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Breaker Resources NL (BRB)

Site visit: Knowledge building at Lake Roe

Recommendation
Buy (unchanged)

Price
\$0.26
Valuation
\$0.92 (previously \$0.96)

Risk
Speculative
GICS Sector
Materials
Expected Return

Capital growth	253.8%
Dividend yield	0.0%
Total expected return	253.8%

Company Data & Ratios

Enterprise value	\$29.2m
Market cap	\$38.0m
Issued capital	146.1m
Free float	84%
Avg. daily val. (52wk)	\$231,362
12 month price range	\$0.23-\$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

Structural understanding strengthening

We recently attended a site visit to BRB's 100% owned Lake Roe gold project, located ~100km east of Kalgoorlie in WA. It was the first site visit hosted by the company and was attended by both sell-side and buy-side analysts. It was an opportunity to meet key site personnel, assess current site infrastructure, view the four operating drill rigs and see firsthand the layout and setting of the project. Key discussion points included the rapidly developing structural understanding of mineralisation controls on the deposit (as outlined in the Corporate Presentation of May 2018 and the drill results announced on 13 June 2018). While the interpreted structural framework of the deposit results in multiple lode geometries, the framework is proving to be consistent and BRB is increasingly able to trace continuous high grade zones as a result. This is particularly relevant with **~70% of drilling now targeting extensions to the known Resource**. Drill program priorities are focused on infilling of the current Resource, addition of shallow extensions, drilling of down-dip extensions and wide step-out and exploration drilling.

Drilling results continue to show good grade and optionality

We have also reviewed BRB's latest drilling results (13 June 2018) which included 18 highlighted significant intersections and high grade zones from 38 holes drilled. We have calculated the weighted average grade and width as (see Table 1 on p4 for details):

- **9.7m @ 3.01g/t Au;**
- with an average high grade inclusion of **2.7m @ 7.43g/t Au.**

We point out these are the best holes, so not strictly representative, but in our view they demonstrate mineable grades and widths for both underground and open-pit mining and show the potential of the deposit to carry either or both mining methods. We see this as a positive factor for potential development of Lake Roe.

Investment thesis – Buy (Speculative), valuation \$0.92/sh

We believe there is a value opportunity with BRB trading at A\$47 of Enterprise Value per Resource ounce (EV/oz) vs a basket of exploration and development companies currently trading at an average of A\$85 EV/oz. The market typically applies a premium to assets with strong prospects for Resource growth and commercial development. In our view this very much applies to BRB due to its good grade, attractive metallurgy, shallow ounces, potential for growth, high value gold endowment of 3,000-5,000oz per vertical metre (ovm) and excellent jurisdiction. Our valuation of \$0.92/sh is lowered from \$0.96/sh primarily due to a lower share price increasing our dilution assumption. We retain our Buy (Speculative) recommendation on our view that Lake Roe represents a unique greenfield development opportunity in the Australian gold sector.

