Post 2011 Diggers 'n Dealers Review
Buy SLR ; Spec Buy MRP

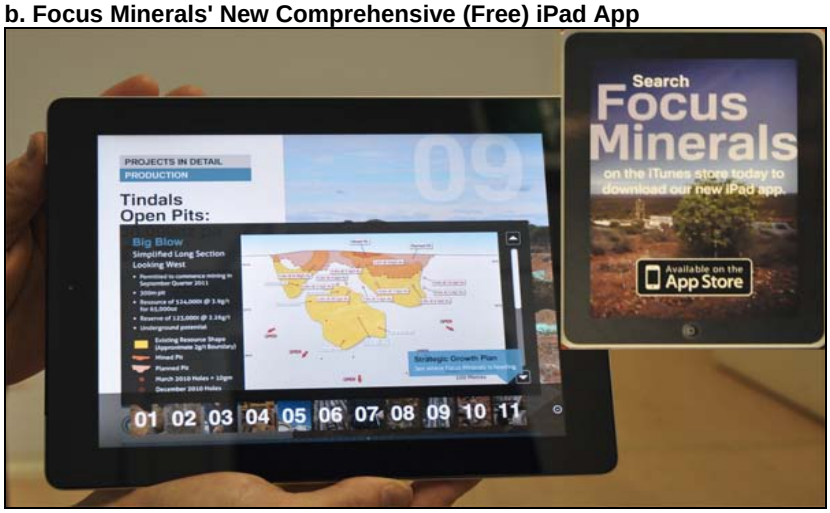
(by Keith Goode : 25 August 2011)

Around Diggers we visited Silver Lake to see the progress on the new Haoma underground, visited MacPhersons Reward's Nimbus acquisition, & spent a week with Focus (FML) to write an update report.

Aside from the visits, we thought the standouts at DnD 2011 were **Silver Lake's 1000oz** (solid) **Gold Prospector** in their booth as shown in Figure 1a, and **Focus Minerals' new (Free) iPad App.**

Figure 1.Silver Lake's 1000oz Gold Prospector & Focus Minerals' New Innovative (Free) iPad App

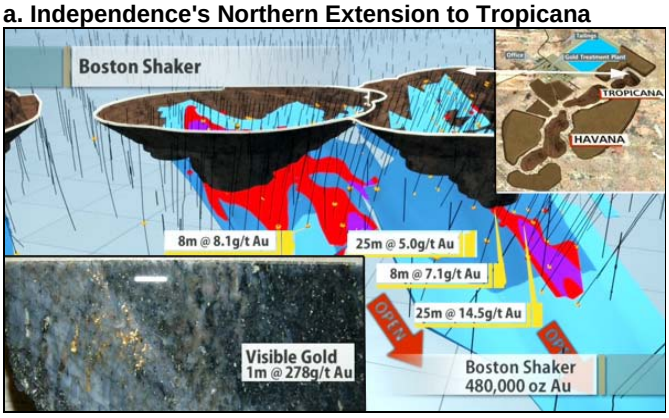
a.Silver Lake's 1000oz Gold Prospector **b. Focus Minerals' New Comprehensive (Free) iPad App**

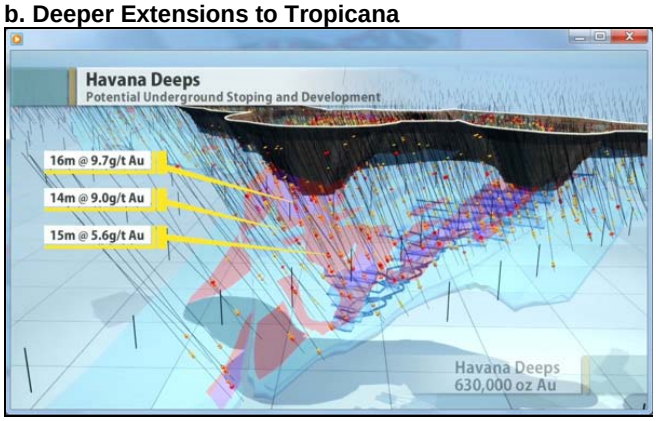


Independence (IGO), showed how the new Tropicana gold province / field continues to grow with the Boston Shaker ~0.5moz extension to the north along with their first visible gold intersection (below the pit there) of 1m @ 278g/tAu as shown inset in Figure 1a, depth extensions to Havana in Figure 2b such that the underground may start earlier, and the discovery of an aquifer for water supply, placing Tropicana towards the top end of Tier 1 gold ore deposits.

