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Breaker Resources NL (BRB)

Swell discovery lining up

Recommendation
Buy (Initiation)

Price
\$0.72
Valuation
\$1.40 (unchanged)

Risk
Speculative
Expected Return

 Capital growth **94.4%**

 Dividend yield **0.0%**

 Total expected return **94.4%**
Company Data & Ratios

 Enterprise value **\$81.8m**

 Market cap **\$89.1m**

 Issued capital **128.2m**

 Free float **84%**

 Avg. daily val. (52wk) **\$266,188**

 12 month price range **\$0.17-\$0.77**

GICS sector

Materials
Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.70	0.57	0.22
Absolute (%)	-0.71	23.01	215.91
Rel market (%)	-0.97	26.11	213.05

Absolute Price

Foundations of a Tier 1 asset

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. In short, we see potential for a multi-million ounce open-pit operation with a 7-10 year mine life at good grades (~2.0g/t Au), depth extensions to support a concurrent underground operation and untested exploration potential surrounding a significant mineral endowment. All this in a greenfields setting 100km from Kalgoorlie in Western Australia, one of the most attractive gold mining jurisdictions globally. Such an asset would gain significant traction with investors, be eminently financeable and, in our view, compete with the likes of Gold Road (GOR, Buy, TP\$1.01/sh) and Dacian Gold (DCN, Buy, TP \$2.75/sh). On this basis we see significant upside from BRB's current market valuation.

Corporate attraction

We would not normally flag potential corporate action as a factor in our investment case for a company, however given the potential development scenario we envisage for the Lake Roe project we think in this case it is too compelling to ignore. The re-emergence of the Australian mid-tier gold space through companies like Northern Star (NST, not rated) and Evolution Mining (EVN, not rated) has been driven by aggressive acquisitive growth via shrewd corporate deals. This cycle however has since waned and the hunt is on for the next asset that can make meaningful contribution to production portfolios. We see several potential acquirers for the kind of asset Lake Roe is evolving into and the competitive advantage it would bring. We make no allowance for a "control premium" in our valuation but in time we see the potential for stiff competition to own it.

Value creation through discovery

Exploration is a high-risk, high-reward business. Every discovery success story is matched by dozens of exploration companies that found deposits of only modest consequence or made no discovery at all. However, in mining, by far the greatest level of value creation is through the discovery of technically and economically viable 'greenfields' deposits. Examples of these include Sandfire Resources' (SFR) DeGrussa copper deposit, Sirius Resources' (SIR) Nova-Bollinger nickel deposit and Gold Road's (GOR) Gruyere gold deposit. We also include Dacian Gold's (DCN) Mt Morgans project.

Investment thesis – Buy (Speculative), valuation \$1.40/sh

We believe BRB's Lake Roe gold project is showing evidence of hosting a significant, multi-million ounce greenfields gold discovery and, in the event of that being realised, there is significant upside from the current market valuation. We initiate with a Buy (Speculative) recommendation and valuation of \$1.40/sh.

SOURCE: IRESS

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Investment thesis and valuation

Foundations of a Tier 1 asset

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. In short, we see potential for a multi-million ounce open-pit operation with a 7-10 year mine life at good grades (~2.0g/t Au), the likelihood of high grade depth extensions supporting a concurrent underground operation and untested exploration potential surrounding a significant mineral endowment. All this in a greenfields setting 100km from Kalgoorlie in Western Australia, one of the most attractive gold mining jurisdictions globally.

Such an asset would gain significant traction with investors, be eminently financeable and, in our view, compete with the likes of Gold Road (GOR, Buy, TP\$1.01/sh) and Dacian Gold (DCN, Buy, TP \$2.75/sh). On this basis we see significant upside from BRB's current market valuation.

Corporate attraction

We would not normally flag potential corporate action as a factor in our investment case for a company, however given the potential development scenario we envisage for the Lake Roe project we think in this case it is too compelling to ignore.

The re-emergence of the Australian mid-tier gold space through companies like Northern Star (NST, not rated) and Evolution Mining (EVN, not rated) has been driven by aggressive acquisitive growth via shrewd corporate deals. In part, this was fuelled by opportunities to acquire large-scale production assets from the global majors as they went through a divestment cycle (at the bottom of the market, thank you very much).

This cycle however has since waned and the hunt is on for the next asset that can make meaningful contribution to production portfolios and, ideally, keep these companies' asset bases in Australia. We see several potential acquirers for the kind of asset Lake Roe is evolving into and the competitive advantage it would bring to drive a company's next stage of growth. Such an asset would also contribute to lifting the quality of the owner's production portfolio in most cases that we can think of.

We make no allowance for a "control premium" in our valuation – in our view the project stands on its merits – but in time we see the potential for stiff competition to own it.

Value creation through discovery

Exploration is a high-risk, high-reward business. Every discovery success story is matched by dozens of exploration companies that found deposits of only modest consequence or made no discovery at all. However, in mining, by far the greatest level of value creation is through the discovery of technically and economically viable 'greenfields' deposits. Examples of these include Sandfire Resources' (SFR) DeGrussa copper deposit, Sirius Resources' (SIR) Nova-Bollinger nickel deposit and Gold Road's (GOR) Gruyere gold deposit. We also include Dacian Gold's (DCN) Mt Morgans gold project as an example of a brownfields gold discovery where exploration success has added significant value and, along with GOR, is a recent comparable for BRB.

Sandfire Resources (SFR)

SFR discovered the DeGrussa deposit in May 2009. In the immediate lead-up to the announcement of the discovery hole for DeGrussa, shares were trading around 7c/sh in April 2009 before running up to a staggering \$2.55 in July 2009. Following the initial

excitement of the discovery, they then pulled back to ~\$1.50/sh in late August, before more than doubling again, making regular highs above \$4.00/sh. A year later in July 2010, additional discoveries plus the arrival of OZ Minerals (OZL) on the register taking a 19% stake, saw the share price more than double again, making highs above \$8.00/sh through 2010-2013. Announcing a Resource of 600kt of contained copper in September 2010, SFR had a market capitalisation of ~A\$760m, running up to in excess of A\$1,000m in the following months and prior to the commencement of development.

Sirius Resources (SIR)

In July 2012 Sirius Resources (SIR, since taken over by Independence Group, IGO) announced the discovery of significant nickel and copper sulphide mineralisation in the first RC drill holes at what was named the Nova deposit, located in a previously unexplored and inaccessible area, beneath transported overburden. This saw the share price rocket from 5.7c/sh and a market capitalisation of \$9m, to 90c/sh and a market capitalisation of \$136m within a matter of weeks, in particular gaining good traction during the Diggers and Dealers conference in 2012. In March 2013, with the discovery of the adjacent Bollinger deposit, the share price peaked at \$5.00/sh and a market capitalisation (undiluted) in excess of A\$1,100m. In May 2015, an acquisition and demerger scheme was announced with IGO. This comprised a cash and scrip offer for Nova-Bollinger, valued at A\$1,800m on an implied offer price of \$4.38/sh and excluded the exploration assets demerged into S2 Resources (S2R).

