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Breaker Resources NL (BRB)

Risk down, reward up

Recommendation
Buy (unchanged)

Price
\$0.50
Valuation
\$1.30 (previously \$1.35)

Risk
Speculative
GICS Sector
Materials
Expected Return

Capital growth	160.0%
Dividend yield	0.0%
Total expected return	160.0%

Company Data & Ratios

Enterprise value	\$57.0m
Market cap	\$72.5m
Issued capital	145.1m
Free float	85%
Avg. daily val. (52wk)	\$211,963
12 month price range	\$0.30-\$0.80

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.54	0.70	0.33
Absolute (%)	-7.4	-28.6	51.5
Rel market (%)	-7.7	-33.0	41.7

Absolute Price


SOURCE: IRESS

De-risking of Lake Roe continues

BRB has continued to advance its 100%-owned Lake Roe gold project, 100km east of Kalgoorlie in WA. Infill drilling of the main Bombora discovery zone has further tightened drill hole spacing, continued to return broad, high grade, near surface gold intersections, demonstrate consistency and continuity with RC and diamond drilling, plus shown depth potential with high grade intersections in fresh rock in the deepest holes drilled to date. Initial metallurgical testing has also shown positive signs, with recoveries of +90% in short leach times, with up to 39% gravity recovery and low-to-moderate ore hardness. If there has been a factor to disappoint the market it has been the push back of the release of a maiden Resource from the December quarter 2017 to the March quarter 2018. However, this is a delay, not a risk factor and we are of the view the last couple of months has seen some key de-risking milestones achieved.

Filling in the gaps

BRB commenced infill / Resource drilling in February 2017. Two RC rigs and two diamond rigs have now drilled out approximately 70% of the 2.2km strike Bombora zone on a 40m x 20m pattern. As such we expect this will result in much of the maiden Resource being in the higher confidence Indicated category. With over 95,000m of RC and diamond drilling now completed, the tighter drill spacing is confirming continuity between sections and defining persistent lode geometries. In our examination of cross-sections and long-sections we see continuity along strike, down dip and along plunge, together with good correlations between diamond and RC drilling results. We also note that broad, high grade intersections have been returned at both open-pit and underground cut-off-grades – the implication being the deposit will support both mining scenarios, be able to be followed at depth and further de-risk its development.

Metallurgy passes first test

One recent key milestone was the completion of preliminary metallurgical test work. The results indicate gold recoveries of 95% for both oxide and fresh ore by conventional leaching methods. With 39% of gold recoverable by gravity, rapid leach kinetics and low-to-moderate ore hardness the results also point to low capital and operating costs. This is a major de-risking event with further test work due shortly.

Investment thesis – Buy (Speculative), valuation \$1.30/sh

The latest drilling 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 and along strike. In our view, the ongoing drill program and the preliminary metallurgical test work have given the market more and positive information, also pointing to an attractive development proposition. Our valuation (rounded to nearest 5c) is lowered slightly, to \$1.30/sh, following completion of an SPP since our last update. We retain our Buy (Speculative) recommendation on what we view as a unique and compelling greenfields gold development story.

Risk down, reward up

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Maiden Resource in March quarter 2018

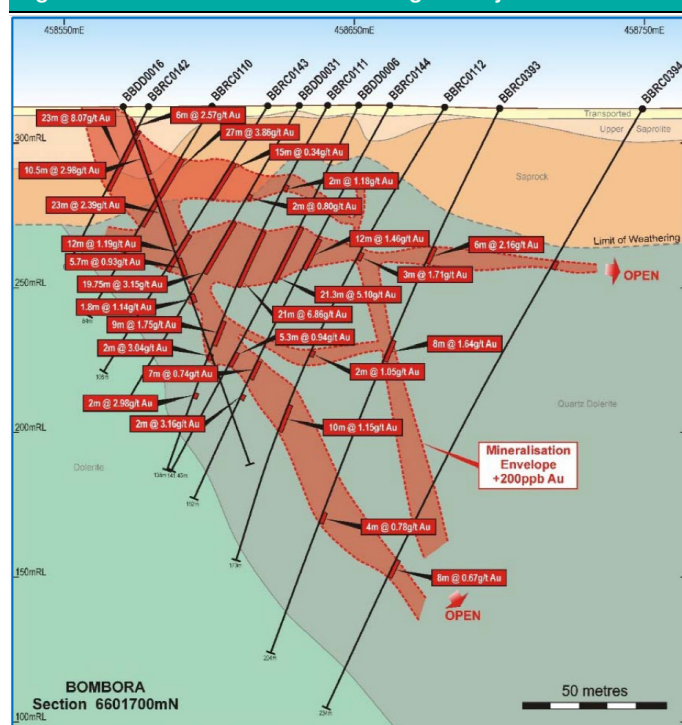
If there has been a factor to disappoint the market it has been the push back of the release of a maiden Resource from the December quarter 2017 to the March quarter 2018. However, this is a delay, not a risk factor. Additional drilling to a tighter spacing to infill the full 2.2km strike length of the Bombora discovery zone will in fact result in higher confidence levels in the maiden Resource.