Knowledge building at Lake Roe

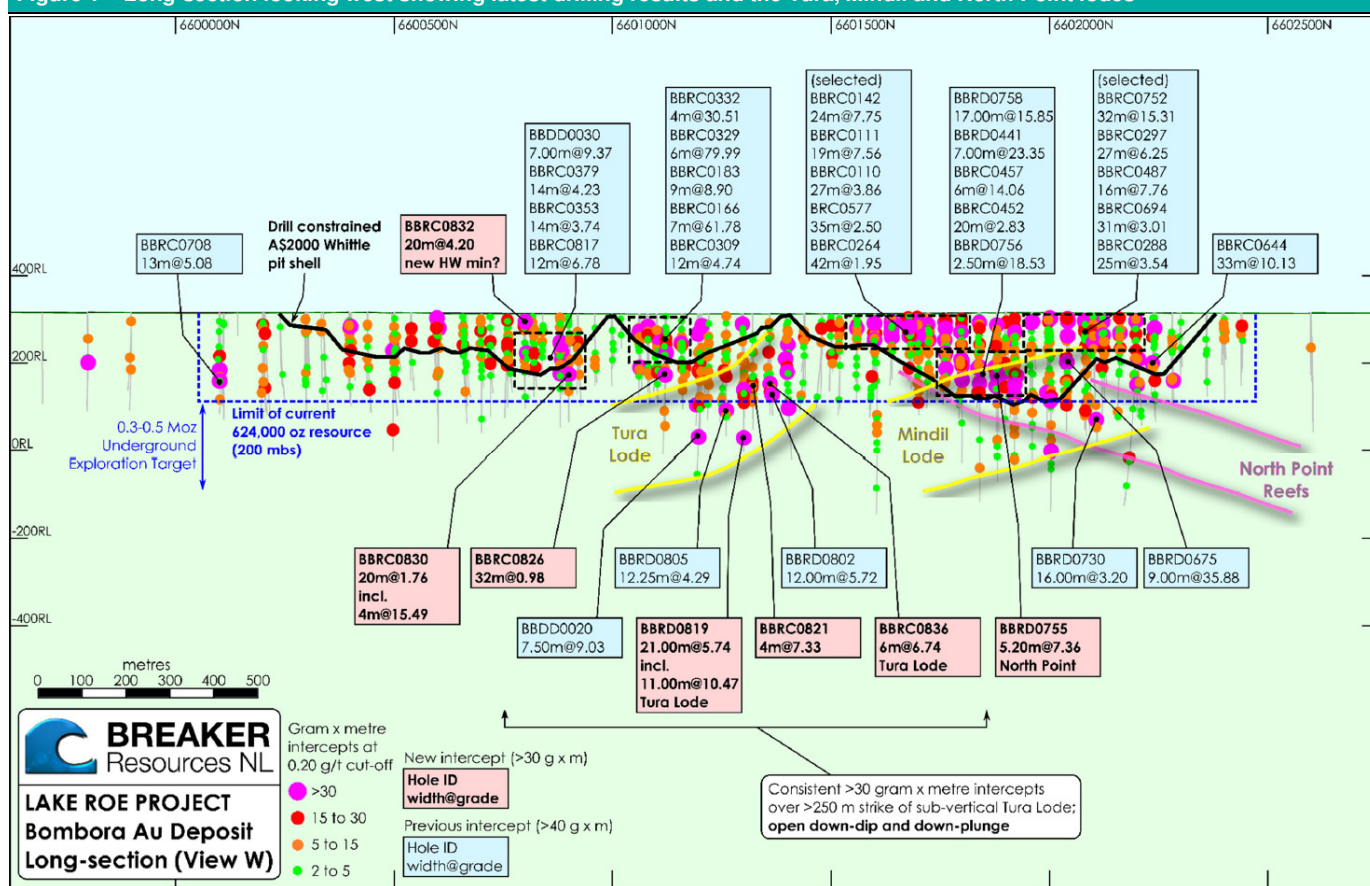
Structural understanding strengthening

We recently attended a site visit to BRB's 100% owned Lake Roe gold project, located ~100km east of Kalgoorlie in WA. It was the first site visit hosted by the company and was attended by both sell-side and buy-side analysts. It was an opportunity to meet key site personnel, assess current site infrastructure, view the four operating drill rigs and view firsthand the layout and setting of the project.

Key discussion points included the rapidly developing structural understanding of mineralisation controls on the deposit (as outlined in the Corporate Presentation of May 2018 and the drill results announced on 13 June 2018).

One of the key structural controls of high grade zones within the deposit is the intersection of multiple, stacked, steep NNW-trending mineralised faults with the iron-rich fraction of the east-dipping dolerite unit. Examples of these are the Mindil, Tura and North Point lodes. This line of intersection results in continuity of these zones along plunge, which is a slightly more complex control but one that is nevertheless well understood. Drilling of the Tura lode contact has now returned consistent +30gram-metre intersections over +250m of strike.

Figure 1 – Long-section looking west showing latest drilling results and the Tura, Mindil and North Point lodes



SOURCE: COMPANY DATA

In addition, stacked, flat-lying, linking structures between the mineralised faults also carry grade and result in well-developed gold mineralisation where they intersect with these faults and the iron-rich dolerite unit.

