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Breaker Resources NL (BRB)

Maiden Resource misses market - but we see a quality foundation

Recommendation

Buy (unchanged)

Price

\$0.315

Valuation

\$0.96 (previously \$1.30)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	204.8%
Dividend yield	0.0%
Total expected return	204.8%

Company Data & Ratios

Enterprise value	\$33.9m
Market cap	\$45.7m
Issued capital	145.1m
Free float	85%
Avg. daily val. (52wk)	\$235,226
12 month price range	\$0.29-\$0.80

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.57	0.70	0.55
Absolute (%)	-44.7	-54.7	-42.7
Rel market (%)	-43.2	-51.2	-42.6

Absolute Price



SOURCE: IRESS

Bombora maiden Resource – 624koz @ 1.6g/t Au

BRB has released a maiden Resource for its Bombora gold discovery at the Lake Roe gold project of 11.8Mt @ 1.6g/t Au for 624,000oz contained. This includes 5.3Mt @ 1.6g/t Au for 264,000oz in the higher confidence Indicated category (42% of contained ounces), with the balance in the Inferred category. The Resource has been estimated to depths of 130-200m below surface (mbs) and includes drilling completed until mid-March 2018. The Resource has been independently audited by Cube Consulting, a highly reputable geological consultancy. Resource drilling is to continue with three rigs for at least the next year to both increase the Resource base and upgrade the confidence categories. BRB remains well funded with \$11.8m in cash as at end December 2017. We estimate the Resource has been delineated at a discovery cost of A\$23/oz – which we view as both competitive and value adding.

Market unhappy, but production asset foundation remains

Clearly market expectations were not met. The share price has been hit by ~35% since the Resource has been released and this is disappointing. To be fair, the headline numbers came in at the low end of our own expectations in terms of both grade and contained ounces. We had been looking for a grade of +1.5g/t but possibly as high as 2g/t and contained ounces anywhere from 500koz to 1.3Moz.

However, looking at the Resource as it stands, we see a good foundation for the project that is very much a starting point. We expect it to grow and support a standalone production asset. In our view, numerous factors are in its favour including the 1.6g/t gold grade (higher than most open-pit Resource grades of established producers), metallurgical studies returning high gold recoveries (+96% in both oxide and fresh rock), potential early cash flow from shallow ounces (~240koz within 50m of surface) and an excellent jurisdiction. BRB has put forward an Exploration Target of 1.1-1.3Moz which, for a greenfield Resource limited largely by the extents of drilling, we view as highly likely to be achieved. High grades at depth are also supportive of the potential for underground mining operations and the monetisation of a Resource which is open at depth.

Investment thesis – Buy (Speculative), valuation \$0.96/sh

At this point we see a value opportunity with BRB trading below A\$55 per Resource ounce. We have measured a basket of exploration and development companies currently trading at an average of A\$95/oz. While this is a crude metric, the market typically applies a premium to companies with strong prospects for Resource growth and commercial development. In our view this very much applies to BRB and we see the current EV/oz metric as very undemanding. We have lowered our asset valuation to reflect the grade and contained ounces at Bombora coming in at the low end of our expectations, offset by the maiden Resource representing a material de-risking event. We pitch our valuation in the context of a 12 month outlook and remain of the view that the Bombora deposit will continue to grow and show the hallmarks of a project likely to progress to development. We keep our Buy (Speculative) recommendation on a lowered valuation of \$0.96/sh.

Maiden Resource misses market - but we see a quality foundation for development

Bombora maiden Resource – 624koz @ 1.6g/t Au

BRB has released a maiden Resource for its Bombora gold discovery at the Lake Roe gold project of 11.8Mt @ 1.6g/t Au for 624,000oz contained. This includes 5.3Mt @ 1.6g/t Au for 264,000oz in the higher confidence Indicated category (42% of contained ounces), with the balance in the Inferred category.