Figure 2. Independence's Northern Extension and Deeper Extensions to Tropicana

a. Independence's Northern Extension to Tropicana **b. Deeper Extensions to Tropicana**





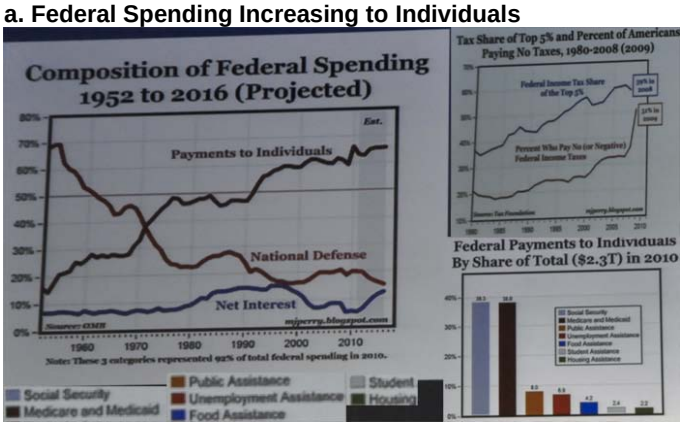
The **keynote speech this year was by Todd Bucholz** (a former White House Director of Economic Policy) who foresaw a downgrade in the US' AAA credit rating (which in fact occurred fairly soon after his speech).

Todd cited that the world has changed, in that the market cap of the company that makes "hot wheels" model cars is now more than that of General Motors (on which the model cars are based). Todd thought that we are now in the "Age of Anxiety", largely due to the influx of millions of people (from the Berlin Wall coming down and re-emergence of China etc) who want what the rest of the world had, resulting in a massive influx of labour such that wages fell and food prices rose, with the social pressure of rising unemployment. A picture was shown of a child who is not Chinese, yet over 80% of his toys are made in China. Similar parallels could be drawn in clothing and footwear.

Todd thought that the US was entering a critical 5-year period that was its last chance to get its act into gear "before the rivets pop", with increasing numbers of retiring baby boomers, such that the balancing act of using taxes for social needs was facing increasing pressure due to less taxes being paid with already >51% of Americans not paying tax, as shown in Figure 3a. At the same time the public sector was becoming the preferred employer of choice along with higher salaries as in Fig 3b.

Figure 3. Federal Spending Increasing to Individuals, and A Costlier Public Sector

a. Federal Spending Increasing to Individuals

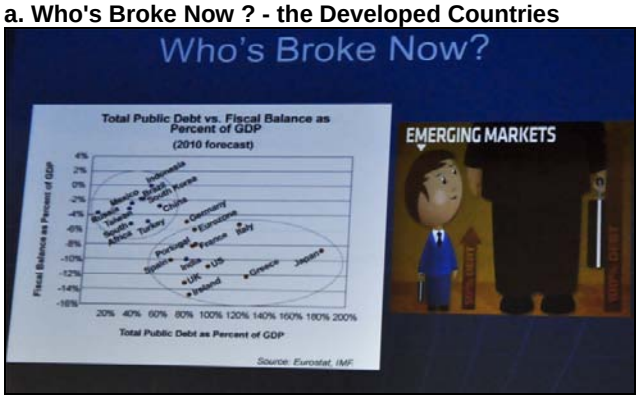


b. A Costlier Public Sector

In the way that Sweden and Canada had turned around, Todd thought that the US could do it to, provided it made the "hard" decisions. The alternative was perhaps the Greek route where the Greeks were perceived as maybe ending up working for the Germans for at least the next 30 years. However, Todd thought that an intelligent solution was achievable, even if it is not obvious. Todd showed the current debt situations of the developed countries & his "Ring of Fire" in Figures 4a / 4b.