While the interpreted structural framework of the deposit results in multiple lode geometries, the framework is proving to be consistent and BRB is increasingly able to trace continuous high grade zones as a result. This is particularly relevant with the bulk of drilling now targeting extensions to the known Resource.

Drilling targeting Resource extensions: 70:30

Four drill rigs are currently on site including two RC rigs and two diamond rigs – with one of each capable of on-lake drilling. Drill program priorities are focused on:

- Infilling of the current open-pit Resource
- Addition of shallow extensions to the known Resource;
- Drilling of down-dip extensions to the current Resource (likely to be part of an underground Resource); and
- Wide step-out and exploration drilling.

The bulk of this (approximately 70%) is extension drilling aimed at adding ounces outside the current Resource. We think that this is the right strategy and that demonstrating the growth potential of the Resource base to the market is key to recognition being achieved through the valuation.

BRB has an exploration target of 1.1-1.3Moz to be delineated to 400m below surface (mbs) comprising:

- 624koz @ 1.6g/t Au to 130m-200mbs (the current Mineral Resource);
- 150koz to 190koz @ 1.6g/t Au below the Mineral Resource and above 200mbs; and
- 300koz to 500koz @ 4.5g-5.5g/t Au 200-400mbs

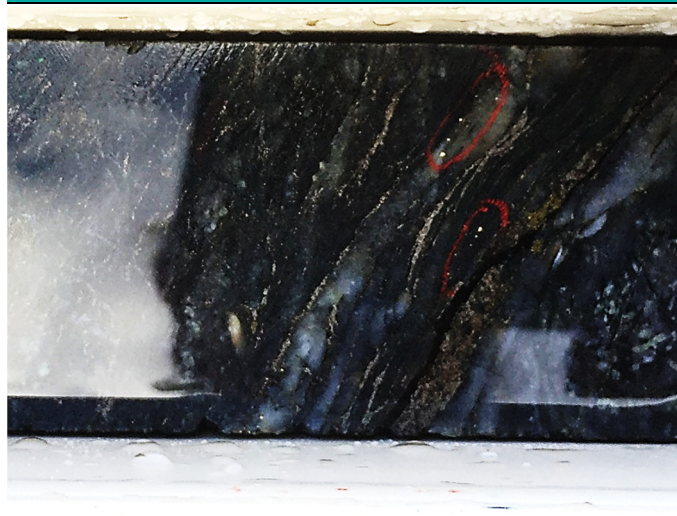
This is inclusive of the delineation of 700-800koz of open-pit mineralisation within the next 7-11 months, with the objective of supporting a base case for the development of a stand-alone operation.

Figure 2 - Lake RC rig and support unit



SOURCE: BELL POTTER SECURITIES

Figure 3 – Drill core with sulphide lode and visible gold



SOURCE: BELL POTTER SECURITIES

Drilling results continue to show good grade and optionality

We have also reviewed BRB's latest drilling results (13 June 2018) which included 18 highlighted significant intersections and high grade zones from 38 holes drilled. We have calculated the weighted average grade and width as:

- **9.7m @ 3.01g/t Au;**
- with an average high grade inclusion of **2.7m @ 7.43g/t Au.**

This implies an average grade over the balance of the intersection (i.e. excluding the high grade) of **7.1m @ 1.35g/t Au.**

We point out these are the best holes, so not strictly representative, but in our view they demonstrate mineable grades and widths for both underground and open-pit mining and show the potential of the deposit to carry either or both mining methods. We see this as a positive factor for potential development of Lake Roe.