Figure 1 - Share price performance SFR



SOURCE: IRESS

Figure 2 - Share price performance SIR



SOURCE: IRESS

Figure 3 - Share price performance GOR



SOURCE: IRESS

Figure 4 - Share price performance DCN



SOURCE: IRESS

Gold Road Resources (GOR)

In August 2013 Gold Road (GOR), identified a 1.5km long gold anomaly at its Dorothy Hills Camp, which included the Gruyere prospect. The anomaly was confirmed by a shallow RAB drilling program (234 holes for 1,234m) which returned a maximum gold grade of

174ppb (0.17g/t Au). The drill program was targeted on the coincidence of the interpreted centre of basin and a large dilational bend in a major shear zone. Follow-up RC drilling completed by November 2013 traced a strike length for the Gruyere Prospect of 800m along a 180m wide mineralised corridor with maximum grades of ~1.5g/t Au, including a highlight hole of 75m @ 1.39g/t Au. The share price had appreciated from ~5c/sh in mid-August to 10c/sh in November for a market capitalisation of A\$45m – and this was in the depths of a major bear market for gold.

In August 2014 GOR announced a maiden JORC Resource for Gruyere of 96Mt @ 1.23g/t Au for 3.8Moz contained. This was estimated from ~38,000m of drilling (including 11,600m of diamond drilling). The Gruyere deposit had a strike length of ~1.6km, varied in horizontal width from 7m to 190m and was drilled to a maximum depth of 600m, where it remained open. **In the weeks following the Resource announcement the share price increased to 39c/sh for a market capitalisation of A\$201m** – once again during a tough time in the gold sector and an exchange rate of 0.93 AUD:USD.

By the time a JV with the major global gold producer Gold Fields Limited (GFI US) was announced in November 2016, GOR had a share price of 70c/sh and market capitalisation (undiluted) of A\$610m. Broad terms of the deal were cash consideration of A\$350m plus an uncapped 1.5% royalty on production in excess of 2Moz for a 50% JV interest in the project. GOR also retained ownership of the Yamarna exploration tenements outside the Gruyere deposit.

Dacian Gold (DCN)

Dacian Gold's (DCN) progression was more of a slow burn. After acquiring the historic Mt Morgans project in 2012 and raising \$20m via an IPO to fund exploration for up to four years, the management team gradually increased the Resource base from 840koz to 2.1Moz as at May 2015. At this point DCN was trading around 40c/sh and with a market capitalisation of A\$38m. Ongoing exploration success continued to add to the Resource base and key catalysts included a high grade Resource at the Westralia deposit (1.5Moz at 5.1g/t Au), a positive reception at the 2015 Diggers and Dealers conference and the release of a positive Scoping Study in September 2015, which included an updated Resource of 3.0Moz at 2.2g/t Au. **By March 2016 the share price was up to \$1.60/sh for a market capitalisation of A\$210m.** Advancement of the project and a favourable gold market saw the share price peak around \$3.80/sh (market capitalisation of ~A\$505m) in August-September 2016. The BFS for the project was released in November 2016, \$136m in equity raised in March 2017 and construction is underway with production targeted for early CY18. DCN currently has a market capitalisation of A\$410m, cash of A\$90m and an undrawn project finance facility of A\$150m.

BRB to hit key milestone's in the next 12 months

BRB is on track to release a maiden Resource for the Lake Roe project by end CY17. In reviewing the extensive drilling completed to date, the comparison of the potential scale of the Lake Roe project with other similar deposits we expect the Resource to be a key positive catalyst for the stock, particularly in the context of it being a greenfields discovery.

Given the current mineralisation is open at depth and along strike and that there are similar targets to follow up beyond the Bombora discovery, there is plenty of opportunity for BRB to maintain positive newsflow after the Resource is announced.

For these reasons we believe BRB is approaching a similar juncture as DCN and GOR when they were re-rated to levels of \$200m or more by the market. We point out that these were achieved 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.

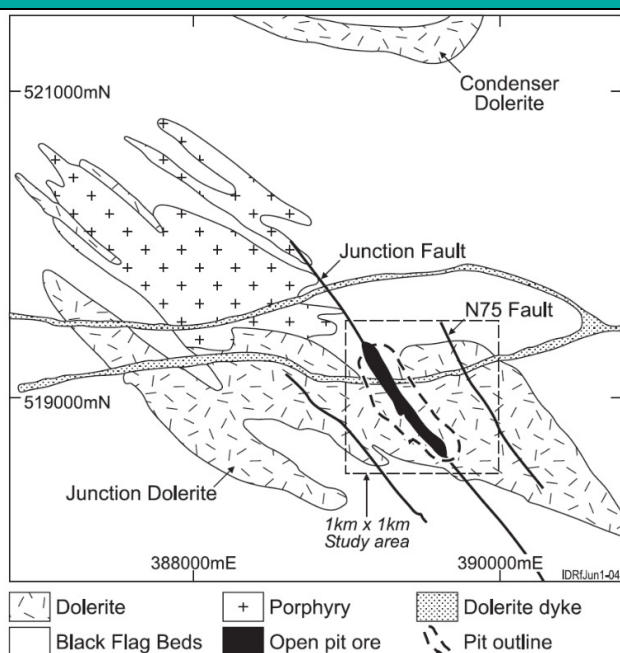
BRB's Lake Roe project as a significant discovery

It's early days and there are no certainties in exploration. However, in our view there is an increasing body of evidence from the drilling at Lake Roe to point to it emerging as a significant discovery. We also see valid comparisons with significant, known deposits that also indicate its potential.

Discovery: gold in soil anomalies under transported cover – Junction analogy

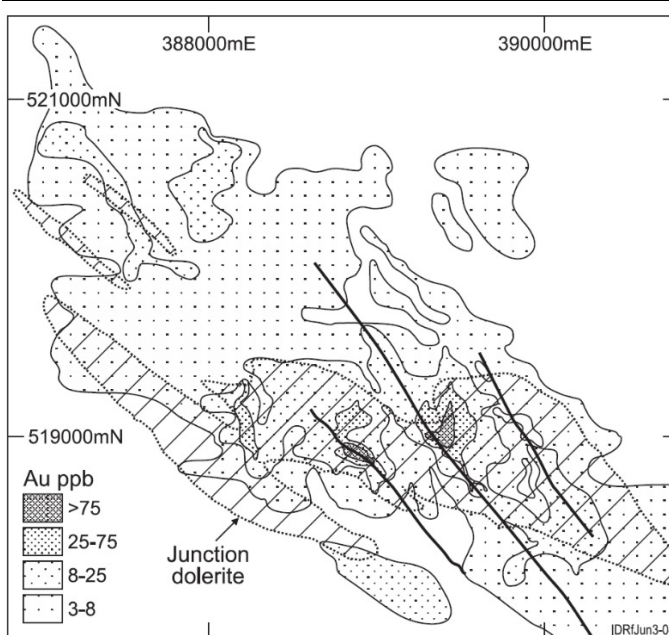
The discovery stage of Lake Roe draws comparisons with the Junction Gold Mine at Gold Fields' St Ives operations near Kambalda in Western Australia. Junction had a gold endowment of 2.1Moz and was one of the largest single deposits within the St Ives gold camp, which continues to produce at 350-400kozpa. The Junction deposit is of similar style to Lake Roe, comprising gold hosted in sulphide lodes/stockwork in thick fractionated dolerite¹.