Increasing the depth of drilling coverage to ~200mbs from initial drilling to ~150mbs should enable most, if not all of a potential open-pit development to be included in the maiden Resource. If anything, we view this as reflective of the evolution of a larger scale project than initially envisaged, and hence a positive sign.

Filling in the gaps

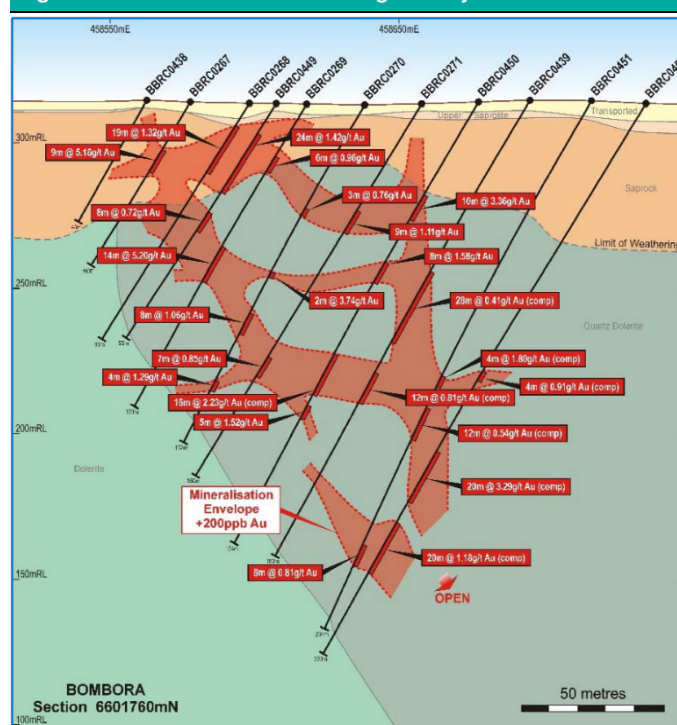
BRB commenced infill / Resource drilling in February 2017. Two RC rigs and two diamond rigs have now drilled out approximately 70% of the 2.2km strike Bombora zone on a 40m x 20m pattern.