Table 1 – Drill intersection analysis of 13 June drilling announcement

Intersection		Inclusives		Balance	
Width (m)	Grade (g/t Au)	Width (m)	Grade (g/t Au)	Width (m)	Grade (g/t Au)
1.0	15.57	0.0	0.00	1.0	15.57
5.2	7.36	2.1	16.07	3.1	1.46
10.5	0.90	1.0	4.13	9.5	0.56
5.0	2.88	3.5	4.01	1.6	0.36
2.0	5.63	1.0	10.78	1.0	0.48
21.0	5.74	11.0	10.47	10.0	0.54
12.0	0.87	1.0	4.23	11.0	0.56
4.0	7.33	0.0	0.00	4.0	7.33
7.0	3.62	2.0	11.25	5.0	0.57
3.0	3.70	1.0	7.77	2.0	1.67
32.0	0.98	8.0	1.81	24.0	0.70
4.0	3.05	0.0	0.00	4.0	3.05
20.0	1.76	4.0	5.97	16.0	0.71
8.0	1.45	4.0	2.13	4.0	0.77
20.0	4.20	4.0	15.49	16.0	1.38
4.0	5.20	0.0	0.00	4.0	5.20
6.0	6.74	4.0	9.98	2.0	0.26
16.0	1.13	4.0	3.63	12.0	0.30
4.0	4.37	0.0	0.00	4.0	4.37

Weighted average		Weighted average		Weighted average	
9.7	3.01	2.7	7.43	7.1	1.35

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Taking the example of an open-pit mining scenario, where it is both 1) difficult to selectively mine narrow, high grade veins and 2) you have to excavate the material anyway, the weighted average “balance” grade of 1.35g/t Au should be comfortably economic to mine and mill.

Considering this further in the context of a marginal processing cost of A\$25/t implies that at the current gold price of A\$1,700/oz (~A\$49/g on a 90% recovered basis) it is economic to process ~0.5g/t material. This covers all but the lowest “balance” grades in the table above.

While this is a high level analysis it is our view that it helps illustrate a point that some conjecture in the market that reported intersections are low grade or uneconomic is far from definitive.

Value stacks up attractively

We believe there is a value opportunity with BRB trading at A\$47 of Enterprise Value per Resource ounce (EV/oz) vs a basket of exploration and development companies currently trading at an average of A\$85 EV/oz. The market typically applies a premium to assets with strong prospects for Resource growth and commercial development. In our view this very much applies to BRB.

We continue to see the potential for a Resource that will not only support a standalone project development but has a number of other factors 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.

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

Company	ASX Code	Price (A\$/sh)	Market Cap (A\$m)	Net Cash/(Debt) (A\$m)	EV (A\$m)	Resources (Mozs)	Grade (g/t Au)	EV/ Res oz (A\$/oz)	Reserves (Mozs)	Grade (g/t Au)	EV/Rsv oz (A\$/oz)	Net cash (debt) / Mkt Cap
Gold Road Resources Limited	GOR	\$0.74	\$649.3	\$224.0	\$425.3	3.250	1.29	\$131	1.9	1.20	\$227	34.5%
Dacian Gold Limited	DCN	\$2.93	\$603.1	-\$67.0	\$670.1	3.315	2.30	\$202	1.2	2.00	\$558	-11.1%
West African Resources Limited	WAF	\$0.38	\$259.1	\$44.0	\$215.1	2.900	1.69	\$74	1.6	2.40	\$137	17.0%
Gascoyne Resources Limited	GCV	\$0.49	\$210.8	-\$10.0	\$220.8	2.320	1.39	\$95	0.6	1.25	\$359	-4.7%
Cardinal Resources Limited	CDV	\$0.49	\$183.0	\$13.0	\$170.0	7.000	1.10	\$24	-	-	na	7.1%
Echo Resources Limited	EAR	\$0.25	\$119.7	\$11.6	\$108.1	1.712	1.90	\$63	0.9	1.70	\$126	9.7%
Artemis Resources Limited	ARV	\$0.18	\$114.2	\$17.4	\$96.9	0.262	2.20	\$370	-	-	na	15.2%
Catalyst Metals Limited	CYL	\$1.45	\$99.7	\$6.5	\$93.2	-	-	na	-	-	na	6.5%
Capricorn Metals Ltd	CMM	\$0.07	\$52.4	\$7.2	\$45.2	1.525	0.90	\$30	0.9	1.00	\$51	13.8%
Intermin Resources Limited	IRC	\$0.17	\$38.6	\$10.0	\$28.6	0.433	2.12	\$66	-	-	na	25.9%
Breaker Resources NL	BRB	\$0.26	\$38.0	\$8.8	\$29.2	0.624	1.60	\$47	-	-	na	23.2%
Egan Street Resources Limited	EGA	\$0.24	\$29.2	\$12.4	\$16.8	0.401	8.80	\$42	-	-	na	42.5%
Excelsior Gold Limited	EXG	\$0.04	\$29.1	\$5.7	\$23.4	0.825	1.70	\$28	-	-	na	19.6%
Duketon Mining Limited	DKM	\$0.24	\$27.7	\$7.7	\$20.0	0.096	1.55	\$209	-	-	na	27.8%
Macphersons Resources Limited	MRP	\$0.08	\$27.4	\$2.9	\$24.5	0.507	0.96	\$48	-	-	na	10.4%
Calidus Resources Limited	CAI	\$0.04	\$26.1	\$7.9	\$18.2	0.712	2.11	\$26	-	-	na	30.2%
Musgrave Minerals Limited	MGV	\$0.07	\$23.2	\$5.5	\$17.7	0.441	2.84	\$40	-	-	na	23.7%
Nusantara Resources Limited	NUS	\$0.18	\$15.3	\$5.4	\$9.9	2.000	1.38	\$5	1.0	1.35	\$10	35.4%
Middle Island Resources Limited	MDI	\$0.02	\$12.6	\$1.7	\$10.9	0.503	1.40	\$22	-	-	na	13.3%
Average / Total			\$2,558.6			28.826	2.1	\$85	8.0	0.6	\$210	

