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Breaker Resources NL (BRB)

Drilling continues to build case for significant discovery

Recommendation
Buy (unchanged)
Price
\$0.715
Target (12 months)
\$1.35 (previously \$1.40)
Risk
Speculative

GICS Sector

Materials

Expected Return

Capital growth	88.8%
Dividend yield	0%
Total expected return	88.8%

Company Data & Ratios

Enterprise value	\$87.1m
Market cap	\$102.1m
Issued capital	142.8m
Free float	85%
Avg. daily val. (52wk)	\$290,931
12 month price range	\$0.205-\$0.80

Price Performance

	(1m)	(3m)	(12m)
Price (\$)	0.70	0.70	0.21
Absolute (%)	2.9	2.4	240.5
Rel market (%)	3.5	2.5	235.6

Absolute Price



SOURCE: IRESS

Further broad, high grade intersections returned

BRB has reported further broad, high grade intersections from the infill RC and diamond drilling program that is underway at its 100% owned Lake Roe gold project in WA. Drilling is ramping up at the Bombora discovery (part of the Lake Roe project) where a second diamond drill rig has been added and a maiden Resource calculation is planned for completion by late 2017. Highlights from the latest drilling include:

- BBRC0452: 20m @ 3.29g/t Au from 140m;
- BBRC0456: 20m @ 1.81g/t Au from 24m;
- BBRC0456: 12m @ 7.15g/t Au from 140m;
- BBRC0450: 10m @ 3.36g/t Au from 37m;
- BBRC0449: 29m @ 1.39g/t Au from 17m; and
- BBRC0470: 6m @ 7.12g/t Au from 165m.

These results include widths and grades that are supportive of both open-pit and underground mining. While no new cross-sections have been provided in the latest announcement, the updated long-section consistently shows shallower mineralisation above the deeper intersections that have been reported with this announcement. With the addition of the second diamond rig, BRB will gain additional structural information and begin wide spaced testing for depth extensions greater than 200m below surface.

Metallurgical testing underway

One aspect of the BRB story the market remains focussed on is the metallurgy. Preliminary testwork is underway and initial results are expected around the end of this month. This is always an important opportunity to de-risk any gold project and is emerging as a key near-term catalyst for the stock.

Recent raise leaves BRB well cashed up

We update our valuation for BRB following its recent capital raising, in which it placed 14.2m shares at \$0.70/sh to raise \$10.0m. In addition to this, BRB is also undertaking a Share Purchase Plan (SPP) to raise a further \$1.5m. Directors who are eligible shareholders have stated their intention to participate. We estimate this will leave BRB with cash in excess of \$15m, a very strong position to pursue an aggressive drill-out of the Bombora discovery, deliver the major milestone of a maiden Resource in late 2017, fund further evaluation studies and some pre-development activities. Our valuation continues to include an assumed equity raise within the next 12 months (\$8.0m at \$0.72) which, with existing cash, we view as sufficient to continue advancing the project.

Investment thesis – Buy (Speculative), valuation \$1.35/sh

These latest results remain consistent with our investment thesis of Lake Roe having the potential to host a significant, multi-million ounce, greenfields gold discovery. We anticipate that the maiden Resource will show some of this potential while remaining open at depth. Our valuation is lowered slightly, to \$1.35/sh, following the dilution of the recent equity raise and we retain our Buy (Speculative) recommendation.

Breaker Resources NL (BRB)

Company description

Breaker Resources NL (BRB) is an Australian domiciled, Perth based gold exploration company. The company was listed in April 2012, raising \$8.5m at \$0.20/sh, with the objective of applying modern, systematic exploration techniques to the largely under-explored Eastern Goldfields Superterrane (EGST) of Western Australia.

BRB's flagship asset and prime focus is its 100%-owned Lake Roe Gold Project located 100km east of Kalgoorlie, 60km south-southeast of the operating 3.5Moz Carosue Dam gold mine, and 35km north of the historic 0.9Moz Karonie gold deposit. The project comprises five granted tenements and one application with an overall area of 556km².