Figure 1 - Section 1700mN: consistent geometry across sections



SOURCE: COMPANY DATA

Figure 2 - Section 1760: consistent geometry across sections

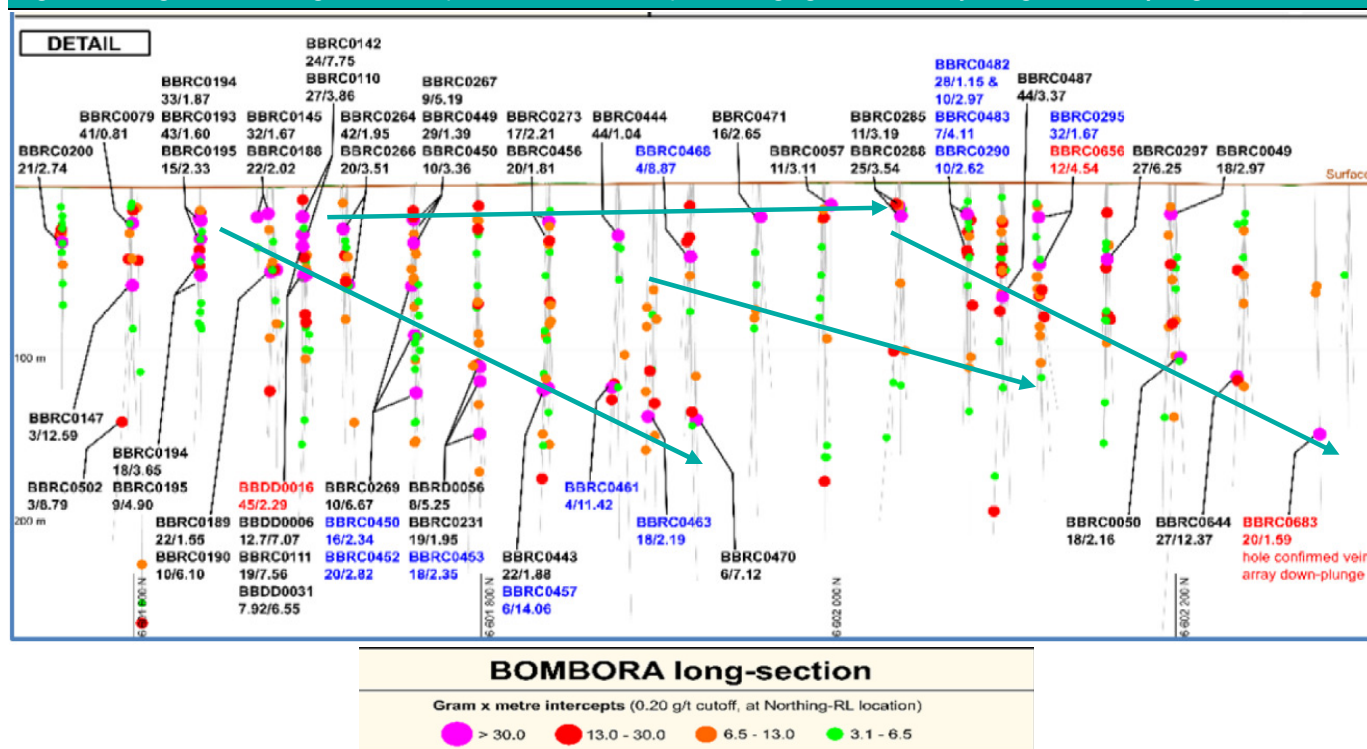


SOURCE: COMPANY DATA

As such we expect this will result in much of the maiden Resource being in the higher confidence Indicated category. With over 95,000m of RC and diamond drilling now completed, the tighter drill spacing is confirming continuity between sections and defining persistent lode geometries (see Figures 1 and 2).

In our examination of cross-sections and long-sections we see continuity along strike, down dip and along plunge, together with good correlations between diamond and RC drilling results.

Figure 3 - Long section through Bombora (~1500mN to ~2300mN) – note high grade continuity along strike and plunge



SOURCE: COMPANY DATA, BELL POTTER SECURITIES ESTIMATES

The drilling shown in Figure 3 is on 40m line spacings (and in some cases 20m), offering a fairly detailed view. In our interpretation, this higher definition drilling has demonstrated continuity at good grades both along strike and down plunge. We point out that the coloured dots (gram metre intercepts, i.e. 13 is representative of 1m @ 13g/t Au equivalent, or say 2m @ 6.5g/t Au, etc.) are a measure of contained gold.

We would suggest that:

- the **green dots** are indicative of very good **open-pit mining** potential;
- the **orange dots** would be sufficient to **carry underground mining** costs, plus a good margin; and
- the **red dots** and **purple dots** offer increasingly **strong underground operating margins**.

For a project that is in a Resource drill-out stage these are excellent results. At this stage, drilling is being undertaken on a “blind” infill pattern. However, as drilling density increases and structural controls become better understood, drilling will be able to trace the deposit more accurately. We would argue that the drilling to date has shown that there are multiple controls on Bombora (as is the case for many major gold deposits in WA) and would expect results to improve as these become better understood. The fact that drilling has consistently delivered strong results to date, in our view, is testament to the strength of the system. Big projects have been discovered on much weaker results than these.



Open-pit and underground optionality

We also note that broad, high grade intersections have been returned at both open-pit and underground cut-off-grades – the implication being the deposit will support both mining scenarios and be able to be followed at depth and further de-risking its development.

This enables the evaluation of both underground and open-pit mining methods and the ability to chase the deposit below the economic limits of open-pit mining and increasing the likelihood of Resources at depth being converted to mineable Ore Reserves.

Figure 4 - March/June infill drilling results

Hole_ID	Interval @ g/t Au	From	Includes
BBRC0166	7m @ 61.78	59m	4m @ 105.04
BBRC0142	24m @ 7.75	9m	18m @ 10.15
BBRC0111	19m @ 7.56	49m	4m @ 32.00
BBRC0329	9m @ 53.29	31m	4m @ 119.24
BBRC0297	28m @ 6.01	40m	12m @ 11.2
BBRC0194	54m @ 2.38	5m	11m @ 5.82
BBRC0201	37m @ 3.44	115m	12m @ 3.53
BBDD0006	21.3m @ 5.10	46.4m	12.7m @ 7.07
BBRC0110	27m @ 3.86	21m	14m @ 6.87

Open pit cut-off (plus 0.2g/t Au) Underground cut-off (plus 1.0 g/t Au)

SOURCE: COMPANY DATA

Figure 5 - September infill drilling results

Hole No.	Interval @ g/t	From	Includes
BBRC0644	27m @ 12.37	120m	13m @ 24.48
BBRC0452	20m @ 3.29	140m	16m @ 4.06
BBRC0379	14m @ 4.23	95m	3m @ 15.65
and	7m @ 5.2	117m	5m @ 7.03
BBRC0390	24m @ 2.24	132m	7m @ 4.29
BBRC0487	44m @ 3.37	60m	13m @ 9.00
BBRC0457	12m @ 7.15	140m	4m @ 20.95
BBRC0450	10m @ 3.36	37m	5m @ 6.31
and	16m @ 2.23	100m	8m @ 3.97
BBRC0530	32m @ 1.38	76m	8m @ 3.22

SOURCE: COMPANY DATA

Taking a recent case-in-point, this would not have been demonstrated at Gold Road's (GOR, Buy, Speculative, valuation \$1.01/sh) Gruyere project.