Figure 5 - Junction gold deposit – local geology



SOURCE: CARVER ET AL

Figure 6 – Junction gold deposit – soil geochemistry



SOURCE: CARVER ET AL

Structurally, Lake Roe sits in the convergence zone of two major shear zones – the Keith Kilkenny Shear and the Claypan Shear. The Bombora discovery at Lake Roe is characterised by deeper transported cover and is part of a 8km long gold anomaly identified by wide-spaced, shallow air-core (AC) drilling in 2015. The Bombora discovery comprises a continuous 2.2km strike length of 60->120ppb anomalous gold that is open to the south. The best result from the initial AC drilling was 5m @ 6.12g/t Au. In comparison:

- Junction lies under shallow transported cover between two major faults, the Junction Fault and the N75 Fault. It is structurally controlled quartz vein gold deposit hosted in dolerite, the highest grade zones of which are granophyric;
- Junction was discovered with auger geochemical soil surveys coincident with a magnetic anomaly. The target zone was highlighted in 1986 by anomalous gold values >75ppb (0.075g/t Au);
- The discovery drillholes into Junction included intersections of 11m @ 5.6g/t Au from 32m and 5m @ 3.8g/t Au from 50m;
- The Junction open-pit extended along ~900m of strike. It delivered an average head grade of 3.9g/t Au and the underground a head grade of 6.9g/t Au

¹ Junction Gold Deposit, St Ives District, Western Australia, Carver et al, 2004 <http://crclme.org.au/RegExpOre/Junction.pdf>

Resource potential – scale comparisons with White Foil and Gruyere

Over 89,000m of drilling has now been completed at Lake Roe, the vast majority of which is classified as wide spaced reconnaissance drilling which has delineated a large scale gold anomaly. 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 has since commenced, in February 2017, with three drill rigs, and a maiden Resource is expected to be released before end CY17. In terms of assessing the scale of the system we consider the following points:

- Although GOR's Gruyere deposit is a different style of mineralisation, its approximate dimensions at the time of its maiden Resource calculation of 96Mt @ 1.23g/t Au for 3.8Moz contained comprised a strike length of ~1.6km, varied in horizontal width from 7m to 190m and was drilled to a maximum depth of 600m.

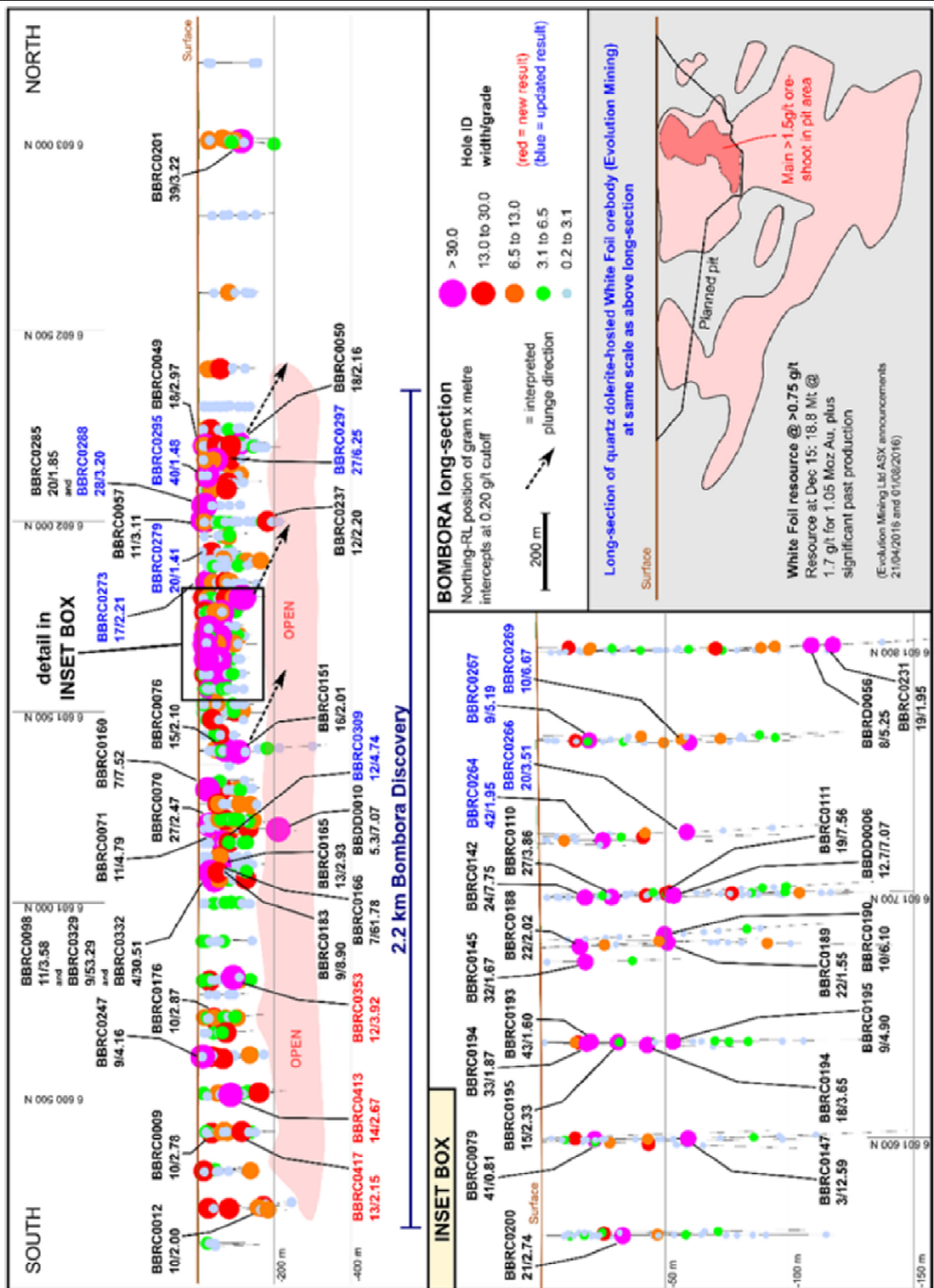
In comparison, at the Lake Roe Bombora discovery:

- The gold lodes occur in a mineralised quartz dolerite corridor typically 100m wide but up to 300m wide in the southern portion of the discovery.
- Drilling coverage is good to a depth of 200m below surface (mbs), but recent, deeper, diamond drill holes have returned good intersections from 244m down hole (5.3m @ 7.1g/t Au) and sulphide lodes have been logged at 300mbs (assays pending) in BRB's deepest drilling to date.
- While the continuity of the mineralisation at Lake Roe (quartz vein style) is unlikely to match that of Gruyere (porphyry style), we would expect this to be offset by higher grades (closer to 2g/t in our estimation) and multiple lodes within a wider corridor.

The comparison with the dolerite hosted White Foil deposit (Evolution Mining) is shown in long-section overleaf. The White Foil Resource (as at December 2015) of 18.8Mt @ 1.7g/t Au for 1.05Moz contained (and exclusive of past production) sits within a strike of ~1.1km and to a depth of ~500m. This compares with the strike length of 2.2km for the Bombora discovery which is also only drilled to <200mbs.

While these are very broad comparisons, in our view, there is very good potential for the Bombora discovery to host a multi-million ounce gold Resource of good grade and likely with strike and depth extensions.

Figure 7 – Evolution Mining’s White Foil deposit in scale comparison with the Bombora discovery



SOURCE: COMPANY DATA

Enterprise Value per Resource ounce (EV/oz) metrics

We have updated our measurement of Enterprise Value per Resource ounce (A\$/oz) for a broad range of ASX-listed gold exploration and development companies. We have focused on pre-production Australian assets with some prospect of a path to commercial production.

