

4 December 2007

## Cash flow with a silver lining

### Investment Highlights

- **Cheap option on exploration success.** With a pending transition to unhedged production and logical execution strategy, we view SLR as cheap option on future exploration success. Our base line valuation of A\$0.51/sh assumes LOM production at Daisy Milano (DM) of 167koz, and a nominal A\$25/oz for Tuckabianna and Moyagee resources. Speculative BUY.
- **Old dog, new trick.** SLR has acquired Perilya Limited's 100% interest in the DM gold mine for A\$13.75m in cash and SLR scrip. PEM expended ~A\$40m since acquiring the project however a transition to mechanised mining proved unsustainable and operations were placed on C&M in CY06. SLR intends reverting to the traditional mining method which has underpinned 18 years of near continuous operation.
- **First production imminent.** SLR is targeting commercial production in 1Q CY08 at metrics of 35-40kozpa at A\$450/oz. While modest in scale, pre-production capital requirements are negligible (sub-A\$2m), with sufficient level development in place to underpin the first 12 months of mining.
- **Leveraged to grade.** Assumed cash costs are based on a milled head grade of 15g/t Au. However, we are confident SLR's experienced airleg crew, and a well reasoned development strategy can deliver meaningful upside on its base case scenario. Limited scale leaves DM highly sensitive to grade with even modest uplift expected to translate to significantly lower unit costs.
- **Mill purchase a major development.** SLR has executed an agreement to acquire the 300ktpa Lakewood Mill located 40km from DM for A\$2.4m. The acquisition averts long-term reliance on toll-treatment, maximises payability and opens the door for third party ore processing. SLR is targeting a mill restart in February following refurbishment expenditure of circa A\$1.5m.

#### Company

**Stock code:** SLR

**Share price:** \$0.40

**Recommendation:** Speculative Buy

S&P/ASX 300 = 6597.2

#### Analyst

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*Patersons Securities Limited was Lead Manager to the Silver Lake Resources IPO which raised \$30m in November 2007 via the issue of 100m shares at an issue price of A\$0.30/sh. It received a fee for this service.*

#### Company Statistics & Performance

Shares on Issue	153.4m	Daily Vol.	1,810,844
Market Cap.	\$56.8m	Debt	\$0.0m
52 Week Range	\$0.00 - \$0.38	Cash	\$17.5m

#### Board of Directors

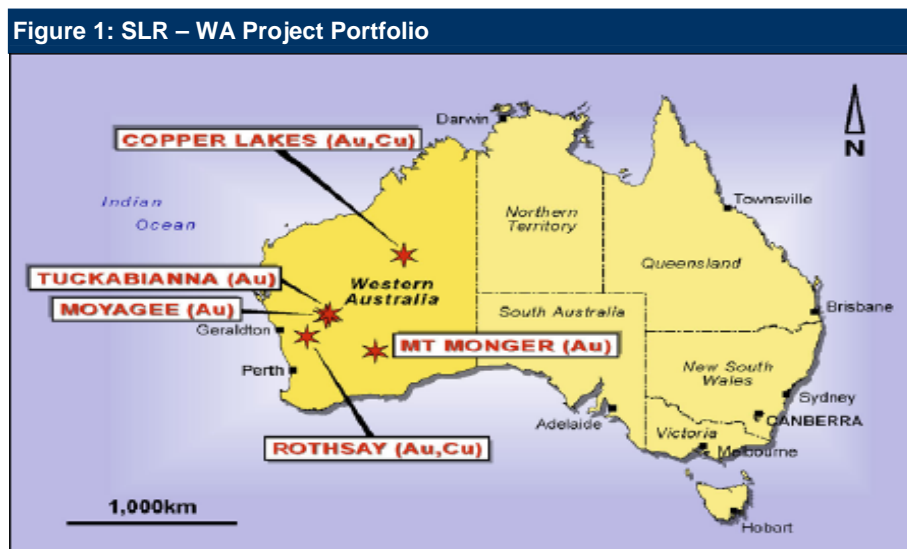
	Position
Paul Chapman	Executive Chairman
Les Davis	Managing Director
Chris Banasik	Executive Director - Geology
Peter Johnston	Non-Executive Director
Brian Kennedy	Non-Executive Director
David Griffiths	Non-Executive Director

#### Investment Summary

Year End June 30	2008F	2009F	2010F	2011F
<b>Reported Earnings</b>				
Net Profit (\$m)	1.0	7.9	13.7	14.4
EPS (cents)	0.7	5.2	8.9	9.4
PER (x)	56.9	7.1	4.1	3.9
<b>Normalised Earnings</b>				
Net Profit (\$m)	1.0	7.9	13.7	14.4
EPS (cents)	0.7	5.2	8.9	9.4
EPS growth (%)	nm	696.3	(72.4)	5.0
PER (x)	nm	7.1	4.1	3.9
<b>Cashflow</b>				
Gross Cashflow (\$m)	0.0	11.0	21.4	22.1
GCFPS (cents)	0.0	7.2	13.9	14.4
PCF (x)	2,033.2	5.2	2.7	2.6
<b>Dividend</b>				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

## Exploration Portfolio

SLR controls circa 1,000km<sup>2</sup> of an advanced exploration tenure in WA. Primary focus is the 100% owned Daisy Milano gold mine at Mount Monger where production is imminent.



