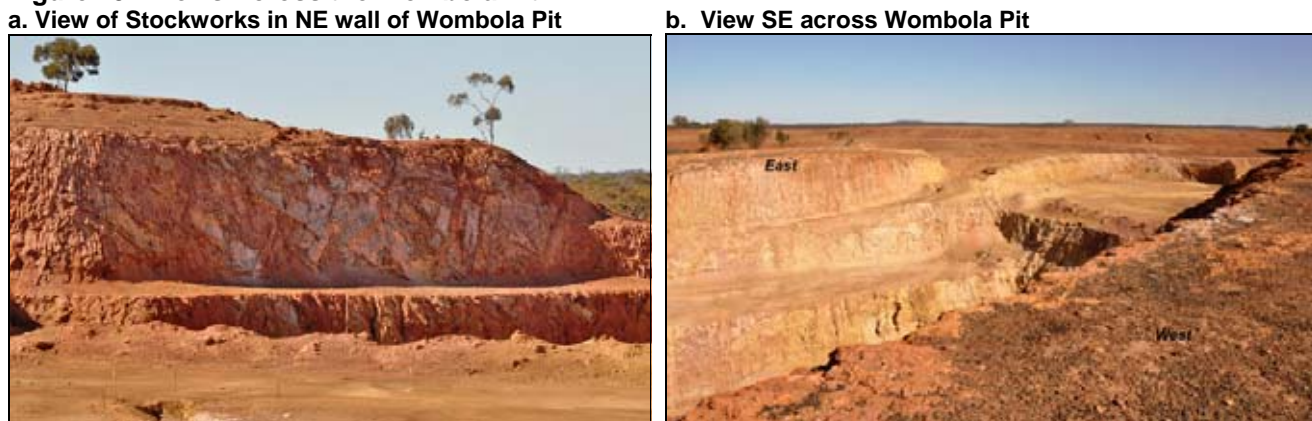
A number of the old workings are shown in Figures 14a to 14c. Figure 14c also shows “fields of quartz”. such fields are caused by quartz “floating” in periods of heavy rainfall and usually indicate major or significant quartz-filled structures or shear zones.

**Figure 14. Old Stopes and Workings NE of the Wombola Pit of North Monger**



While in Figures 15a the stockworks (indicating mineralisation) can be seen in a number of the walls of the dry Wombola pit shown in Figure 15b, the rocks in the pit appear to be dipping to the east, whereas the old workings to the north appear to be dipping to the west, which may have been the reason why historical drilling in the “gap” appeared to be drilling parallel to the old stopes.

**Figure 15. Views Across the Wombola Pit**



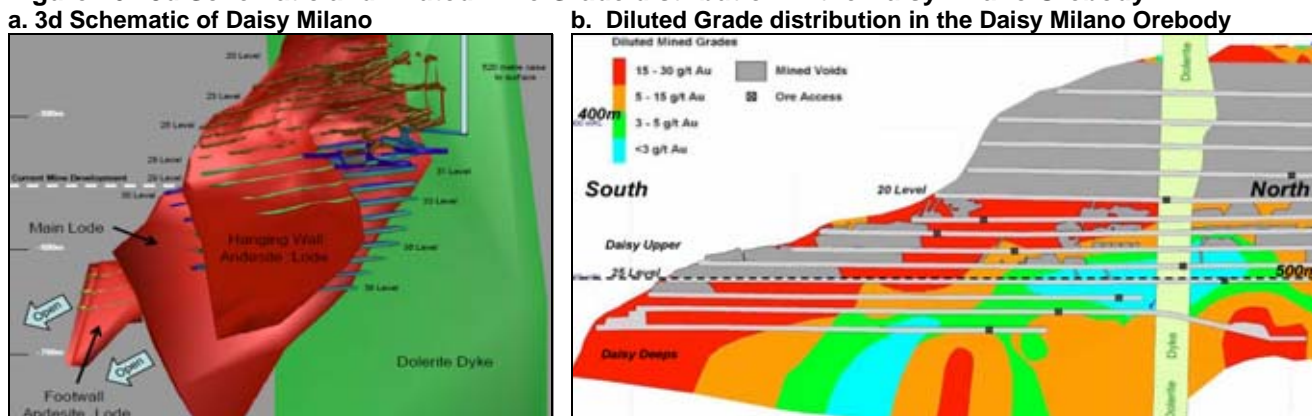
At this stage ore from Wombola is expected to be trucked to the Lakewood plant, possibly in FY2012. However, it could contain significant ore resources and if it did, that could (with Magic) further support the case for a separate possibly ~1mtpa mill/plant at Mt Monger.

However, the current mainstay for SLR is Daisy Milano and its progress on Daisy East.