The maiden Resource is summarised below:

Table 1 - Lake Roe gold project - Bombora maiden Resource

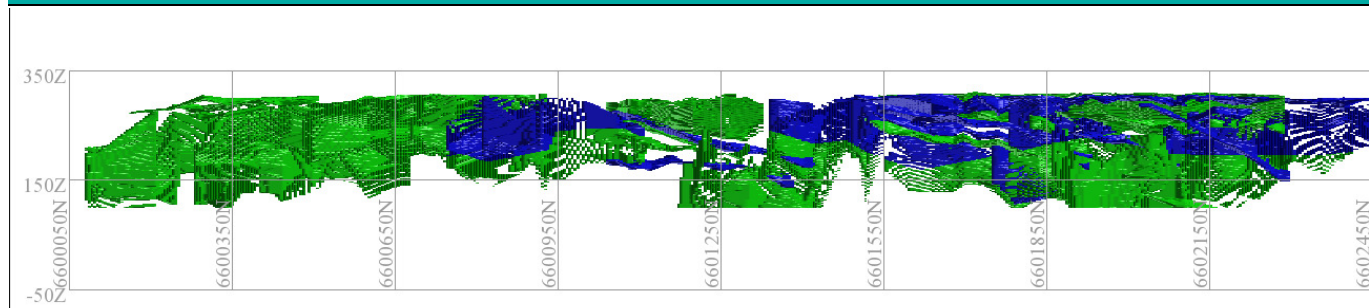
Lake Roe Mineral Resources	Mt	g/t Au	(koz)
Indicated	5.276	1.6	264.0
Inferred	6.600	1.7	360.0
Total	11.876	1.6	624.0

SOURCE: COMPANY DATA

The Resource has been estimated to depths of 130-200m below surface (mbs) and includes drilling completed up until mid-March 2018. The Resource has been independently audited by Cube Consulting, a highly reputable geological consultancy. Resource drilling is to continue with three rigs for at least the next year to both increase the Resource base and upgrade the confidence categories, which in time will enable Reserve calculations. BRB remains well funded with \$11.8m in cash as at end December 2017.

The Resource is drilled to relatively shallow depths, particularly in the context of possible underground mining operations, and remains open at depth and along strike.

Figure 1 - Bombora Mineral Resource envelope - Indicated in blue, Inferred in green



SOURCE: COMPANY DATA

Discovery cost

Based on the commencement of Resource delineation drilling during the December quarter of 2016, we have estimated an exploration and evaluation spend totalling \$14.4m, equating to a **discovery cost of \$23/oz**. For a maiden Resource estimate on a truly greenfields project we view this as both competitive and value adding. Even trading at \$54/oz BRB has gained good uplift on its expenditure.

In our experience, very successful, maturing exploration programs where a strong understanding of the deposit has been developed, discovery costs can be as low as \$7-\$15/oz. Typically, discovery costs will be higher for new projects and during initial exploration stages. Clearly it is desirable to find new ounces more cheaply than you can buy them on market. BRB has been successful from this point of view and we would expect this metric to improve as their geological understanding of the deposit increases.