Source: Silver Lake Resources Ltd

**Existing resources provide a foundation for growth.** SLR boasts group resources of 830koz, translating to EV:resource metrics of A\$49/oz. This is 30% below the weighted sector average (explorers) of A\$71/oz, and 61% below the weighted sector average (producers) of A\$133/oz, leaving SLR as a cheap call option on future exploration success.

**Figure 2: SLR – Group Resource Inventory**

Project	Indicated Resources			Inferred Resources			Total Resources		
	Ore t	Grade g/t	Total (oz Au)	Ore t	Grade g/t	Total (oz Au)	Ore t	Grade g/t	Total (oz Au)
Mount Monger	180,000	34.2	176,000	80,000	30.6	59,000	220,000	33.2	235,000
Moyagee				820,000	8.5	224,000	820,000	8.5	224,000
Tuckabianna	1,410,000	3.2	146,000	840,000	3.4	92,000	2,250,000	3.3	238,000
Rothsay				590,000	7.0	133,000	590,000	7.0	133,000
<b>Total</b>	<b>1,570,000</b>	<b>6.4</b>	<b>322,000</b>	<b>2,310,000</b>	<b>6.8</b>	<b>508,000</b>	<b>3,880,000</b>	<b>6.7</b>	<b>830,000</b>

Source: Silver Lake Resources Ltd

**Fully funded to execute its strategy.** Imminent transition to production at DM should not be underestimated. At current gold prices SLR is poised to generate sufficient cash flow to execute its aggressive exploration strategy (we are forecasting residual FY08 exploration expenditure of A\$3.4m).

**Figure 3: SLR – 3 Year Exploration Program**

Project	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Total
Mount Monger	3,700,000	3,567,000	1,933,000	9,200,000
Moyagee	530,000	800,000	810,000	2,140,000
Rothsay	400,000	253,000	147,000	800,000
Tuckabianna	600,000	1,000,000	1,160,000	2,760,000
Copper Lakes		100,000		100,000
<b>Total Exploration</b>	<b>5,230,000</b>	<b>5,720,000</b>	<b>4,050,000</b>	<b>15,000,000</b>

