The Sydney Contrarian Financial Analysis

Stock Valuation Report

Post-Merger* Silver Lake Resources Limited (ASX: SLR)

***With Doray Minerals**

Date	11/12/2018
Classification	Mid-Tier Gold Miner
Current Price	$0.510
No. Issued Stocks (m)	851.9
Net Cash + Bullion ($ m)	$118.40
Last Dividend Payment ($ p.a.)	$0.00
Market Capitalisation ($ m)	$434.46
Enterprise Value ($ m)	$316.06

Ranking	**Undervalued**
Price Range	$0.44-$0.81
Annual Production Guidance (oz p.a.)	220 000-235 000
All-In Sustaining Cost Guidance ($/oz)	$1 240-$1 300
EV/AISC-Adjusted Production Guidance ($/oz)	$1,735.00
EV/AISC-Adjusted Production Range ($/oz)	$1 800-$3 000
Resources (oz)	4,843,000
Reserves (oz)	776,000

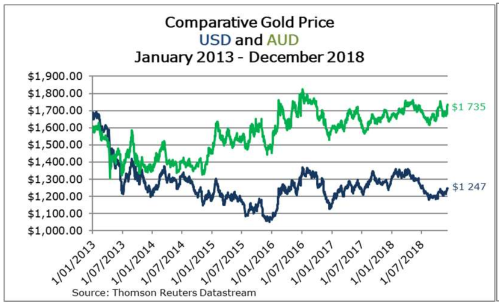
Summary

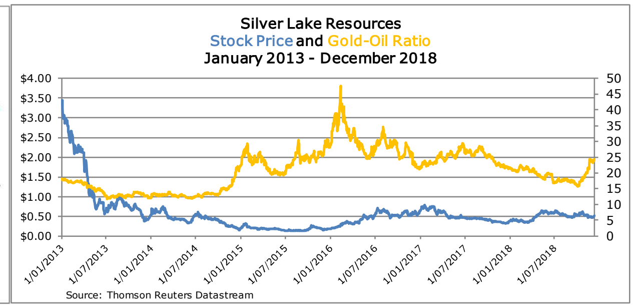
On 14th November 2018, Silver Lake Resources and Doray Minerals announced that they would be considering a merger of their companies to create another mid-tier gold mining company that will deliver annual production of 220-235koz p.a. at an estimated AISC range of $1 240-1 300. The combination of the two companies will require Silver Lake to issue 0.6772 stocks for every Doray Minerals stock. This results in Silver Lake shareholders owning almost 63% of the combined entity and Doray Minerals shareholders owning almost 37%. The combined entity will have 4.84Moz of resources and 776koz of reserves, using equivalent gold amount that includes silver. The entity will have $118.4m of net cash and bullion, which represents a sizable war chest that will allow them to fully fund their exploration and development in the Mount Monger and Deflector mines as well as finance any acquisitions as necessary.

The two companies' mine properties are not in close proximity to each other, so direct synergies are not apparent. However, their mines are located close to other mining companies including Westgold (Central Murchison and Tuckabianna), Northern Star (East Kalgoorlie) and Evolution Mining (Mungari). Northern Star has been aggressively expanding their business in recent periods including acquiring Pogo in Alaska and South Kalgoorlie Operations, whereas Westgold has been developing their Central Murchison mine as well as Big Bell. In this climate with weak gold price and lack of interest from investors, consolidations may occur as mining companies seek to make undervalued and strategic purchases as well as strengthen their balance sheets without raising capital.

The two companies' stock price performance has been very disappointing compared to its peers. Their merger has not been well favoured by their own shareholders who believe that they are better off on their own. However, the advantages of combining their operations are worthy of note – diversification of their mines and geographic exposure, economies of scale in production and a re-rating opportunity given that they will become a mid-tier gold mining company.

In summary, the combined entity may reward shareholders of both companies and a larger scale of its operations may spark interest from mutual funds as they will more likely be included in their holdings. Furthermore, a strong balance sheet with substantial cash reserves may allow them to be more aggressive in their exploration and development as well as give them opportunities to acquire other companies.



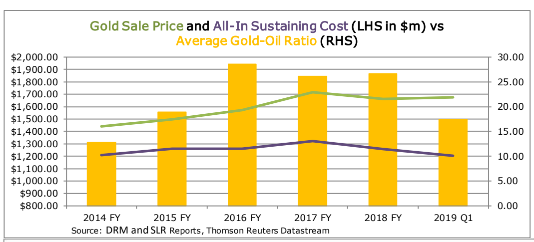


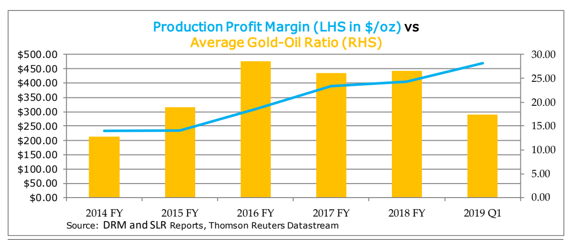
Prevailing Environment

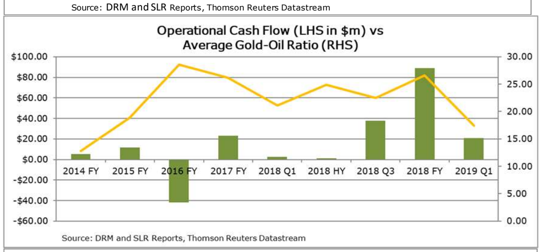
2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US$1 350 in January/February to US$1 180 in August/September. At the same time, crude oil price increased from US$60 to US$75 per barrel and only began to drop in early October to US$52 as at December. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

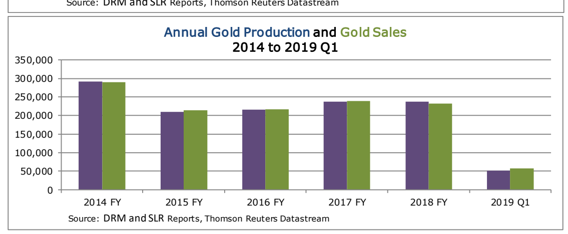
As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

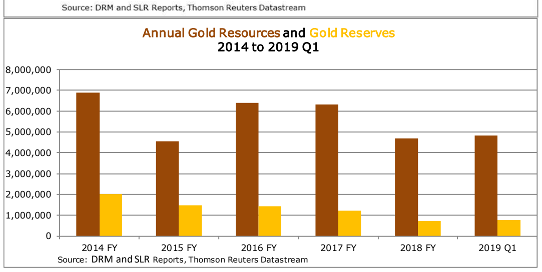
Operational and Financial Performance Charts











SWOT Analysis

Strengths	**Weaknesses**
• Both companies have low cost operations that allow them to generate free cash flows even in unfavourable market conditions. • Healthy cash balance allows for them to take advantage of opportunities as they appear.	• Reserve life is approximately three years. Most mid-tier mining companies have at least five years reserve life.
Opportunities	**Threats**
• Inclusion in various managed funds may lead to a re-rating as it becomes a mid-tier mining company. • Potential mergers may be possible as the company has a significant cash balance and their mine projects are located close to other operating mines owned by other companies. • Conversion of its resources into reserves will allow for mining life increase.	• Complications in combining two different entities may lead to rising costs, and Silver Lake has had a history of this in 2013. •

Peer Comparison