Market unhappy, but production asset foundation remains

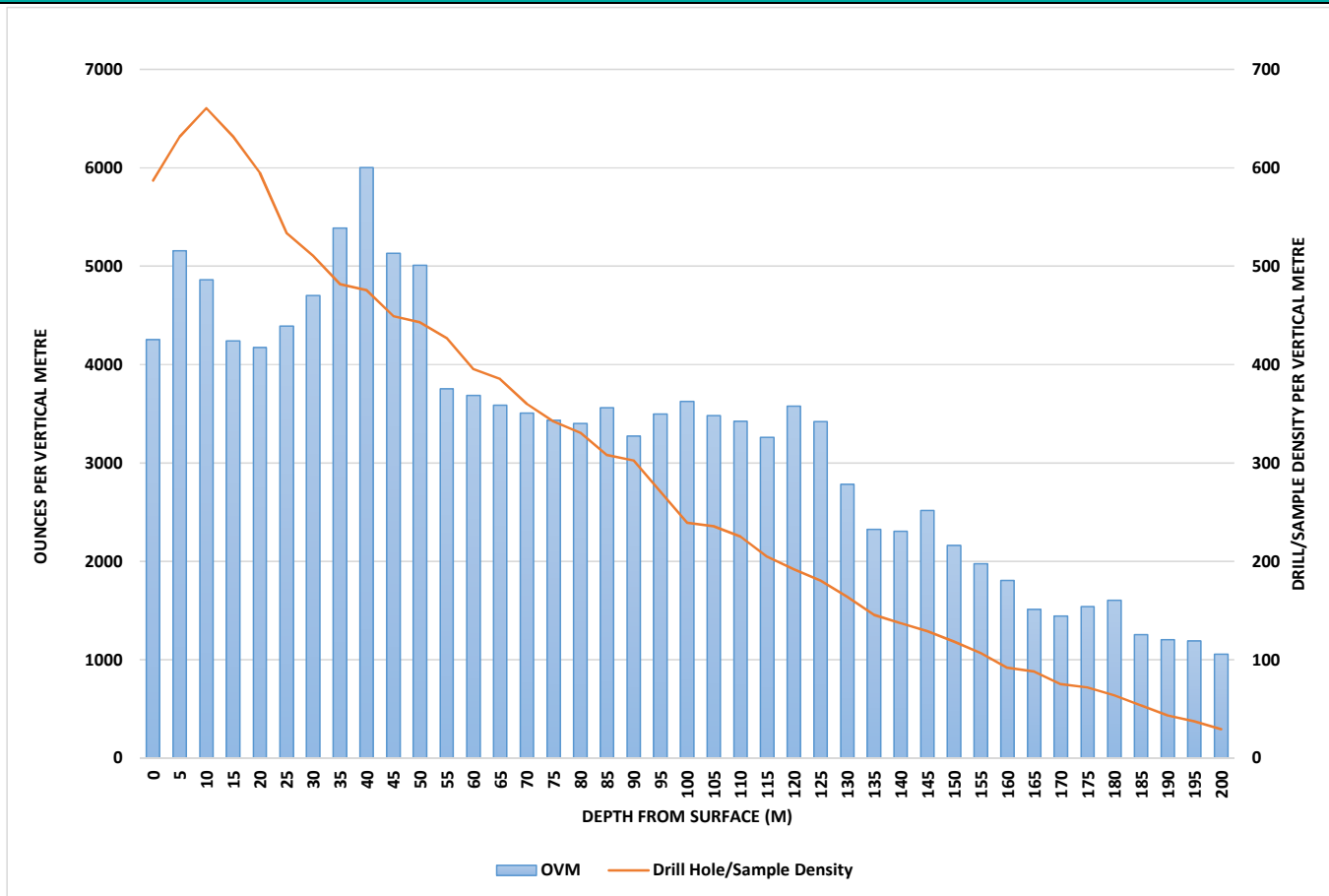
Clearly market expectations were not met. The share price has dropped by ~35% since the Resource was released and this is disappointing. To be fair, the headline numbers came in at the low end of our own expectations in terms of both grade and contained ounces. We had been looking for a grade of +1.5g/t but possibly as high as 2g/t and contained ounces anywhere from 500koz to 1.3Moz.

However, looking at the Resource as it stands, we see a good foundation for the project that is very much a starting point. We still expect it to grow and support a standalone production asset.

In our view, numerous factors are in its favour including:

- the 1.6g/t gold grade (which is higher than most open-pit Resource grades of the established producers);
- metallurgical studies returning high gold recoveries (+96% in both oxide and fresh rock);
- the economics of a potential open-pit being underpinned by a Whittle pit optimisation at a gold price of A\$1,000/oz capturing a profitable 321koz @ 2.2g/t Au;
- potential early cash flow from shallow ounces (~240koz within 50m of surface, estimated from the data in Figure 2);
- a high value gold endowment of 3,000-5,000oz per vertical metre (ovm) which is well ahead of an industry rule-of-thumb for a minimum 1,000ovm to support underground operations and;
- an excellent jurisdiction.

Figure 2 – Bombora deposit: Gold Ounces Per Vertical Metre (OVM) vs Drill/Sample Density Per Vertical Metre



SOURCE: COMPANY DATA, BELL POTTER SECURITIES ESTIMATES

BRB has also put forward an Exploration Target of 1.1-1.3Moz which, for a greenfield Resource limited largely by the extents of drilling, we view as highly likely to be achieved. The Target is estimated to a depth of 400mbs. High grades at depth are supportive of the potential for underground mining operations and the monetisation of a Resource which is open at depth.