Further enhancing the underground potential of Bombora are high grade intersections at depth. While only a handful of deep diamond drilling reconnaissance holes have been completed, results have included the following:

- BBDD0020: **7.5m @ 9.0g/t Au** from **316m**;
- BBDD0020: **2.5m @ 10.2g/t Au** from **237m**;
- BBDD0010: **5.3m @ 7.1g/t Au** from **244m**;
- BBDD0035: **1.0m @ 16.6g/t Au** from **380m**; and
- BBDD0027: **1.0m @ 19.1g/t Au** from **305m**;

Once again, good hits at this stage are very encouraging and points to the potential of good grades at depth and hence, viable Reserve extension at depth.

Metallurgy passes first test

One recent key milestone was the completion of preliminary metallurgical test work. The results indicate gold recoveries of 95% for both oxide and fresh ore by conventional leaching methods. With 39% of gold recoverable by gravity, rapid leach kinetics and low-to-moderate ore hardness the results also point to low capital and operating costs. This is a major de-risking event and further test work is due shortly.

- Conventional processing routes (Carbon-In-Leach, Carbon-In-Pulp) are established methods with lower costs and lower technical risks;
- Gravity recovery is simple and low cost. It also reduces the load on the leach circuit of a gold plant, potentially reducing the CAPEX requirement but also has a positive impact on operating costs;
- Rapid leach kinetics (initial results achieved 90% of the gold recovery in <4 hours) equate to shorter residence times, hence smaller tanks for a given throughput for lower capital costs;
- A Bond Work Index (BWI) of <16kWh/t for fresh rock and 13-14kWh/t for oxide material is moderate-to-low in our experience. This equates to lower energy consumption and hence lower operating costs

These results are preliminary and further results are due in coming weeks, but we view this as very positive first pass.

Risk down, reward up

All-in-all, we have seen BRB's share price pull back >35% over the last four months yet we have seen higher definition drilling continue to return excellent results and maintain continuity, the demonstration of strong underground mining potential and optionality with open-pit mining and positive metallurgical test work results. Typically we would expect progress on these fronts to add value as the risk to commercialisation of the discovery is reduced.

While the deferment (by one quarter) of the release of a maiden Resource is possibly a disappointment, it will deliver a higher confidence level Resource – again a de-risking event.

BRB is well cashed up, placing it in a strong position to continue to add value – also reducing investment risk. Considering BRB's last reported cash position of \$15.5m, we think this is relevant to the current Enterprise Value of \$56.5m and that at these levels BRB poses a very strong value proposition – aside from the fact that it continues to build the foundations of a major greenfields gold discovery.

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 in 1QCY18. 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 \$1.30/sh

The latest drilling 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 and along strike. In our view, the ongoing drill program and the preliminary metallurgical test work have given the market more and positive information, also pointing to an attractive development proposition. Our valuation (rounded to nearest 5c) is lowered slightly, to \$1.30/sh, following completion of an SPP since our last update. We retain our Buy (Speculative) recommendation on what we view as a unique and compelling greenfields gold development story.

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 \$0.50/sh in the coming 12 months.

Table 1 - BRB valuation summary

Ordinary shares (m)		145.1
Options in the money (m)		13.7
Assumed equity raise (m)		16.0
Diluted m		174.8
<hr/>		
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	200.0	1.38
Corporate overheads	(2.7)	(0.02)
Subtotal	197.3	1.36
Net cash (debt)	15.5	0.11
Total (undiluted)	212.9	1.47
Cash from options	4.6	@ 0.35
Assumed equity raise	8.0	@ 0.50
Total (fully diluted)	225.5	1.29

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 160% 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 completion of the Shareholder Purchase Plan (SPP) in conjunction with BRB's \$10.0m capital raising (of 14.2m shares at \$0.70/sh), we summarise the latest capital structure below:

Table 2 - BRB capital structure summary

Shares on issue	m	145.1
Performance shares / other	m	0.0
Total shares on issue	m	145.1
Share price	\$/sh	0.500
Market capitalisation	\$m	72.5
Net cash	\$m	15.5
Enterprise value (undiluted)	\$m	57.0
Options outstanding (m)	m (wtd avg ex. price \$0.35 per share)	14.1
Options (in the money)	m	13.7
Issued shares (diluted for options)	m	158.8
Market capitalisation (diluted)	m	79.4
Net cash + options	\$m	20.1
Enterprise value (diluted)	\$m	59.2

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 (14.5% of issued capital). Institutional presence on the register is light, with Gold 2000, a specialist resource sector fund, 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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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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