We view EV/oz as a crude valuation metric that provides nothing more than a benchmark from which to make a relative and qualitative assessment of value. Unfortunately at this early stage it is one of the few measures available to the market.

Table 1 –ASX-listed exploration companies and EV/Resource ounce metrics

Ticker	Company	EV (A\$)	Resources (koz Au)	Grade (g/t Au)	EV/oz (A\$)	Comment
GOR	Gold Road Resources Limited	\$243.2	3,310	1.3	\$73.47	Global Resource, 50% of Gruyere w GFI
EGS	Eastern Goldfields Limited	\$178.2	1,500	2.5	\$118.81	First gold poured at Davyhurst, production ramping up
DCN	Dacian Gold Limited	\$323.6	3,314	2.3	\$97.63	Jupiter o/p Resources (mill and HL); Westralia u/g
AUC	Ausgold Limited	\$11.2	785	1.2	\$14.21	Resource drill-out of Katanning deposit
BRB	Breaker Resources NL	\$81.8	1,636	1.8	\$50.00	Implied Resource assuming A\$50/oz valuation
CMM	Capricorn Metals Ltd	\$42.0	1,116	1.1	\$37.64	Bibra deposit at Karlawinda, Resource upgrade due, DFS SepQ 17
CRB	Carbine Resources Limited	\$11.4	850	0.8	\$13.46	Mt Morgan gold-copper project QLD (ex NGF)
FML	Focus Minerals Ltd	\$27.4	3,806	2.4	\$7.20	Laverton and Coolgardie. 49% owned by Shandong Gold
MDI	Middle Island Resources Limited	\$8.1	102	1.3	\$79.67	JORC 2012 Sandstone Resource
GCY	Gascoyne Resources Limited	\$107.0	2,337	1.4	\$45.78	Equity raised, seeking debt financing for development
EAR	Echo Resources Limited	\$33.9	992	1.8	\$34.18	Exploration around Bronzewing processing hub (t/o MKO completed)
MAT	Matsa Resources Limited	\$21.8	355	2.0	\$61.46	East Laverton, plus other projects. DFS and trial mining underway
MRP	Macphersons Resources Limited	\$52.7	232	1.2	\$227.17	Boorara stockwork trial pits
KIN	KIN Mining NL	\$43.6	721	1.9	\$60.52	Leonora project DFS, Cardinia Mining Centre, option on Lawlers plant
MGV	Musgrave Minerals Limited	\$13.7	626	3.9	\$21.83	Cue - Acquiring 40% balance of project from SLR
IRC	Intermin Resources Limited	\$18.6	356	2.2	\$52.36	Toll treatment at Paddington, exploration JVs
				Avg	\$63.03	
				Median	\$52.36	

Gold equivalents at: Au US\$1200/oz, Ag \$20/oz Cu US\$6000/t. No recovery factors applied

SOURCE: IRESS, COMPANY REPORTS AND BELL POTTER SECURITIES ESTIMATES

We have used this peer comparison of EV/oz values to consider what expectations the market may have around the potential size of BRB's Lake Roe deposit.

If we apply an approximation of A\$50/oz for the median and average values for EV/oz and divide it into BRB's current EV of \$81.8m, the implication is that the market is currently assuming a Resource of ~1.6Moz is likely to be defined at Lake Roe.

Given the project is currently pre-Resource and that there is uncertainty around its delivery, it would also be reasonable to assume that a discount should apply to the market's assumptions. Hence, in our view, the market is anticipating a Resource of at least 1.6Moz.

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 that we envisage as comparable to BRB's progress over the next 12 months we have formed a view on its valuation.

It 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 \$7.0m at \$0.65/sh in the coming 12 months.

Table 2 - BRB valuation summary

Ordinary shares (m)		128.2
Options in the money (m)		14.3
Assumed equity raise (m)		10.8
Diluted m		153.2
<hr/>		
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	200.0	1.56
Corporate overheads	(2.3)	(0.02)
Subtotal	197.7	1.54
Net cash (debt)	7.3	0.06
Total (undiluted)	205.0	1.60
Cash from options	5.0	@ 0.35
Assumed equity raise	7.0	@ 0.65
Total (fully diluted)	216.9	1.42

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 94% from the last closing share price to our valuation, we make a Buy recommendation (Speculative risk rating) in conformity with our ratings structure.

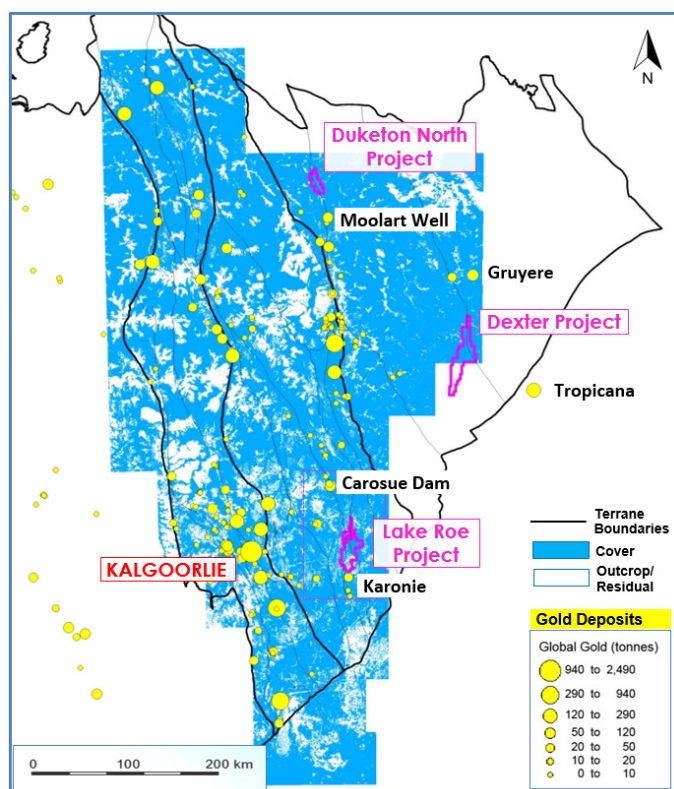
BRB background and asset review

Company background

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 exploration strategy focused on the use of modern multi-element regional soil geochemistry to identify large gold systems concealed by transported cover. There was an opportunity to take advantage of low-cost soil sampling techniques to screen for big deposit signatures using technology not available 20 years ago. As such, BRB's early focus was on large soil anomalies generated on several IPO projects which had been pegged on large structural targets in the EGST. These included the Dexter, Kurrajong, Duketon North and Mt Gill projects. While some moderate success was achieved on these with significant anomalies identified, they were not advanced to a Resource drill-out stage. This was in part due to them being under deeper cover and the requirement for a more time consuming and expensive exploration program to advance them to a Resource drill-out stage.