In examining Figure 2, which shows the gold ounces per vertical metre, we also note the relationship between drill hole density and Resource ounces. It implies to us that more drilling will define more ounces and supports the statement that the Resource is limited largely by the extents of drilling. We also point out that from ~100mbs, more ounces are being defined per drillhole/sample. This implies either higher grades or wider intersections, but it is our view that this is driven largely by higher grades, which again is supportive of the potential for underground mining.

Valuation changes

We have lowered our valuation for the Bombora deposit to reflect the grade and contained ounces at Bombora coming in at the low end of our expectations. This is somewhat offset by the maiden Resource representing a material de-risking event, but also means the project can now be more quantitatively compared with peers. We also assume a more dilutive possible equity raise due to the lower share price.

We have measured a basket of exploration and development companies currently trading at an average of A\$95/oz. While this is a crude metric it is a starting point. The market typically applies a premium to companies with strong prospects for Resource growth, high grades, mining jurisdiction, technical and operational risk and the overall likelihood of commercial development. In our view these are among factors that are very much in BRB's favour and we see the current multiple as very undemanding.

We continue to hold the strong view that BRB will emerge as one of the stand-out gold development assets in WA and that comparisons with DCN and GOR remain valid. We can't ignore however that Resource growth may take longer than hoped, nor ignore current market valuations for listed peers.

Table 2 – ASX-listed gold exploration companies – EV/Resource oz and EV/Reserve oz valuations

Company	ASX Code	Price (A\$/sh)	Market Cap (A\$m)	Net Cash/(Debt)		Resources (Mozs)	Grade (g/t Au)	EV/ Res oz (A\$/oz)	Reserves (Mozs)	Grade (g/t Au)	(g/t Au)	EV/Rsv oz (A\$/oz)	Net cash (debt) / Mkt Cap
				Cash/(Debt) (A\$m)	EV (A\$m)								
Dacian Gold Limited	DCN	\$2.94	\$605.2	-\$13.0	\$618.2	3.315	2.30	\$186	1.2	2.00	2.00	\$515	-2.1%
Gold Road Resources Limited	GOR	\$0.81	\$708.6	\$252.0	\$456.6	3.250	1.29	\$140	1.9	1.20	1.20	\$244	35.6%
Gascoyne Resources Limited	GCY	\$0.54	\$232.6	\$14.0	\$218.6	2.320	1.39	\$94	0.6	1.25	1.25	\$355	6.0%
West African Resources Limited	WAF	\$0.36	\$209.2	\$21.0	\$188.2	2.700	1.70	\$70	0.9	1.70	1.70	\$211	10.0%
Cardinal Resources Limited	CDV	\$0.54	\$201.0	\$19.0	\$182.0	7.000	1.10	\$26	-	-	-	na	9.5%
Echo Resources Limited	EAR	\$0.28	\$136.8	\$14.0	\$122.8	1.700	2.00	\$72	0.9	1.70	1.70	\$143	10.2%
Artemis Resources Limited	ARV	\$0.20	\$125.6	\$24.0	\$101.6	0.262	2.20	\$388	-	-	-	na	19.1%
Catalyst Metals Limited	CYL	\$1.25	\$85.6	\$7.3	\$78.4	-	-	na	-	-	-	na	8.5%
Capricorn Metals Ltd	CMM	\$0.08	\$56.1	\$10.8	\$45.3	1.326	1.10	\$34	0.7	1.06	1.06	\$64	19.3%
Intermin Resources Limited	IRC	\$0.22	\$49.9	\$7.0	\$42.9	0.433	2.12	\$99	-	-	-	na	14.0%
Breaker Resources NL	BRB	\$0.32	\$45.7	\$11.8	\$33.9	0.624	1.60	\$54	-	-	-	na	25.8%
Excelsior Gold Limited	EXG	\$0.05	\$38.4	\$6.9	\$31.5	0.954	1.60	\$33	-	-	-	na	18.0%
Macphersons Resources Limited	MRP	\$0.08	\$29.1	\$2.9	\$26.3	0.507	0.96	\$52	-	-	-	na	9.8%
Calidus Resources Limited	CAI	\$0.05	\$32.4	\$9.3	\$23.1	0.712	2.11	\$32	-	-	-	na	28.7%
Egan Street Resources Limited	EGA	\$0.28	\$33.2	\$11.9	\$21.3	0.307	10.90	\$69	-	-	-	na	35.8%
Duketon Mining Limited	DKM	\$0.25	\$28.9	\$7.9	\$21.0	0.096	1.55	\$219	-	-	-	na	27.4%
Musgrave Minerals Limited	MGV	\$0.06	\$17.0	\$3.6	\$13.4	0.441	2.84	\$30	-	-	-	na	21.2%
Middle Island Resources Limited	MDI	\$0.02	\$12.6	\$2.0	\$10.6	0.503	1.40	\$21	-	-	-	na	15.9%
Average / Total			\$2,648.0			26.450	2.2	\$95	6.1	0.5	0.5	\$255	