SOURCE: IRESS, COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES – PRICED AS AT 6 JULY 2018

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 \$0.92/sh

We believe there is a value opportunity with BRB trading at A\$47 of Enterprise Value per Resource ounce (EV/oz) vs a basket of exploration and development companies currently trading at an average of A\$85 EV/oz. The market typically applies a premium to assets with strong prospects for Resource growth and commercial development. In our view this very much applies to BRB due to its good grade, attractive metallurgy, shallow ounces, potential for growth, high value gold endowment of 3,000-5,000oz per vertical metre (ovm) and excellent jurisdiction. Our valuation of \$0.92/sh is lowered from \$0.96/sh primarily due to a lower share price increasing our dilution assumption. We retain our Buy (Speculative) recommendation on our view that Lake Roe represents a unique greenfield development opportunity in the Australian gold sector.

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 \$0.28/sh in the coming 12 months.

Table 3 - BRB valuation summary

Ordinary shares (m)		146.1
Options in the money (m)		4.7
Assumed equity raise (m)		28.6
Diluted m		179.3
Sum-of-the-parts		
	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	150.0	1.03
Corporate overheads	(2.1)	(0.01)
Subtotal	147.9	1.01
Net cash (debt)	8.8	0.06
Total (undiluted)	156.7	1.07
Cash from options	0.9	@ 0.34
Assumed equity raise	8.0	@ 0.28
Total (fully diluted)	165.6	0.92

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 253.8% 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		146.1
Performance shares / other	m		0.0
Total shares on issue	m		146.1
Share price	\$/sh		0.260
Market capitalisation	\$m		38.0
Net cash	\$m		8.8
Enterprise value (undiluted)	\$m		29.2
Options outstanding (m)	m	(wtd avg ex. price \$0.34 per share)	10.3
Options (in the money)	m		4.7
Issued shares (diluted for options)	m		150.8
Market capitalisation (diluted)	m		39.2
Net cash + options	\$m		9.7
Enterprise value (diluted)	\$m		29.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

BRB's largest shareholder is Executive Chairman, Tom Sanders, who has an interest of 23.4m shares (16.0% of issued capital). Institutional presence on the register is light, with a handful of local and international institutions at just below substantial holdings.

Table 5 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	16.0%	23.4
Kurraba Investments	3.4%	5.0
Neon Capital	3.0%	4.4

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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