Wide spaced reconnaissance drilling has delineated a large scale gold anomaly over 6km of strike. This includes the Bombora discovery which extends over a continuous strike length of 2.2km, is open to the south with indications of further mineralisation to the north. Resource drilling commenced in February 2017 and a maiden Resource is expected to be released before end CY17. We believe that BRB represents a unique opportunity in the landscape for Australian gold assets and its Lake Roe gold project may well emerge as one of the landmark discoveries of the current decade.

Investment thesis – Buy (Speculative), valuation \$1.35/sh

These latest results remain consistent with our investment thesis of Lake Roe having the potential to host a significant, multi-million ounce, greenfields gold discovery. We anticipate that the maiden Resource will show some of this potential while remaining open at depth. Our valuation is lowered slightly, to \$1.35/sh, following the dilution of the recent equity raise and we retain our Buy (Speculative) recommendation.

Valuation – peer comparison

BRB is a gold exploration company whose main asset is its 100% owned Lake Roe Gold Project. This project is at an advanced stage of exploration but remains pre-Resource and as a result an NPV-based valuation of even a notional project is not meaningful. We also cannot apply an EV/Resource ounce metric (although we have used it to benchmark market expectations). This does make valuation problematic and, quite frankly, somewhat subjective.

However, in reviewing the extensive drilling completed to date, the comparison of the potential scale of the Lake Roe project with other similar deposits and the valuations of corporate peers at points in their development where we envisage BRB to be in the next 12 months we have formed a view on its valuation.

Our valuation therefore comprises:

- zero NPV-based value for even notional project parameters;
- \$200m valuation for BRB's main exploration asset, Lake Roe, based on market valuations achieved by corporate peers Dacian Gold (DCN) and Gold Road (GOR) upon, or in the period following, key Resource announcements. The market capitalisations of both these companies met or exceeded this level in market conditions characterised by much lower valuations than currently, particularly for GOR, when the ASX Gold Index (XGD) was trading at less than half the current levels;

- A DCF valuation of corporate overheads, assumed at current expenditure rates for the next three years;
- BRB's last reported net cash position; and
- Dilution for in-the-money options and an assumed equity raise of \$8.0m at \$0.72/sh in the coming 12 months.

Table 1 - BRB valuation summary

Ordinary shares (m)		142.8
Options in the money (m)		14.1
Assumed equity raise (m)		11.1
Diluted m		167.9
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	200.0	1.40
Corporate overheads	(2.7)	(0.02)
Subtotal	197.3	1.38
Net cash (debt)	15.0	0.11
Total (undiluted)	212.3	1.49
Cash from options	4.9	@ 0.35
Assumed equity raise	8.0	@ 0.72
Total (fully diluted)	225.2	1.34

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 88.8% from the last closing share price to our valuation, we retain our Buy recommendation (Speculative risk rating) in conformity with our ratings structure.

Following the recent equity raise in which BRB placed 14.2m shares at \$0.70/sh to raise \$10.0m, we summarise the latest capital structure below:

Table 2 - BRB capital structure summary

Shares on issue	m	142.8
Performance shares / other	m	0.0
Total shares on issue	m	142.8
Share price	\$/sh	0.720
Market capitalisation	\$m	102.8
Net cash	\$m	15.0
Enterprise value (undiluted)	\$m	87.8
Options outstanding (m)	m (wtd avg ex. price \$0.35 per share)	14.1
Options (in the money)	m	14.1
Issued shares (diluted for options)	m	156.8
Market capitalisation (diluted)	m	112.9
Net cash + options	\$m	19.9
Enterprise value (diluted)	\$m	93.0

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

BRB's largest shareholder is Executive Chairman, Tom Sanders, who has an interest of 21.1m shares (14.7% of issued capital). Institutional presence on the register is light, with CQS (New City Resources) and Gold 2000, both specialist resource sector funds, with (below substantial) holdings.

Table 3 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	14.7%	21.1
CQS	4.0%	5.7
Kurraba Investments	3.5%	5.0
Gold 2000	3.5%	5.0

SOURCE: IRESS, COMPANY REPORTS

Resource sector risks

Risks to BRB include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, BRB is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their permitting, development and operation. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices, mining performance and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. BRB's key assets are located in Australia, in the State of Western Australia, a politically and socially stable jurisdiction. However changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of BRB's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Exploration Risk Warning:

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock as BRB.

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