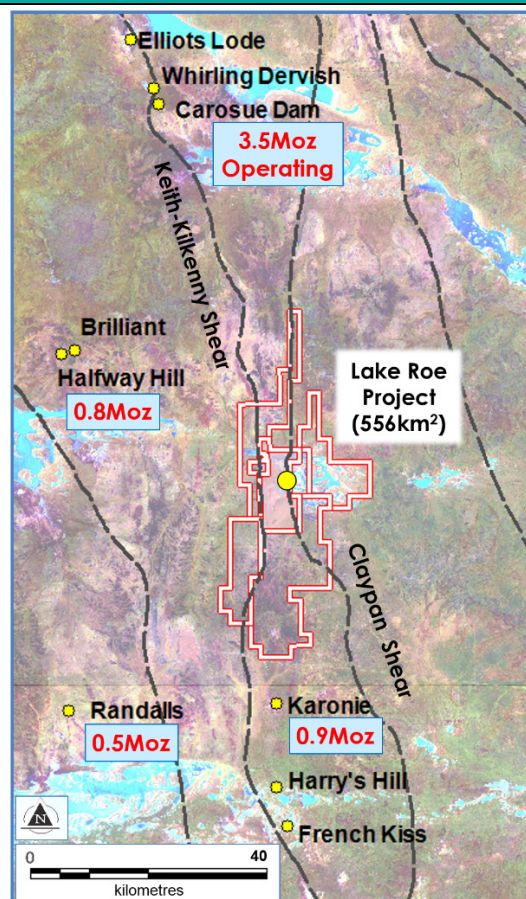
This led BRB to screen for projects amenable to exploration using the soil geochemistry techniques they had developed, but under shallower cover. In late 2014 the Lake Roe project was identified along strike from two major gold deposits (Saracen's operating 3.5Moz Carosue Dam mines and the historic 0.9Moz Karonie deposit) and within an attractive structural setting between two major shear zones. The ground was vacant and BRB acquired the project in late 2014 by pegging a total of 556km² of Exploration Leases.

Figure 8 – Eastern Goldfields Superterrane of WA



SOURCE: COMPANY DATA

Figure 9 - Lake Roe Gold Project setting



SOURCE: COMPANY DATA

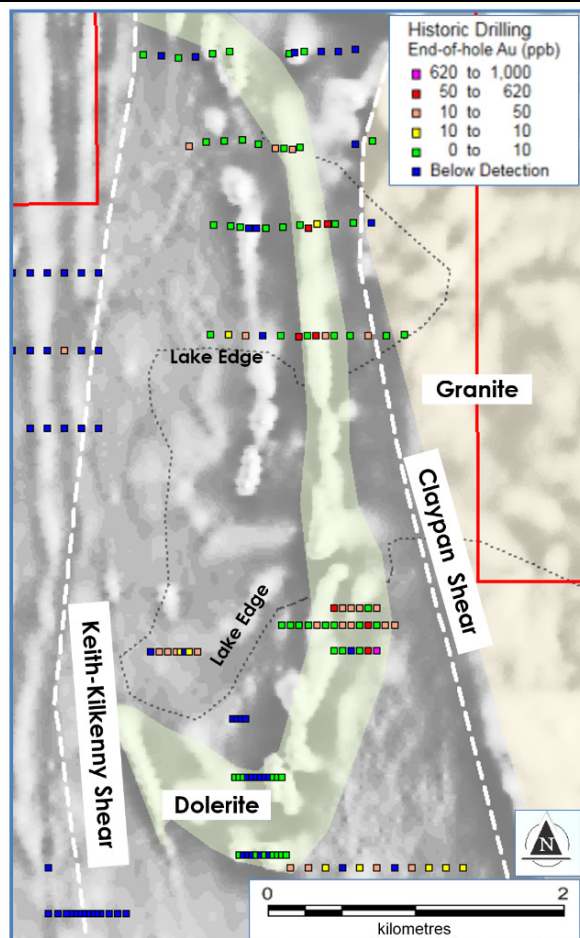
Lake Roe gold project

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, currently owned and operated by Saracen Mineral Holdings Ltd (SAR, not rated) 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. There is no native title claim on the granted tenements.

Although the ground was vacant, exploration had previously been conducted by WMC, Aberfoyle and PosGold, from the mid-1980's through to the late-1990's. Drilling however was limited and poorly targeted, in part due to regional soil sampling programs being hindered by the transported sand cover. Where anomalous gold was identified, it was not followed up due to the perceived expense of drilling the targets out versus the confidence in those targets. As a result, none of the gold occurrences were systematically followed up and the ground was relinquished by each of these groups.

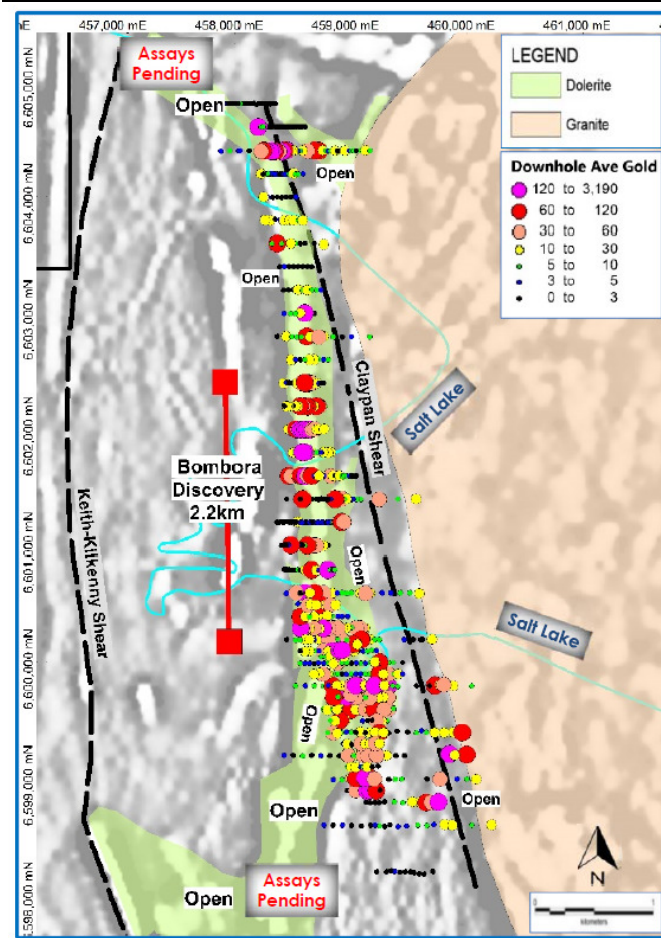
However, BRB noticed that much of the gold anomalism occurred preferentially in a thick fractionated dolerite above a major shear zone, adjacent to a syenite granite. With dolerite being an important host rock for gold throughout the Eastern Goldfields BRB began to acquire the project by pegging in late 2014. BRB's first exploration licence (E28/2515) at Lake Roe was granted in May 2015 and reconnaissance aircore drilling commenced that identified a large new gold system.