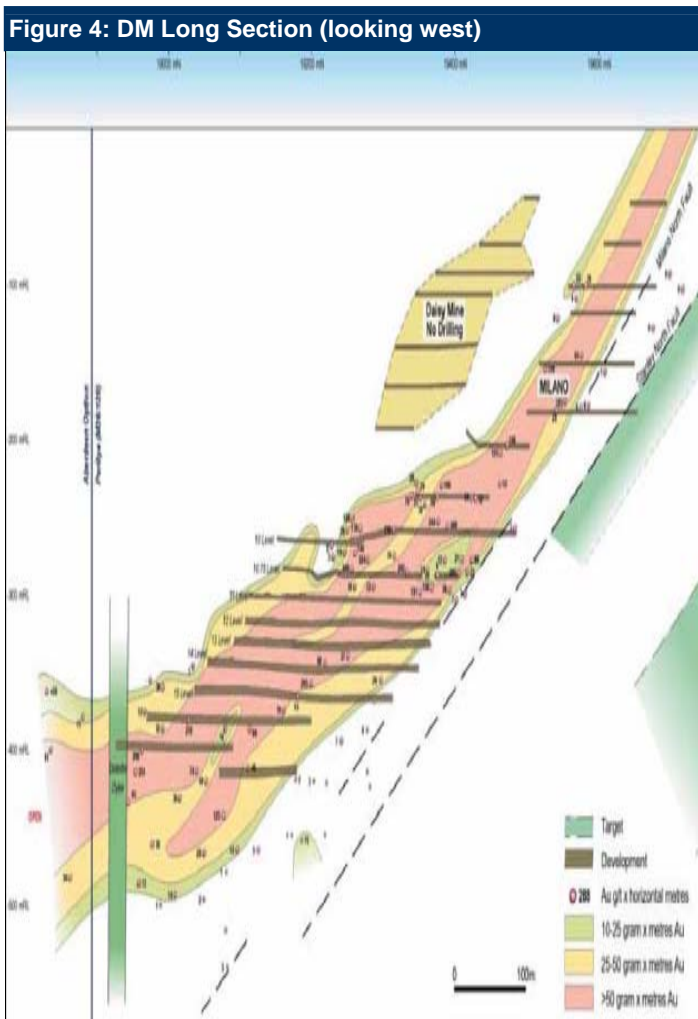
Source: Silver Lake Resources Ltd

## Daisy Milano Acquisition

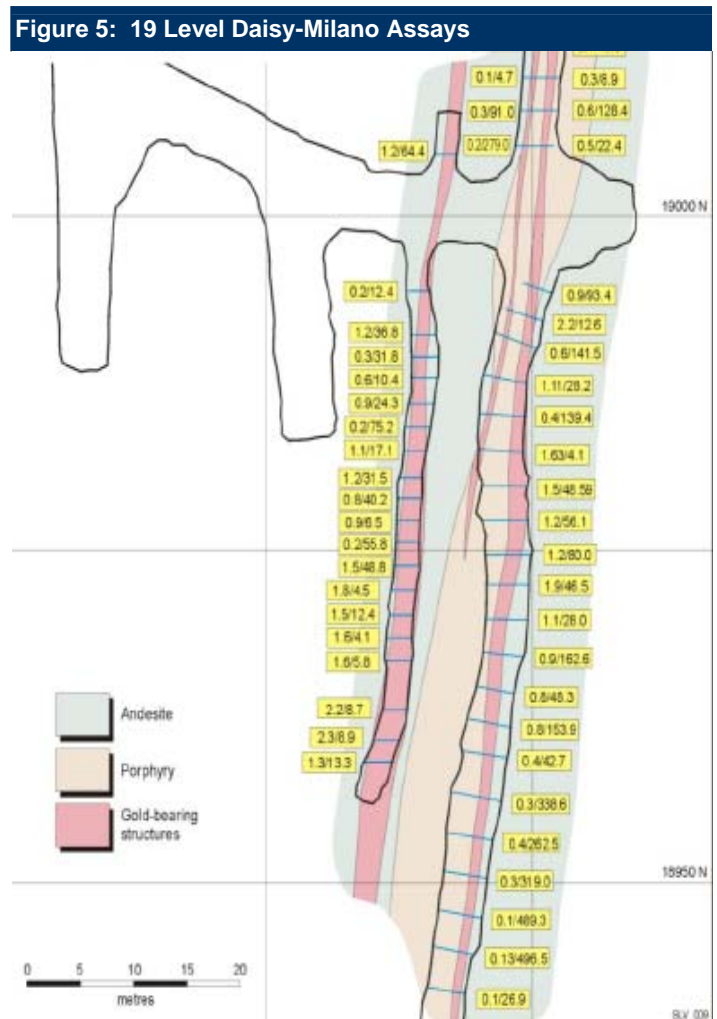
On 10<sup>th</sup> August 2007 SLR acquired the Mount Monger portfolio containing the DM mine from Perilya Limited for consideration of A\$13.75m comprising:

- Cash consideration of A\$8.5m
- A\$5m in SLR scrip (escrowed until 14/11/08)
- A royalty of up to A\$0.25m commensurate with existing agreements enacted by Perilya.

**Improved strategy the attraction.** Prior to being placed on care and maintenance in CY07 DM was in continuous operation since 1988. The key failing in Perilya’s strategy was an inability to contain mine dilution utilising mechanised mining methods (long hole open stoping), reflecting narrow lode geometry at DM. With average vein widths of sub-0.5m, SLR intends reverting to traditional airleg mining which was the mainstay of previous production.



Source: Silver Lake Resources Ltd



Source: Silver Lake Resources Ltd

**Mining acumen lowers execution risk.** We consider SLR management, and importantly the airleg team it has assembled, distinguishes it from its peers and reduces execution risk associated with a restart at DM. Management was most recently in charge of underground operations at Consolidated Minerals’ Beta Hunt nickel mine in Kambalda.

**Production growth mapped out.** Current resources at DM (235koz @ 33.2g/t Au) are sufficient to underpin at least a 3-year mine life at modest production rates of 35-40kozpa. While modest scale, we were impressed by the prospectivity of the Mount Monger package during a recent site visit.