Figure 4. Who's Broke Now ? - Developed Countries, & the "Ring of Fire" Nations (incl US, UK, Japan)

a. Who's Broke Now ? - the Developed Countries



b. "Ring of Fire" Nations includes the US, UK & Japan

Todd thought that the carbon tax move by Australia made no sense unless Australia (which is viewed as one of the least polluting countries in the world) had visions of itself becoming the global saviour. All the carbon tax move in California did was to drive away jobs into other States.

Figure 5. Did China Save Capitalism ?, & 10 New NYC's (New York Cities) to be built in China by 2025

a. Did China Save Capitalism ?

b. 10 New NYC's (New York Cities) to be built by 2025 in China

China was clearly having its 15-year "day in the sun", much the same as Japan once did, but was expected to face growing aging social and population issues (especially with the size of its population), although the Western view of age appears to be different to the Asian view. **In wrapping up, Todd saw no viable alternative to the mighty US$,** even allowing for a free trade Rmb, and stated that China "bashing" by the US was significantly waning because its goods cost much less and China is inescapably locked into supporting the US because it cannot dump (and hence devalue) its US treasuries. **As for commodities and gold, they are not a one-way bet.**

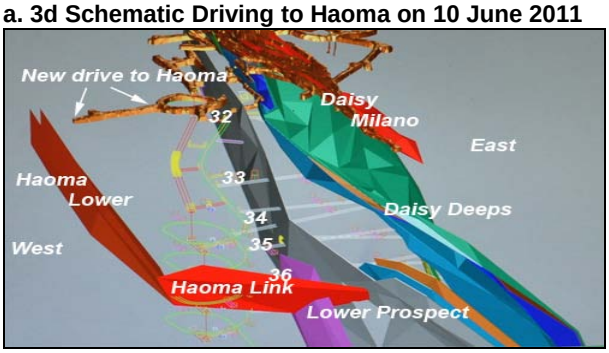
Silver Lake (SLR) – Rated as a BUY (NPV of ~A$3.44 at US$1500/oz and A$1.05/US$)

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).***

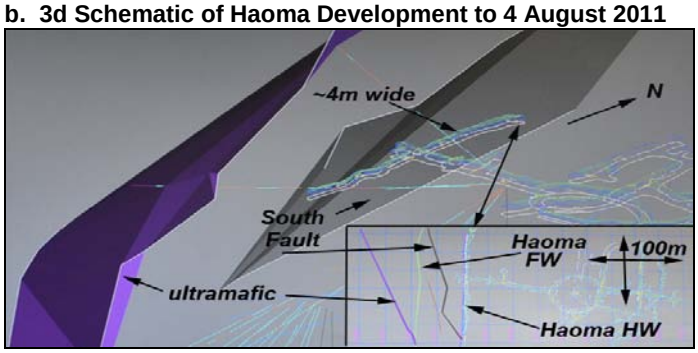
We revisited Silver Lake's Mount Monger underground mine at Daisy Milano on 4 August 2011 (after Diggers) specifically to look at the progress of the Haoma hangingwall (HW) lode, as it was being driven towards (from Daisy Milano) on our last visit on 10 June 2011 as shown in Figure 6a.

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



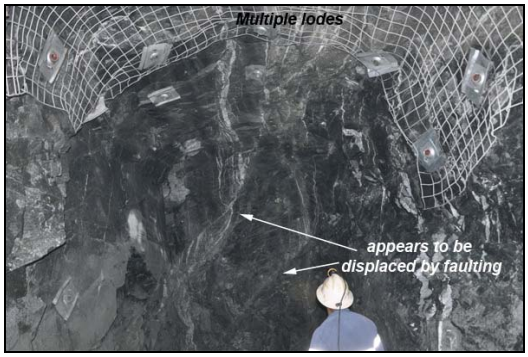
Since then, development has driven on the Haoma HW lode and defined a strike length of ~170m (greater than expected at that point) as shown in Figure 6b. At one stage in the northern drive the face opened up to **~4m and averaged ~83g/t** over ~4 to 5 lodes (a contact, two outers and an ultra high grade 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] & does not include Haoma), viz:

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

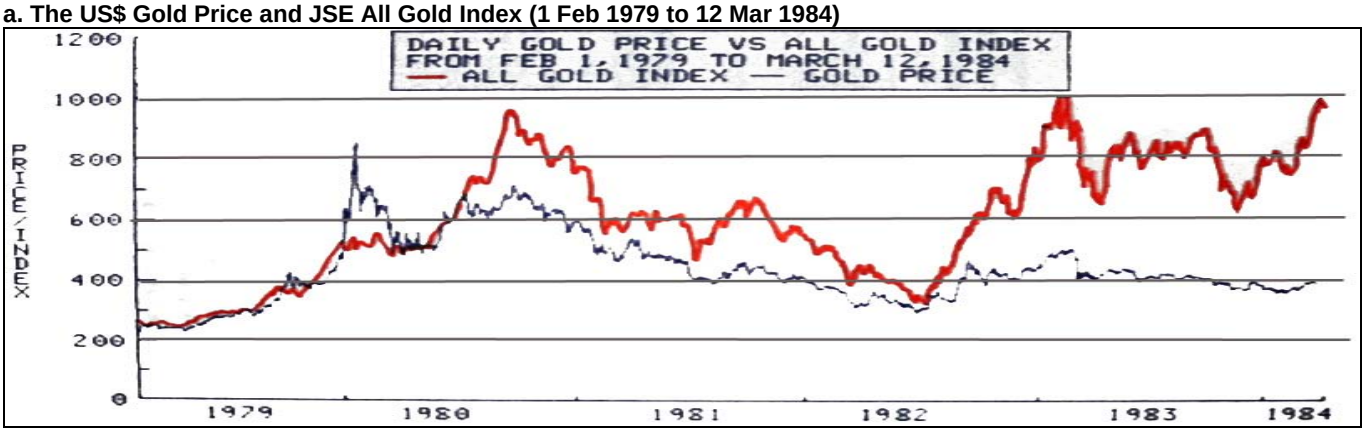
Silver Lake Resources		2010a	DH10a	JH11f	2011f	2012f	2013f	2014f
Mt Monger Gold Sold	000oz	55	30	35	65	110	127	154
Murchison Gold Sold	000oz	0	0	0	0	0	27	77
TOTAL Gold Sold	**000oz**	**55**	**30**	**35**	**65**	**110**	**154**	**230**
MM Total Cash(flow) Cost	A$/oz	801	1040	857	981	694	711	712
MUR Total Cash(flow) Cost	A$/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). We recall that in 1980, when the gold price soared to ~US$850/oz (on about the 20 January 1980), the gold shares drifted sideways, and it was in the second run after the price fell back to US$500/oz and then increased to ~US$600/oz to US$650/oz, that the gold index / gold shares almost doubled, as shown in Figure 9a.

Figure 9. The US$ Gold Price and JSE All Gold Index (1 Feb 1979 to 12 Mar 1984)

a. The US$ Gold Price and JSE All Gold Index (1 Feb 1979 to 12 Mar 1984)



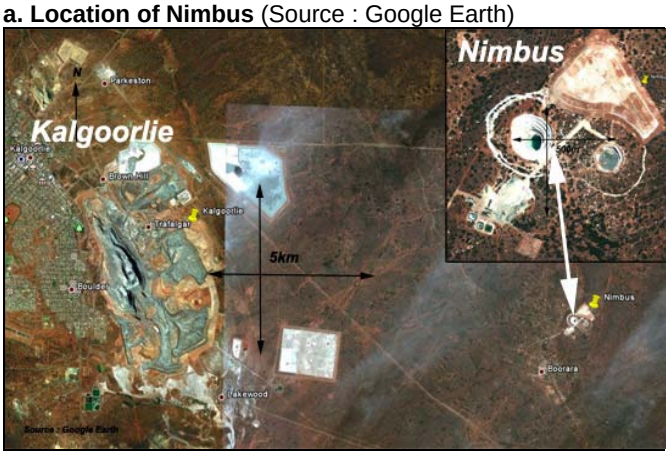
MacPhersons Reward (MRP) Rated as a SPEC BUY (currently ~30c)