SOURCE: IRESS, COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

We now value the Lake Roe project at \$150m (from \$200m), which is at the lower end of the EV range for the most prospective producers with a +1Moz Resource base and is reflective of where we view BRB may be positioned in the next 12 months.

It also approximates \$115/oz for the upper end of BRB's Exploration Target of 1.1-1.3Moz, which we view as highly likely to be achieved. We note that the Exploration Target extends to just 400mbs, implies an additional 150koz-250koz per 100m depth and makes no allowances for strike extensions. We see potential for further upside to this Target.

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 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 late 2016 and a maiden Resource of 11.9Mt @ 1.6g/t Au for 624,000oz contained gold was announced in April 2018.

Investment thesis – Buy (Speculative), valuation \$0.96/sh

At this point we see a value opportunity with BRB trading below A\$55 per Resource ounce. We have measured a basket of exploration and development companies currently trading at an average of A\$95/oz. While this is a crude metric, the market typically applies a premium to companies with strong prospects for Resource growth and commercial development. In our view this very much applies to BRB and we see the current EV/oz metric as very undemanding. We have lowered our asset valuation to reflect the grade and contained ounces at Bombora coming in at the low end of our expectations, offset by the maiden Resource representing a material de-risking event. We pitch our valuation in the context of a 12 month outlook and remain of the view that the Bombora deposit will continue to grow and show the hallmarks of a project likely to progress to development. We keep our Buy (Speculative) recommendation on a lowered valuation of \$0.96/sh.

Valuation – peer comparison

BRB is a gold exploration company whose main asset is its 100% owned Lake Roe Gold Project. This project includes the Bombora discovery which has a Resource of 11.9Mt @ 1.6g/t Au for 624,000oz contained gold. BRB has also stated an Exploration Target of 1.1-1.3Moz. Our valuation comprises:

- \$150m 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 and when the ASX Gold Index (XGD) was trading at less than half the current levels;
- Peer comparison valuation on the basis of EV/Resource oz metrics
- 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 \$0.31/sh in the coming 12 months.

Table 3 - BRB valuation summary

Ordinary shares (m)		145.1
Options in the money (m)		5.7
Assumed equity raise (m)		25.4
Diluted m		176.2
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	150.0	1.03
Corporate overheads	(2.1)	(0.01)
Subtotal	147.9	1.02
Net cash (debt)	11.8	0.08
Total (undiluted)	159.7	1.10
Cash from options	1.1	@ 0.35
Assumed equity raise	8.0	@ 0.32
Total (fully diluted)	168.8	0.96

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 205% from the last closing share price to our valuation, we retain our Buy recommendation (Speculative risk rating) in conformity with our ratings structure.

The latest capital structure is summarised below:

Table 4 - 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	0.315
Market capitalisation	\$m	45.7
Net cash	\$m	11.8
Enterprise value (undiluted)	\$m	33.9
Options outstanding (m)	m	(wtd avg ex. price \$0.35 per share) 14.3
Options (in the money)	m	5.7
Issued shares (diluted for options)	m	150.8
Market capitalisation (diluted)	m	47.5
Net cash + options	\$m	12.9
Enterprise value (diluted)	\$m	34.6

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, just below substantial holdings.

Table 5 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	14.5%	21.1
Kurraba Investments	3.4%	5.0
Gold 2000	3.4%	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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Disclosure: Bell Potter Securities acted as a Participant in the August 2017 equity raise of \$10.0m and received fees for that service.

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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