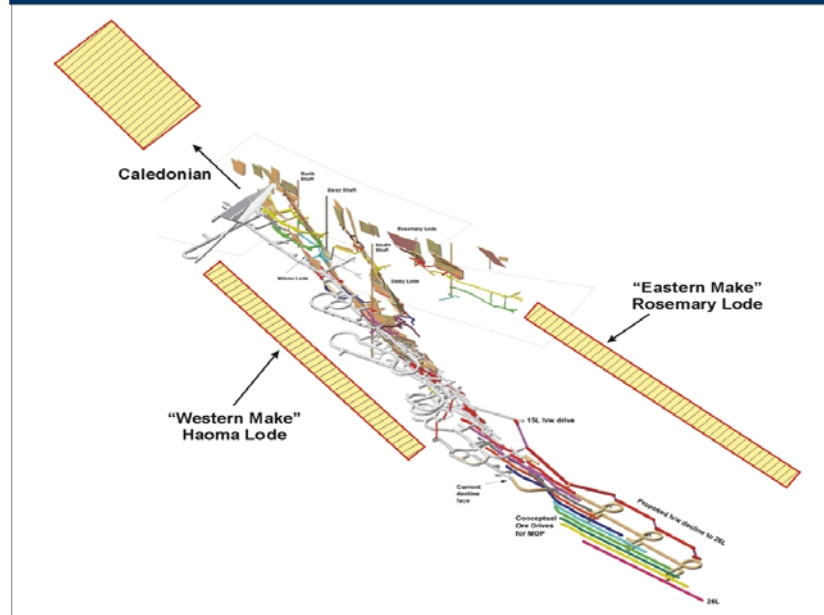
### Three Phase Exploration Strategy

SLR has budgeted a A\$9m three stage, fully funded exploration programme at Mount Monger over the next three years, with focus on:

**Near mine.** Underground resources at DM are currently limited to a ~150m radial envelope encompassing existing mine development, reflecting limited drilling at depth. SLR intends focusing immediate exploration efforts on near mine potential via:

- Construction of a southward drill drive at the base of current development to provide drilling access to known down plunge ore positions. Limited drill density at depth has translated
- Establishment of drill platforms along the existing vent drive to test the parallel lode potential at Rosemary to the east.
- Utilising development stockpiles to construct pads to access potential lode positions to the west western the Haoma Lode to the west of current development.

**Figure 6: Daisy-Milano Mine Plan and Targets**



Source: Silver Lake Resources Ltd

**Along strike and at depth.** There are more than 25 historical workings along SLR's 10 strike-km of the Haoma-Daisy lineament, all of which are considered to be under-explored, particularly at depth. Of the 9804 holes drilled to date at Mount Monger, just 1% have extended below 100m vertical depth. Recent success at Higginsville by Avoca Resources Ltd has focused market attention on the potential for modern explorers to delineate significant blind gold deposits at depth in historically productive fields.

**Regional.** As consolidator of the Mount Monger goldfield, SLR is the first explorer to undertake a systematic regional approach encompassing the entirety of the Haoma-Daisy lineament. We consider SLR has the required financial and technical resources to step back, assess and implement an appropriate strategy thus maximising the prospect of success.

## Lakewood Mill Acquisition

SLR has executed an option agreement to acquire the Lakewood Mill for A\$2.4m. The mill is complete (was operated in November '07), serviced by grid power, has adequate processing water and importantly, is fully permitted for processing and tailings disposal.

**Positive implications moving forward.** The acquisition of dedicated processing facilities is a significant development for SLR and should underpin:

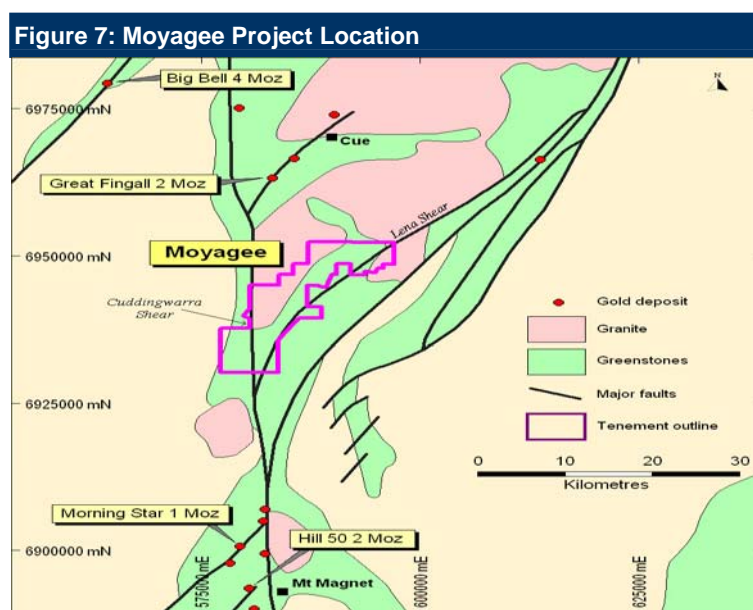
- **Smoother cash flows** versus campaign toll treating options previously under consideration
- **Maximise gold recovery** – DM contains a significant gravity gold component, best recovered from a steady state processing plant than batch processing.
- **Opens up the options.** We envisage reduced haul distances (40km versus 110km to Greenfields Mill) and latent milling capacity will allow SLR to aggressively seek additional ore sources on-tenement, increase underground production rates in time, or tender third party milling arrangements. All of which are likely to lower unit costs.