We visited MRP's new Nimbus acquisition during Diggers. MRP acquired the plant and tenements from Reed Resources (RDR, and later extended the tenement package by including Boorara from Polymetals). The initial acquisition was for the plant to transfer it to MRP's MacPherson's Reward mine, however, MRP recognised that some of the Nimbus open-cuts could possibly be brought back into production and instead conducted a study based on bringing the Nimbus Silver mine back into production with a separate gold and silver circuit.

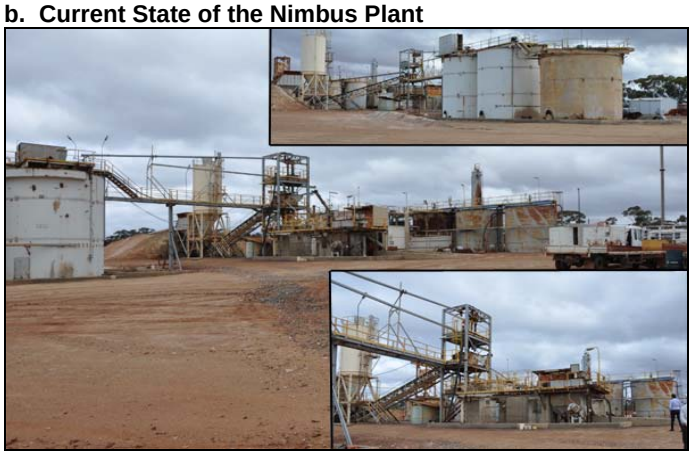
Nimbus was the VHMS silver mine discovery of Archean (unique in its location due to its proximity at ~15km East of Kalgoorlie as shown in Figure 10a, and once thought to be a subterranean volcano), which was taken over by Lachlan and later Polymetals. Polymetals mined silver at ~350g/tAg before closing the mine due to **encountering mercury in the transition zone** at the base of the open-cut, and the project was later acquired by Reed Resources (RDR).

Figure 10. Location of Nimbus (Source : Google Earth), **and Current State of the Nimbus Plant**

a. Location of Nimbus (Source : Google Earth)



b. Current State of the Nimbus Plant

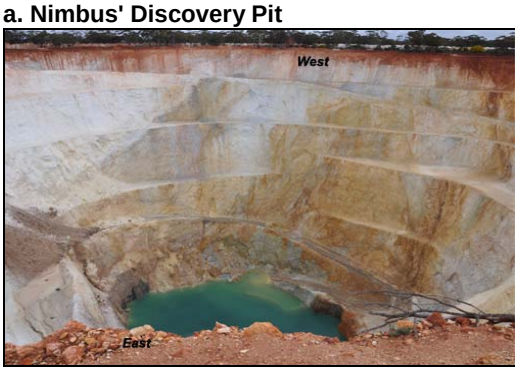


At the time of our visit, MRP had already started refurbishing the plant shown in Figure 10b, with the ball mill being refurbished and expected to be returned to site by the end of September 2011, and a ~1mtpa crusher and spare tanks bought from WA operators. MRP's target expectation was to be in production by mid-2012, with an up to 490,000tpa separate gold and silver circuit plant starting at ~120,000tpa (according to the current plant design and ramp-up schedule).