Figure 10 - Lake Roe Gold Project historic aircore drilling



SOURCE: COMPANY DATA

Figure 11 - Lake Roe Gold Project – latest aircore drilling



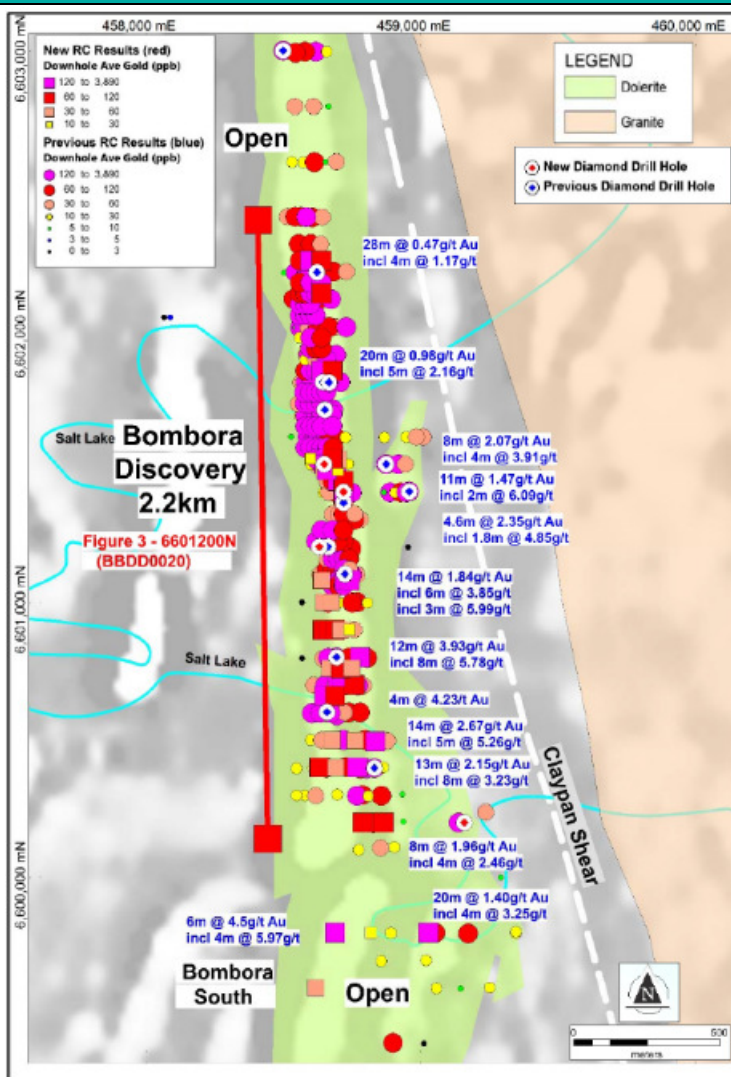
SOURCE: COMPANY DATA

RC drilling programs followed up the successful AC programs and through the course of 2016 identified what were initially interpreted as two separate primary gold discoveries – Bombora and Bombora North. However, after a third phase of RC reconnaissance drilling in September 2016, the discoveries were confirmed as a single continuous zone with a strike of 2.2km (now singularly called the Bombora discovery) which remains open to the north and south and is part of an anomalous gold system traced over 8km.

Bombora infill / Resource drilling commenced in December 2016

Four rounds of infill drilling have been completed to July 2017, returning results indicating significant Resource potential and amenability to economic extraction. Shallow, wide intersections and continuity along strike all point to favourable conditions for open-pit mining. More recently, sulphide mineralisation and high grades at depth demonstrate the discovery remains open, potential for depth extensions remains, supporting a case for underground mining. High-grade sulphide lodes typically extend to substantial depths based on similar gold deposits in WA's Eastern Goldfields.

Figure 12 - Bombora discovery – RC and DD hole plan as at July 2017



SOURCE: COMPANY DATA

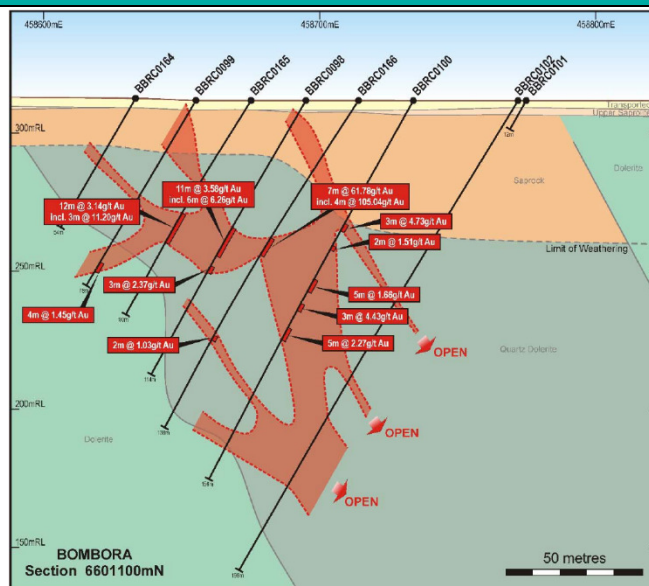
RC and diamond infill drilling results have been reported regularly, returning good grades and the interpreted cross-sections show attractive mining potential:

Figure 13 - Bombora discovery – infill drilling results Jan. 2017

Hole_ID	Interval @ g/t Gold	From	Includes
BBRC0166	7m @ 61.78	59m	4m @ 105.04
BBRC0160	7m @ 7.75	24m	5m @ 10.59
and	7m @ 2.00	72m	1m @ 8.18
BBRC0165	12m @ 3.14	48m	5m @ 6.99
BBRC0158	13m @ 2.18	36m	9m @ 3.02
BBRC0224	8m @ 2.45	92m	4m @ 4.57
and	16m @ 1.00	48m	-
BBRC0156	4m @ 4.79	30m	2m @ 9.33

SOURCE: COMPANY DATA

Figure 14 – Bombora discovery – infill section 6601100mN



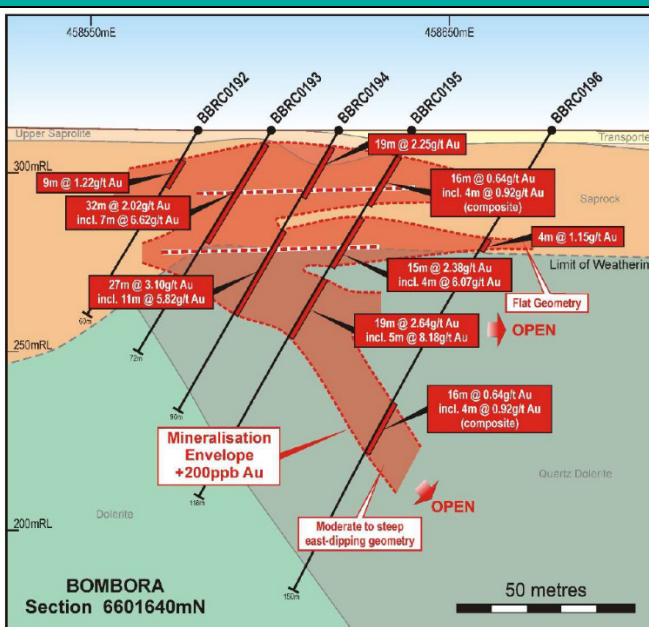
SOURCE: COMPANY DATA

Figure 15 - Bombora discovery – infill drilling results March 2017

Hole_ID	Interval @ g/t Gold	From	Includes	Includes
BBRC0188	24m @ 1.72	8m	12m @ 2.73	8m @ 3.18
BBRC0189	24m @ 1.47	48m	14m @ 2.26	2m @ 10.26
BBRC0190	12m @ 5.83	52m	4m @ 11.52	-
BBRC0193	36m @ 1.83	4m	16m @ 3.48	7m @ 6.62
BBRC0194	54m @ 2.38	5m	19m @ 2.25	-
		and	27m @ 3.10	11m @ 5.82
BBRC0195	15m @ 2.38	28m	6m @ 4.43	-
BBRC0195	28m @ 1.88	48m	19m @ 2.64	5m @ 8.18
BBRC0199	10m @ 1.43	24m	4m @ 3.22	-
BBRC0200	20m @ 2.87	28m	9m @ 5.53	3m @ 11.88
BBRC0241	11m @ 1.14	29m	5m @ 1.79	-
BBRC0241	12m @ 1.98	84m	-	-
BBRC0247	12m @ 3.02	8m	8m @ 4.29	4m @ 7.44
BBRC0248	14m @ 1.39	50m	6m @ 2.05	1m @ 9.86
BBRC0249	16m @ 1.75	32m	13m @ 2.12	4m @ 4.29
BBRC0260	12m @ 1.61	12m	4m @ 4.45	-