**Refurbishment 1Q CY08.** SLR will be required to spend circa A\$1m to optimise the mill to process high-grade DM ore. We understand the majority of the plant is in working order however, SLR will be required to retrofit a gravity circuit (most likely a Knelson™) and refurbish the gold room. With SLR fully funded, we anticipate first owner-milling late in 1Q CY08 however; this remains subject to availability of capital items and labour.

## Murchison Projects

SLR control several advanced gold projects in the Murchison district in WA namely Tuckbiana, Moyagee and Rothsay which all have current JORC compliant resources.

**Moyagee.** Moyagee consists of 6 granted tenements covering 60km<sup>2</sup> with another 250km<sup>2</sup> under application. Gold mineralisation was defined by previous explorers (following the completion of 3,200 drill holes since the 1980's). Mineralisation is associated with gold-bearing quartz veins hosted within the Lena Shear.



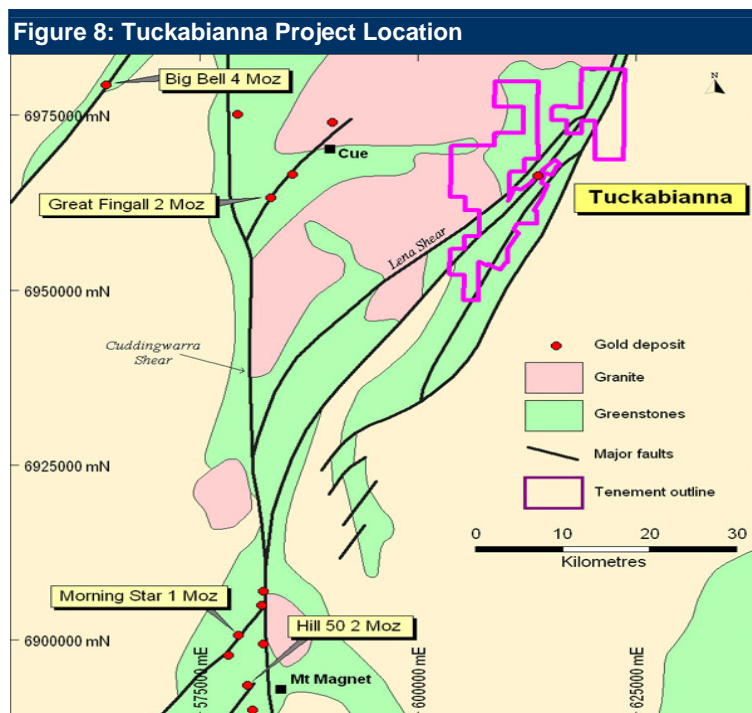
Source: Silver Lake Resources Ltd

**Forward program set.** SLR's strategy is to expand the current resource of 0.8mt @ 8.5g/t Au (224koz) via a RC/diamond drilling program, targeting north/south extensions, the completion of a deep diamond drill hole on each of the five existing drill traverses (to circa 650m depth).