### Daisy Milano / Daisy East

At DnD, SLR showed that Daisy Milano (DM) now consists of 3 lodges as shown in Figure 16a, with the main lodge showing that its higher grades continue to track the southern rim of the orebody as shown in Figure 16b. DM is consistently supplying ~60,000ozpa production and SLR expects to complete a ventilation raise to 500m below surface (as shown) to increase production.

**Figure 16. 3d Schematic and Diluted Mine Grade distribution in the Daisy Milano Orebody**



SLR’s understanding of the Daisy Milano mineralisation is ongoing, with the intersection of a lead / galena band within a vein driving north of the South Fault as shown in Figure 17a. Nickel Seekers (the operators before Perilya) commented that they used to encounter it & it developed into a lode.

**Figure 17. Lead Band in Daisy Milano (North of the South Fault), 3d Schematic Showing Daisy East**  
**a. Lead Band in Daisy Milano North, Nth of Sth Fault**      **b. 3d Schematic of Daisy Milano and Daisy East**

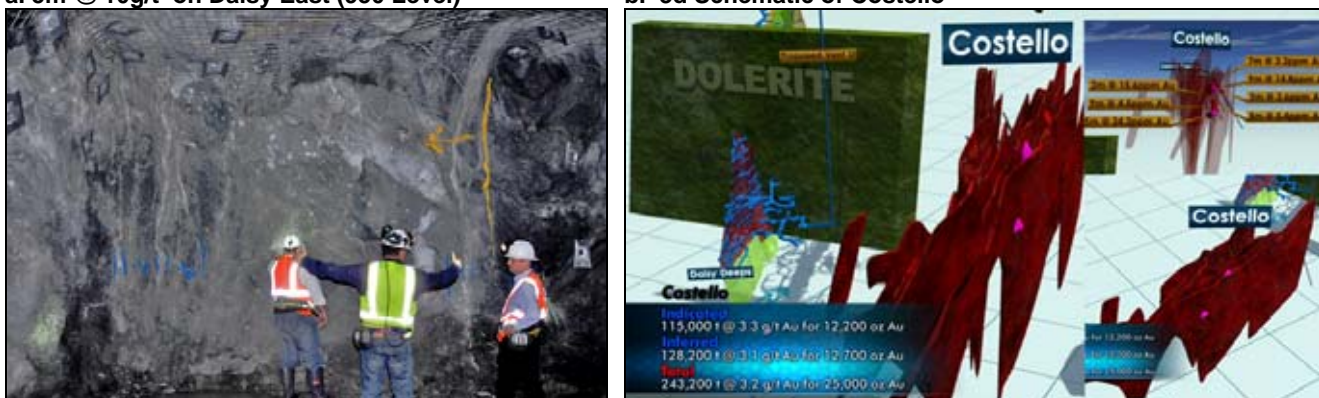


### Daisy East

It can be seen in the schematic of Figure 17b, that Daisy East extends beyond the southern limit of Daisy Milano. Daisy East also has its own internal decline on the eastern side of the previously mined out Daisy Milano orebody (the original Daisy Milano decline is on the west). In our last SLR report dated 11 June 2010 at \$1.73/share, we commented on page 6 that Daisy East had widened out to ~5m @10g/t beyond the southern limit of the Daisy Milano orebody (based on our visit ~20 May). Since then ~150m has been developed to August 2010 on level 9 of this wide mineralisation.

This time we visited the **950 Level** (halfway between levels 9 and 10) and **again this wide mineralisation** has encouragingly been encountered (still averaging ~10g/t) as shown in Figure 18a, driving south beyond the original limit of the Daisy Milano orebody. While this wide mineralisation exists on 9 Level, it does not exist on 8 Level, and is all located in a greenish coloured porphyry.

**Figure 18. 5m @ 10g/t on Daisy East (950 Level), 3d Schematic of Costello**  
**a. 5m @ 10g/t on Daisy East (950 Level)**      **b. 3d Schematic of Costello**



### Other Factors

Other factors for SLR in the coming year to June 2011, and the reason why a production target range has been given in Figure 9a, is that the current year is a transition year that involves:

- Ongoing near mine exploration to underpin upgrading the Lakewood plant to handle any combination or type of ore at ~600,000tpa,
- Sinking a ventilation shaft to 500m for improved flexibility in production, deeper mine life, and access the remnant pillars in the old Daisy Milano mine (that currently form part of the ventilation circuit).
- Starting a pit at Costello (shown in Figure 18b and seeing what grade [3g/t or higher] and SR it actually has as there are multiple lodes in the schematic.

**Disclosure:** Keith Goode, who is an Authorised Representative of Taylor Collison Ltd ACN 008 172 450, and is a consultant with Eagle Research Advisory Pty Ltd ACN 098 051 677 compiled this comment. At the date of this report Keith Goode and his associates held interests in a number of the shares contained in this report. At the date of this report, Taylor Collison Limited or their associates within the meaning of the Corporations Act, held interests in a number of the shares contained in this report.

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