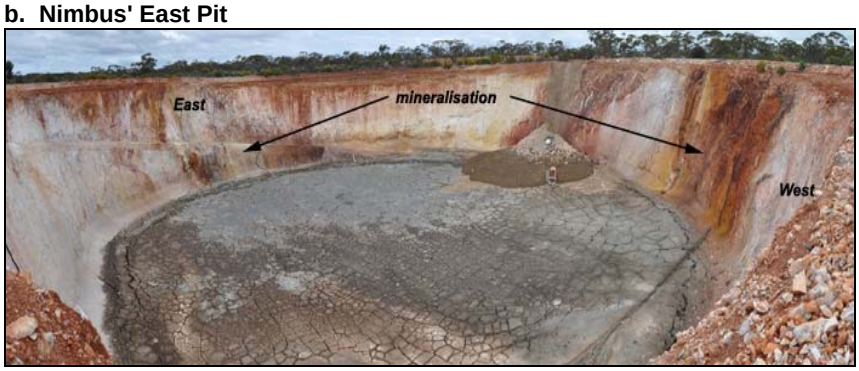
The Polymetals operation used diesel-power, whereas MRP intend to use the grid with "the wires" expected to come to site by the end of September 2011. MRP intend to focus on treating the oxide with expected recoveries of 90% to 98% and a possible operating cost of ~A$5/oz to A$10/oz, giving a healthy margin at current silver prices of >A$35/oz.

Figure 11. Nimbus' Discovery and East Pits

a. Nimbus' Discovery Pit



b. Nimbus' East Pit



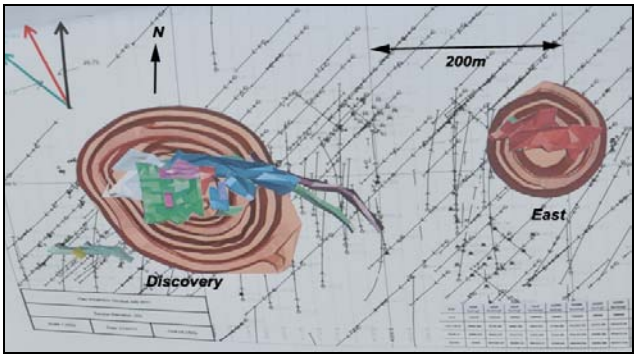
There are two open-cuts on the property, namely Discovery and East, of which the East pit was backfilled with tailings from the last (presumably partly mercury-rich) 100kt to 170kt treated at a remaining residue grade of 100g/t to 150g/tAg, which may be recoverable. Looking at the walls of the open-cuts it does seem possible that the mineralisation may extend East & West, although there appears to be some structural break between the pits as shown in Figure 12a.

MRP expects to establish a way of bypassing the mercury-rich transition zone to mine the deeper SE plunging sulphide mineralisation as indicated in the 3d model in Figure 12b.

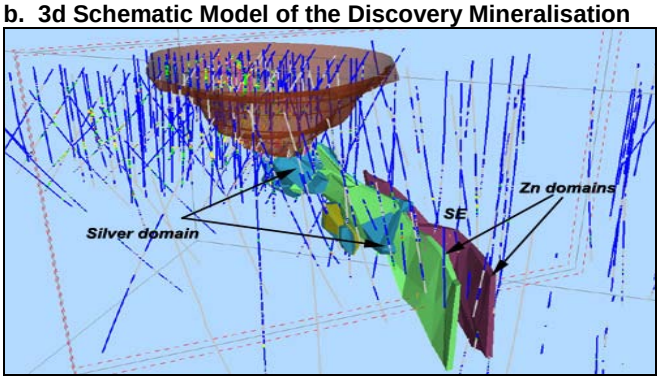
MacPhersons is still progressing with its MacPherson's Reward property, although (depending on assay results) a re-interpretation of Tycho could result in Tycho coming into production ahead of MacPherson's Reward. Hence continuing to **rate MRP as a SPEC BUY.**

Figure 12. Plan of Nimbus' Lodes and 3d Schematic Model of the Discovery Mineralisation

a. Plan of Nimbus' Lodes



b. 3d Schematic Model of the Discovery Mineralisation



NOTE : Gold Price Sensitivities for Alacer and Catalpa (based on existing modelling) :

The potential impact of the higher gold prices on Alacer and Catalpa is shown below, viz :

It should be noted that our Alacer model for the Turkish / Çöpler assets may be too conservative. We picked somewhere between the 23,000tpd rate of JQ11 and the modelled rate of 15,500tpd, and hence dropped to 20ktpd in SQ11, followed by 18ktpd in DQ11 to 2014. However, based on replies to questions at Diggers, the production rate at Çöpler may initially remain at 20,000tpd or higher as the mine currently expects to crush the high grade at 15,500tpd (or more depending on what the crusher can do - crushed ore can have ~20% higher recoveries) and send the excess low grade oxide directly to the leach pad. Our model also assumes that Alacer has 80% of Çöpler from January 2012, as shown in Table 2.