**Tuckabianna.**

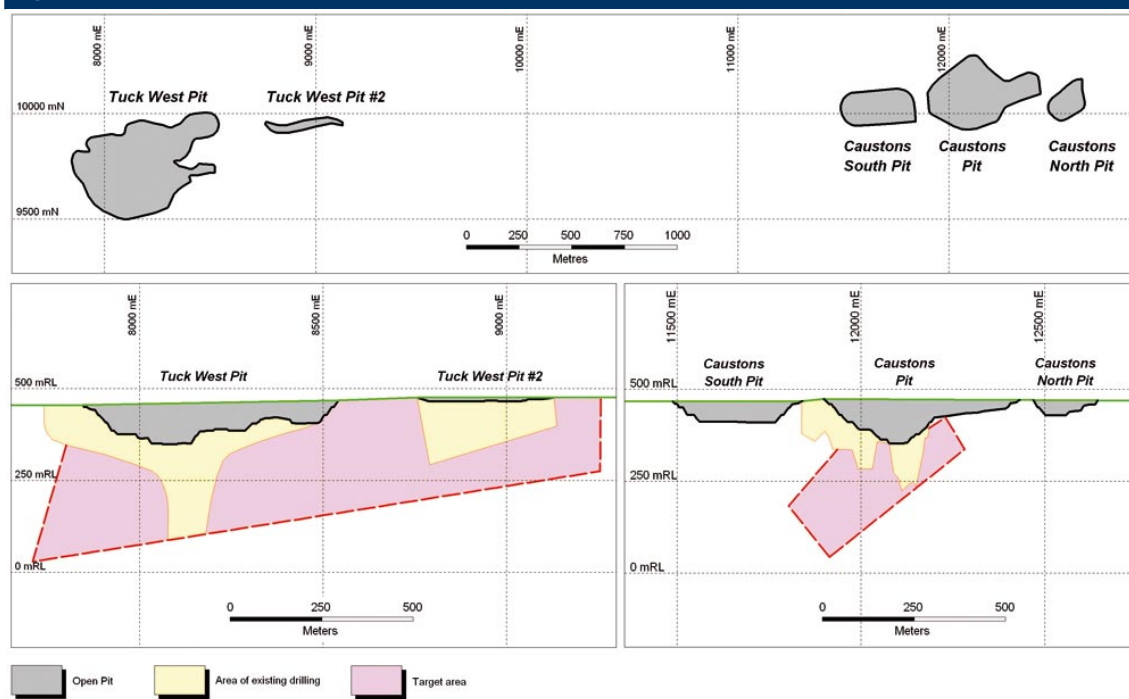
The Tuckabianna project consists of 15 granted tenements covering 238km<sup>2</sup> and is located along trend of the Moyagee prospect. Historic production of circa 500koz was recorded from a series of 17 open pits within the project area.

Remnant resources total 2.3mt @ 3.3g/t Au (238koz) and is based on remnant ore from at least four previously mined open pits. SLR is targeting depth and strike extensions in what it considers to be a significantly under explored model at depth. Of the 23,000 drill holes completed, <2% are below 100m and less than 1% are below 150m.



Source: Silver Lake Resources Ltd

**Development potential.** While combined resources at Moyagee and Tuckabianna are unlikely to justify a construction of a conventional processing camp, we are mindful that both projects are proximal (within 20km) to the Great Northern Highway, and have the potential to rapidly transform with exploration success.

**Figure 9: Tuckabianna Conceptual Resource Model**

Source: Silver Lake Resources Ltd

Figure 8 above illustrates the limited coverage afforded by historical drilling, with SLR confident it has designed a moderate cost, high impact drill program to ascertain development potential.

In the interim, we understand SLR is investigating modular processing options, however our valuation ascribes essentially option value to these assets as we await first results of SLR's CY08 exploration program.

## Valuation & Sensitivity

Our DCF derived valuation of A\$0.51/sh is based on the following input parameters:

**Figure 10: Key Input Parameters**

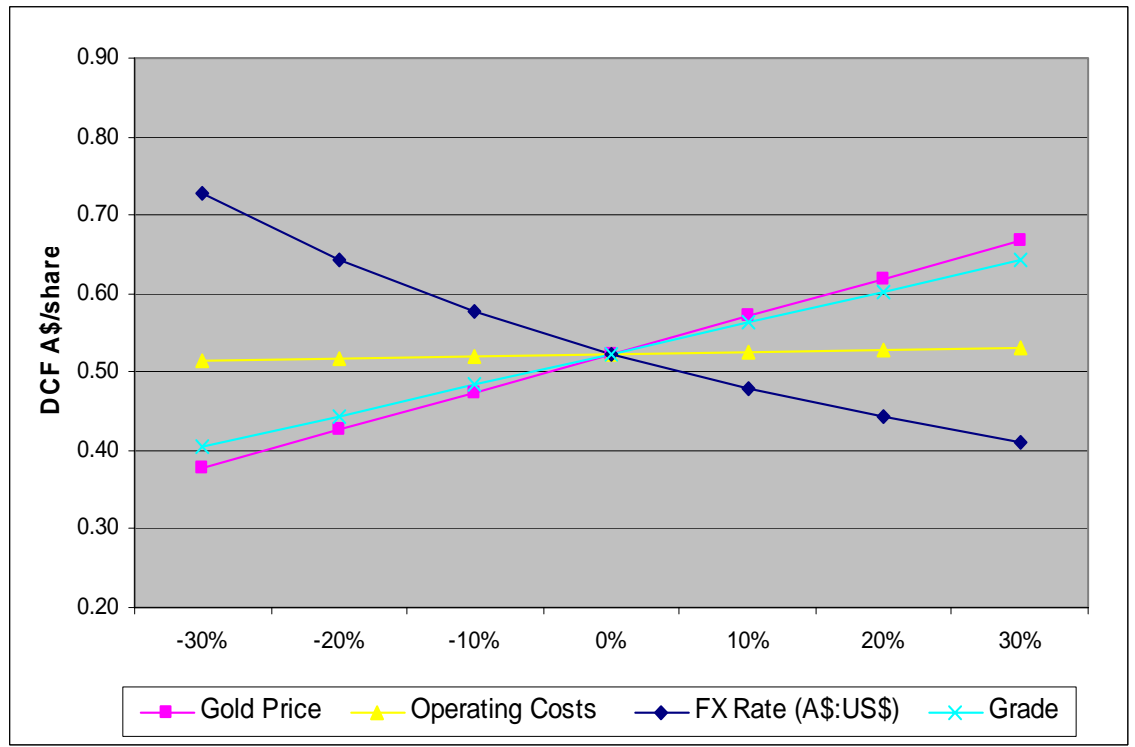
Preproduction capital	A\$m	1.5
Sustaining capital (LOM)	A\$m	12.8
Mine Life	yrs	4
Head Grade	g/t Au	15
Recovery	%	90%
Production Rate	ozpa	38,347
Production (LOM)	oz	167,711
Cash Costs	A\$/oz	465
Average D&A	A\$/oz	177