SOURCE: COMPANY DATA

Figure 16 – Bombora discovery – infill section 6601640mN



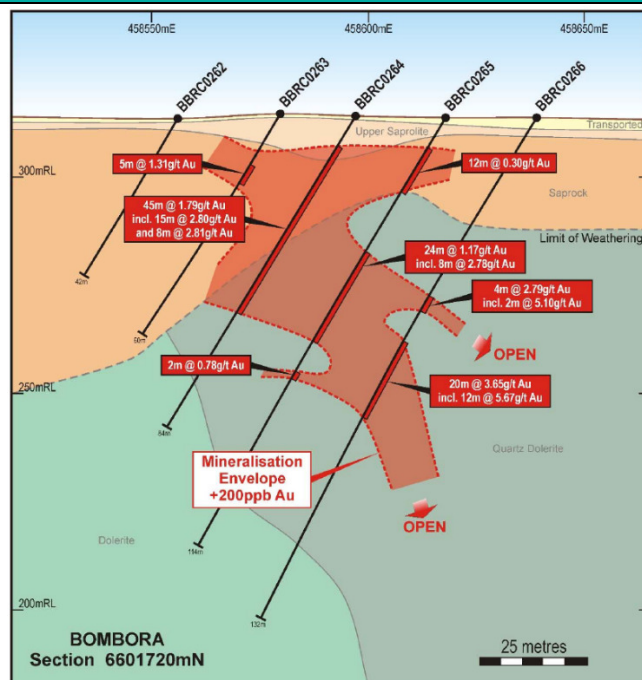
SOURCE: COMPANY DATA

Figure 17 - Bombora discovery – infill drilling results April 2017

Hole_ID	Interval @ g/t Au	From	Includes (Interval @ g/t Au)
BBRC0266	20m @ 3.65	60m	12m @ 5.67 & 2m @ 19.64
BBRC0264	45m @ 1.79	8m	15m @ 2.80
and	8m @ 2.81	45m	6m @ 3.47
BBRC0268	19m @ 1.42	9m	11m @ 2.00 & 7m @ 2.57
BBRC0269	3m @ 21.74	68m	1m @ 56.94
BBRC0273	24m @ 1.60	12m	12m @ 2.95 & 8m @ 3.72
BBRC0309	7m @ 8.69	77m	3m @ 17.01 & 2m @ 23.19
BBRC0310	5m @ 4.05	87m	1m @ 18.31
BBRC0312	6m @ 4.12	66m	5m @ 4.55 & 3m @ 5.91
BBRC0265	24m @ 1.17	36m	8m @ 2.78

SOURCE: COMPANY DATA

Figure 18 – Bombora discovery – infill section 6601720mN



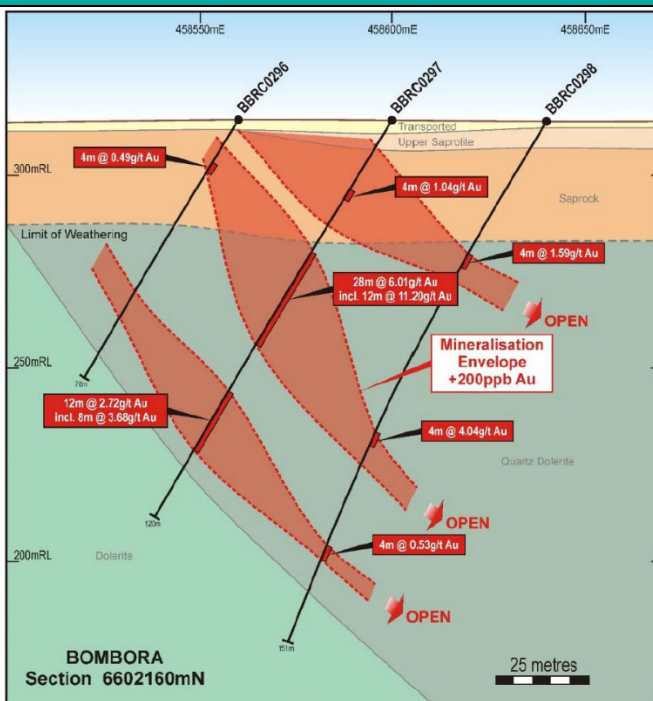
SOURCE: COMPANY DATA

Figure 19 - Bombora discovery – infill drilling results May 2017

Hole_ID	Interval @ g/t Au	From	Includes (Interval @ g/t Au)
BBRC0329	9m @ 53.29	31m	4m @ 119.24
BBRC0297	28m @ 6.01	40m	12m @ 11.2
and	12m @ 2.72	88m	8m @ 3.68
BBRC0332	4m @ 30.51	45m	3m @ 40.61
and	7m @ 1.29	57m	
and	8m @ 2.13	136m	
BBRC0288	24m @ 3.62	12m	16m @ 4.68
BBRC0295	36m @ 1.52	8m	4m @ 5.98
BBRC0295	20m @ 1.01	72m	8m @ 1.47
BBDD0010	5.8m @ 2.68	151m	2m @ 6.2
and	5.3m @ 7.07	244m	3.8m @ 9.29
BBRC0285	12m @ 2.92	8m	8m @ 3.87
BBRC0279	20m @ 1.54	32m	4m @ 3.16
BBDD0008	3.55m @ 7.77	50.45m	2.55m @ 10.65

SOURCE: COMPANY DATA

Figure 20 – Bombora discovery – infill section 6602160mN



SOURCE: COMPANY DATA

Capital structure and financials

Financials

BRB is an exploration and development company that is exclusively reliant on the support of shareholders and the equity capital markets for funding. The company currently has no source of its own cash generation or income. As such, BRB is classified as a Speculative Investment. BRB's flagship Lake Roe gold project is a pre-Resource stage project and any future cash-flows and earnings are reliant on the definition of a mineral deposit that is technically and economically viable to extract. Its successful development remains contingent on successful permitting, approval, financing and construction.

BRB last reported available cash of A\$7.3m as at 30 June 2017, in its Quarterly cash flow report. It estimated expenditure on administration, exploration and evaluation for the September Quarter 2017 to be A\$2.1m (in line with the June Quarter). The current rates of expenditure imply BRB has sufficient capital to sustain its exploration programs into mid-2018. Our forward modelling assumes a mildly dilutive equity raise of A\$7.0m during the next 12 months.

The company's current work plan includes the ongoing exploration and evaluation work at the Lake Roe project, key of which is the current Resource definition drilling program on the Bombora discovery. BRB envisages being in a position to release a maiden Mineral Resource Estimate for Bombora in late 2017. We anticipate that BRB's current levels of funding will be sufficient reach this milestone.

BRB has no debt and no hedging or gold sale agreements, which we view as entirely appropriate and desirable for an exploration company at this stage.