Table 2. Gold Price Sensitivity for Alacer Gold (AQG) with Cash Operating costs ~US$600/oz

Alacer Gold		MQ11a	JQ11f	JH11f	DH11f	2011f	2012f	2013f	2014f	2015f
Attrib Çöpler Treated (95%,80%	000oz	32	39	71	92	162	190	177	200	306
Total Gold Sold	000oz	30	101	131	254	385	488	616	659	723
Cash Operating Costs	US$/oz	506	564	543	479	522	495	595	605	598
Sensitivity Analysis	**Year**	**NPV**	**NPV**		**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**
Gold Price (at A$/US$1.05)		**US$**	**A$**		**A/tax Profit (US$m)**			**Earnings per Share (USc)**		
US$/oz	1500	9.83	9.37		97.4	190.0	230.4	35.1	65.6	77.5
	1600	11.23	10.69		122.7	229.7	278.7	44.3	79.3	93.7
	1700	12.62	12.02		148.0	269.4	327.0	53.4	93.0	110.0
	1800	14.01	13.35		173.3	309.1	375.3	62.5	106.7	126.2
	1900	15.41	14.67		198.6	348.8	423.7	71.7	120.5	142.5
	2000	16.80	16.00		223.9	388.5	472.0	80.8	134.2	158.7
Sensitivity Analysis	**Year**	**NPV**	**NPV**		**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**

And for Catalpa, our CAH model is based on Catalpa before the merger with Conquest. However, it does still give an indication of the potential upside potential in Catalpa. We think that the market is over-focusing on the hedging at $1557/oz and the completion of the merger, which has caused CAH to lag behind the market. The hedging component to 2015, drops from ~ 46% pre-merger to **~18% post**-merger.

Table 3. Gold Price Sensitivity for Catalpa (CAH) with Total costs (incl cash, rltys, corp & D&A) ~A$960/oz

Catalpa Resources		2010a	DH10a	JH11f	2011f	2012f	2013f	2014f
Gold Sold Edna May	000oz	10	31	43	74	101	137	142
Attrib 30% of Cracow Prodn	000oz	28	16	16	32	35	35	35
TOTAL Catalpa Production	000oz	38	46	60	106	136	172	177
Total Costs (incl rlty, corp & D & A	A$/oz			1066	1033	1076	962	936
Hedged Sales @ A$1557/oz	000oz	5	30	38	68	64	79	75
% of Production	%	12%	65%	64%	64%	47%	46%	42%
Add 70% Cracow	000oz					80	80	80
Add 100% Mt Rawdon	000oz					90	90	90
Add 100% Pajingo	000oz					70	70	70
Merger production	000oz					376	412	417
Hedged sales	%					17%	19%	18%
Sensitivity Analysis	**Year**	**NPV**	**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**
Gold Price (at A$/US$1.05)	**US$/oz**	**A$**	**A/tax Profit (A$m)**			**Earnings per Share (Ac)**		
(pre - merger)	1500	3.34	21.6	45.8	70.8	12.1	25.0	38.6
	1600	3.66	21.6	50.4	76.8	12.1	27.5	41.9
	1700	3.99	21.6	55.0	82.7	12.1	30.0	45.1
	1800	4.31	21.6	59.6	88.6	12.1	32.5	48.4
	1900	4.64	21.6	64.2	94.6	12.1	35.0	51.6
	2000	4.96	21.6	68.8	100.5	12.1	37.5	54.8
Sensitivity Analysis	**Year**	**NPV**	**2011e**	**2012e**	**2013e**	**2011e**	**2012e**	**2013e**