Source: Patersons estimates

Additionally, we have assigned A\$22m for exploration to reflect potential mine extensions at Daisy-Milano (A\$10m) and a nominal A\$25/oz for indicated resources at Moyagee and Tuckabianna and A\$10/oz for resources at Rothsay.

As a modest scale, soon-to-be gold producer, our valuation is sensitive to key input parameters particularly the assumed A\$ gold price and grade.

**Figure 11: Valuation Sensitivity**

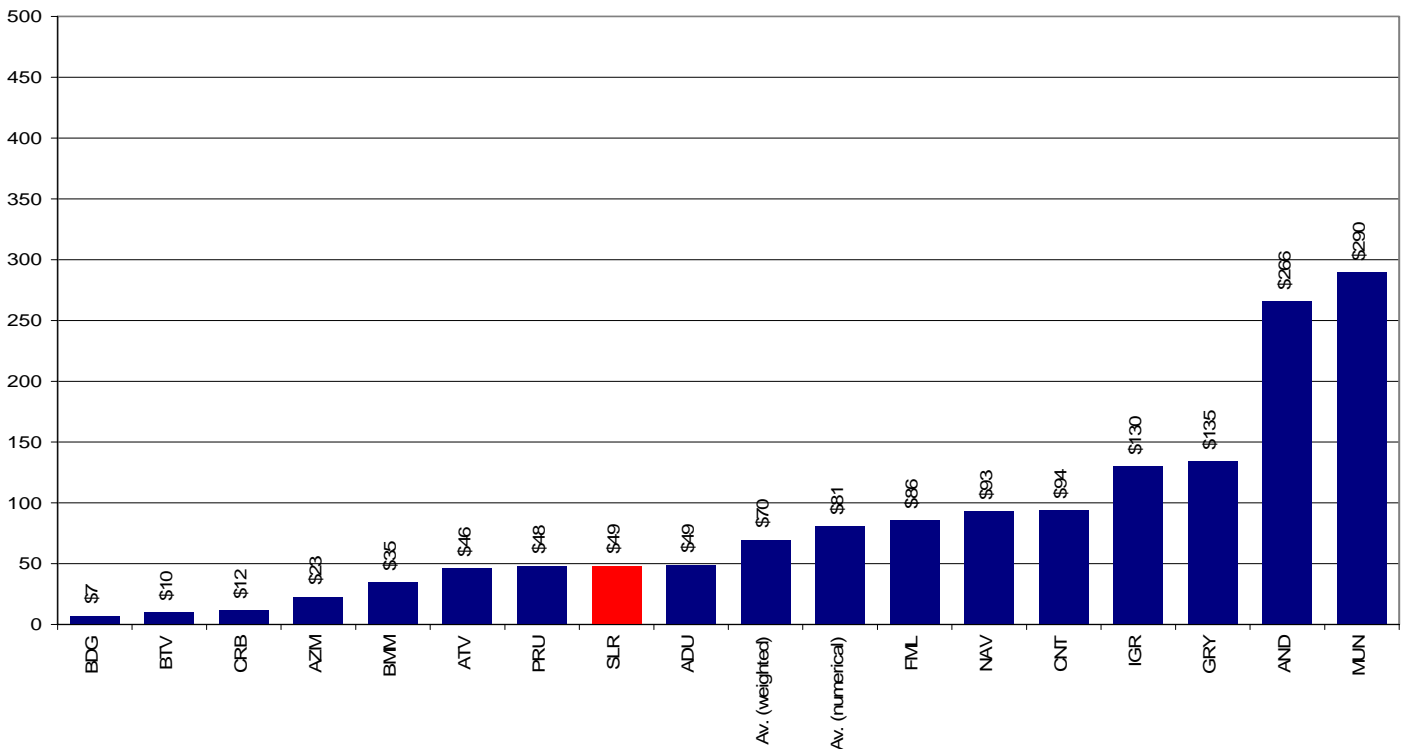