Equity outstanding

BRB currently has 127.82m fully paid ordinary shares outstanding and 5.67m listed, part-paid shares outstanding (1c paid, 19c due December 2017). BRB has six series of unlisted equity options, totalling 14.3m options, primarily being performance options issued to management. Expiry dates run from December 2017 to December 2019 with exercise prices ranging from \$0.40 to \$0.69, with most of them being in the money.

BRB does have capacity and has utilised its capacity to issue equity in lieu of cash payment for services undertaken. Specifically, BRB has issued shares to Ausdrill for drilling completed at the Lake Roe project.

BRB last raised equity via an oversubscribed private placement in September 2016. A total of 24.8m shares were issued at \$0.50/sh, raising approximately \$12.4m before costs.

Table 3 - BRB capital structure summary

Shares on issue	m	128.2
Performance shares / other	m	0.0
Total shares on issue	m	128.2
Share price	\$/sh	0.695
Market capitalisation	\$m	89.1
Net cash	\$m	7.3
Enterprise value (undiluted)	\$m	81.8
Options outstanding (m)	m (wtd avg ex. price \$0.35 per share)	14.3
Options (in the money)	m	14.3
Issued shares (diluted for options)	m	142.5
Market capitalisation (diluted)	m	99.0
Net cash + options	\$m	12.3
Enterprise value (diluted)	\$m	86.8

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Share register

BRB's largest shareholder is Executive Chairman, Tom Sanders, who has an interest in 21.1m shares (16.5% of issued capital). There have been a number of tough years for gold exploration since BRB listed in 2012 and Mr Sanders has contributed significantly to funding the ongoing activities of the company. In our view this has contributed to a number of positive features of the company, including the tight capital structure, low operating and administration costs, the vast majority of funds raised going into exploration activities and, not least, some committed "skin in the game" from management.

Institutional presence on the register is light, with CQS (New City Resources) and Gold 2000, both specialist resource sector funds, with (below substantial) holdings. We understand there are a number of other institutional investors on the register following last year's equity raising but broadly speaking the register is open.

Table 4 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	16.4%	21.1
CQS	4.4%	5.7
Kurraba Investments	3.9%	5.0
Gold 2000	3.9%	5.0

SOURCE: IRESS, COMPANY REPORTS

Board and management

Board of Directors and key management

BRB is managed by a small Board of three, including Executive Chairman, Tom Sanders. In our view the size of the Board and the skill-sets represented are appropriate to the size and activities of BRB. The small size of the team keeps costs low, with remuneration of the Board and senior management totalling \$0.612m in FY16, inclusive of Superannuation and share based payments.

Board of Directors

Tom Sanders - Executive Chairman

BSc (Geology) Sydney Uni.; MSc (Mineral Economics) Curtin Uni.; MAusIMM; FAICD

Tom Sanders is a geologist with over 35 years' experience in the Australian mining industry. He has extensive experience in project generation, exploration, feasibility, mining and corporate management with a strong emphasis on gold and nickel in Western Australia. Mr Sanders has published works on nickel and gold in WA, and has managed a large number of exploration projects, several of which he progressed into production during a 23 year period based in the Kalgoorlie region in WA. He has extensive production experience on several underground and open pit gold and nickel operations. Mr Sanders was responsible for identifying Breaker's initial projects and guiding the Company to a successful ASX listing in 2012.

Mark Edwards - Non-Executive Director

BJuris, LLB Uni. of Western Australia

Mark Edwards is a solicitor with over 25 years' experience in resources and corporate law who has advised a range of ASX-listed companies active in the resources sector with projects both in Australia and overseas, including significant nickel, gold and iron ore projects. His professional work has involved him in many facets of the resources industry ranging from ASX listings, exploration and mining joint ventures, project development agreements and project financing.

Mike Kitney - Non-Executive Director

Ass Met WA Institute of Technology; Post Grad Dip (Extractive Metallurgy) WA School of Mines; MSc (Mineral Economics) Curtin Uni.; MAusIMM

Mike Kitney is a process engineer with over 40 years' experience in the mining industry. He has participated in the development and construction of projects throughout Australia, Africa, south east Asia and the former Soviet Union. Mr Kitney's particular strengths are in production and mineral processing, all aspects of environmental management, project evaluation and assessment and leadership of interdisciplinary project teams. He brings to the Company vast project development expertise and practical experience in commissioning new projects. He has previously held senior technical and project management positions with Alcoa Australia Limited, Minproc Engineers Limited, Property Company of London plc, British Phosphate Commissioners, Nelson Gold Corporation Limited and Avocet Mining plc. He is most recently the Chief Operating Officer of ASX-listed Kasbah Resources Limited.

Senior management**Michelle Simson - Company Secretary**

EMBA (Dist) University of Western Australia; GradDipACG; AGIA; ICSA

Michelle Simson has 20 years' administration experience, including the last 12 years in the resources industry working in both exploration and mining companies in the commodities of gold and uranium. She has previously held positions with Agincourt Resources Limited, Nova Energy Limited and Navigator Resources Limited and has completed an Executive Master of Business Administration with Distinction at the University of Western Australia and a Graduate Diploma in Applied Corporate Governance. She is a Chartered Secretary and member of the Governance Institute of Australia.

Alastair Barker - Exploration Manager

BSc (Geology) WA School of Mines; MAusIMM

Alastair Barker is a geologist with 20 years' experience in the Australian mineral exploration and mining industry and has worked on a range of gold, platinum, uranium, manganese, nickel, copper and rare earth projects throughout Australia. He has operated successful geological contracting businesses in Kalgoorlie and more recently in the Northern Territory. Mr Barker has extensive experience in all stages of regional and near-mine exploration project management, particularly in Western Australia, from conceptual targeting and ground acquisition through to resource definition and open cut mining geology. He has held Senior Geologist and Project Leader roles with a variety of Australian companies including Thundelarra Exploration Ltd, Navigator Resources Ltd, Mining Projects Group, De Grey Mining Ltd, Croesus Mining NL and Hannans Reward Ltd.

Mr Barker has particular strengths in project management and evaluation in remote areas and broad exposure to a wide variety of geological settings and mineralisation styles in Australia. He played a key role at several discoveries including the Turner River Gold Belt and was a key team member at the Kalgoorlie operations of Croesus Mining NL and other mine developments including Mt Monger.

Source: Company website (<https://www.breakerresources.com.au/corporate/directors-management/>) and Breaker Resources NL Annual Report 2016

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 \$1.40/sh

We believe BRB's Lake Roe gold project is showing evidence of hosting a significant, multi-million ounce greenfields gold discovery and, in the event of that being realised, there is significant upside from the current market valuation. We initiate with a Buy (Speculative) recommendation and valuation of \$1.40/sh.

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 \$7.0m at \$0.65/sh in the coming 12 months.

Table 5 - BRB valuation summary

Ordinary shares (m)		128.2
Options in the money (m)		14.3
Assumed equity raise (m)		10.8
Diluted m		153.2
<hr/>		
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	200.0	1.56
Corporate overheads	(2.3)	(0.02)
Subtotal	197.7	1.54
Net cash (debt)	7.3	0.06
Total (undiluted)	205.0	1.60
Cash from options	5.0	@ 0.35
Assumed equity raise	7.0	@ 0.65
Total (fully diluted)	216.9	1.42

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 94% from the last closing share price to our valuation, we make a Buy recommendation (Speculative risk rating) in conformity with our ratings structure.

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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