Source: Patersons estimates

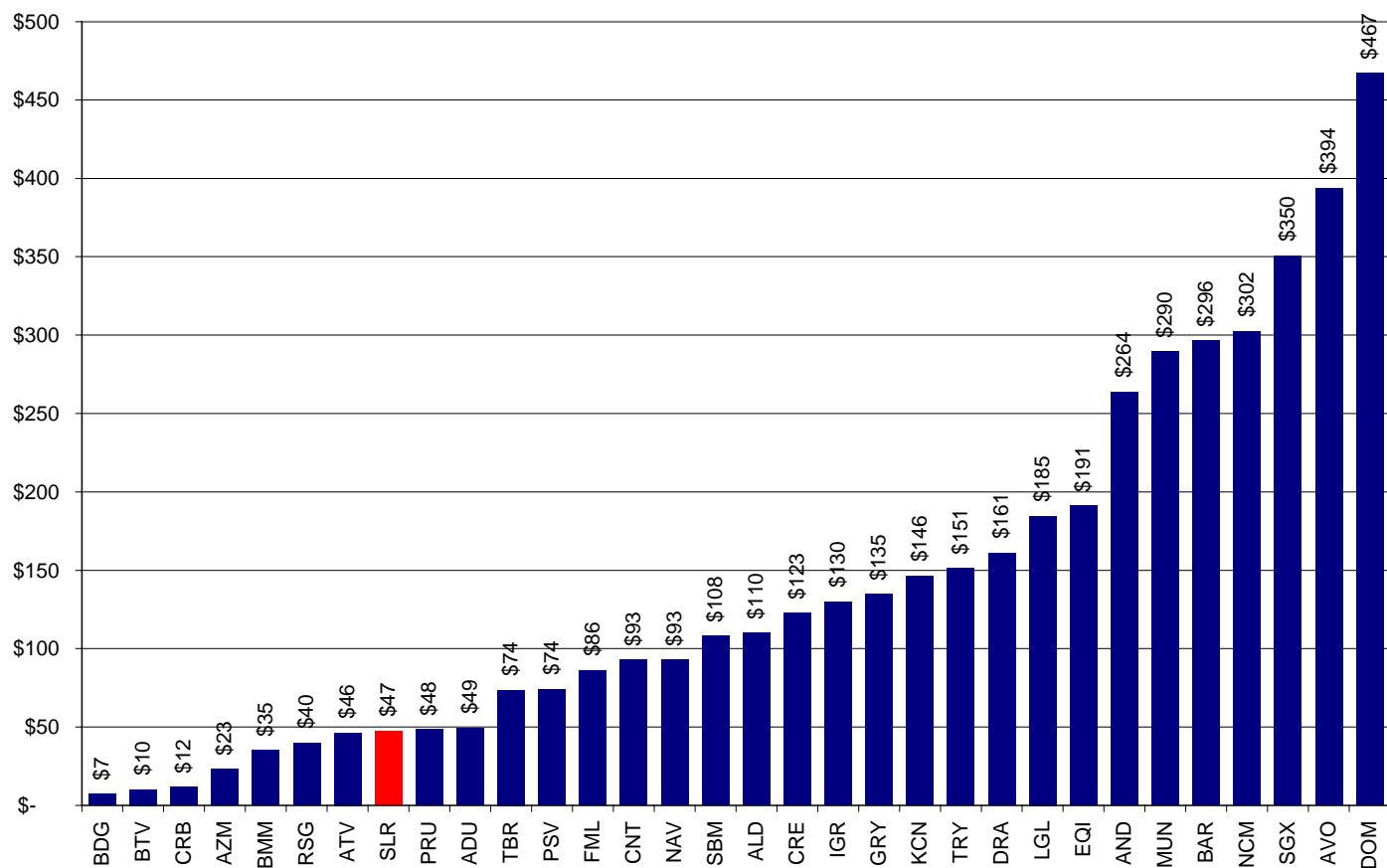
### Comparative Metrics

SLR is cheap on peer comparison trading at a 30% discount to the weighted sector average for (explorers), and a 61% below the sector average (producers).

**Figure 12: Enterprise Value : Resources – Explorers (A\$/oz)**



Source: Patersons estimates

**Figure 13: Enterprise Value : Resources – Selected Golds (A\$/oz)**


Source: Patersons estimates



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