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Breaker Resources NL (BRB)

Major Resource upgrade - more to come

Recommendation

Buy (unchanged)

Price

\$0.28

Valuation

\$0.99 (previously \$0.92)

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	\$35.7m
Market cap	\$40.9m
Issued capital	146.2m
Free float	84%
Avg. daily val. (52wk)	\$211,736
12 month price range	\$0.21-\$0.74

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.25	0.27	0.70
Absolute (%)	12.0	3.7	-60.0
Rel market (%)	13.2	1.0	-67.7

Absolute Price



SOURCE: IRESS

Lake Roe Resource up 74% to 1.1Moz at 1.4g/t Au

BRB has announced a major upgrade to the gold Resource for its Bombora deposit at its 100%-owned Lake Roe gold project, 100km east of Kalgoorlie. We view this as a fantastic result which reinforces our view that there is much more Resource growth to come from Lake Roe. The upgraded Resource comprises 12.1Mt @ 1.2g/t Au for 460koz in the Inferred category and 12.5Mt @ 1.5g/t Au for 624koz in the Indicated category for a total Resource of **24.6Mt @ 1.4g/t Au for 1.08Moz** contained gold. The Resource is based on a further 25,500m of infill and extensional drilling completed since the April maiden Resource. Ounces have been added via depth extensions and higher density infill drilling confirming continuity. The Resource includes a high grade core of 808koz at 2.0g/t Au (at 1.0g/t Au cut-off-grade) which we view as very positive for its likely economic development. The updated Resource also means that BRB has hit its initial Exploration Target of 1.1 to 1.3Moz within five months of announcing it.

Further showing the hallmarks of a significant discovery

In our view, Lake Roe continues to show the hallmarks of a significant gold discovery. The rapid growth from the maiden Resource defined in April 2018 is consistent with our view that improved understanding of the geological controls would enable ounces to be added quickly and at a decreasing discovery cost: BRB reports that this metric has dropped from \$23/oz to \$18/oz. We also like that increased drilling density has added both ounces and grade, with the Indicated Resource sitting at 1.5g/t Au vs the Inferred at 1.2g/t Au. We also like that there are lots of shallow ounces, ~800koz at less than 150m below surface (mbs), indicating favourable open-pit economics and a low strip ratio. A further positive is the trend of grades increasing with depth - favourable for underground mining potential and justifying the targeting of depth extensions. Finally, the deposit is open in all directions: at depth, along strike and via new parallel lodes being identified to the east, all offering plenty of scope for growth.

New Exploration Target – looking for 2.5 Moz, PFS underway

BRB has confirmed a new Exploration Target of 1.2-1.4Moz to potentially be defined at depth, below the current Bombora Resource - i.e. implying 2.3-2.5Moz in total. Note that this does not include any allowance for strike extensions, which is an immediate focus of the ongoing drill program to add cheap, shallow ounces. In parallel with this, a Pre-Feasibility Study (PFS) is underway on the current Resource to evaluate a standalone open-pit development. We point out that 58% of the Resource is in the higher-confidence Indicated category, thus available for conversion to Ore Reserves.

Investment thesis – Buy (Speculative), valuation \$0.99/sh

Combined with the positive metallurgical testing to date, the location east of Kalgoorlie and the pending granting of Mining Leases, this update reinforces our view that Lake Roe is the most compelling greenfields gold discovery in the market. With an EV/oz of just A\$33/oz BRB represents cheap exposure to a growing and strategic Resource. We retain our Speculative Buy rating and lift our valuation 8% to \$0.99/sh.

Major Resource upgrade - more to come

Lake Roe Resource up 74% to 1.1Moz at 1.4g/t Au

BRB has announced a major upgrade to the gold Resource for its Bombora deposit at its 100% owned Lake Roe gold project, 100km east of Kalgoorlie. We view this as a fantastic result which reinforces our view that there is much more Resource growth to come from Lake Roe. The upgraded Resource comprises 12.1Mt @ 1.2g/t Au for 460koz in the Inferred category and 12.5Mt @ 1.5g/t Au for 624koz in the Indicated category for a total Resource of **24.6Mt @ 1.4g/t Au for 1.08Moz** contained gold.

The Resource is based on a further 25,500m of infill and extensional drilling completed since the April maiden Resource. Ounces have been added via depth extensions and higher density infill drilling confirming continuity of ore lodes. The updated Resource also means that BRB has hit its Exploration Target of 1.1 to 1.3Moz within five months of announcing it.

The updated Resource is summarised below:

Table 1 - Lake Roe gold project - Bombora Resource (September 2018)

Lake Roe Mineral Resources	Mt	g/t Au	(koz)
Indicated	12.549	1.5	624.0
Inferred	12.050	1.2	460.0
Total	24.599	1.4	1,084.0

SOURCE: COMPANY DATA

The Resource includes a high grade core of 808koz at 2.0g/t Au at a 1.0g/t Au cut-off-grade which we view as a very positive factor for its potential economic development. It also implies the balance of the Resource carries a grade of 0.8g/t Au, which should comfortably justify the marginal processing cost.

Compared with the maiden Resource of April 2018

- Contained ounces are up 74%;
- Resource tonnage is up 107%;
- Grade is down 16%;
- 58% of ounces are in the higher confidence Indicated category (vs 42% previously);
- Resource maximum depth has been extended from 200mbs to 250mbs; and
- The Resource strike length is slightly extended (from 2.2km previously).

While overall grade is down compared to the maiden Resource it remains attractive compared with operating mines in WA. It also includes a substantial high grade core of 808koz at 2.0g/t Au which is a 29% increase in ounces and a 25% increase in grade over the total maiden Resource. With the Indicated Resource being higher grade we may well see further increased drilling density result in a grade uplift.

The previous, maiden Resource is summarised below:

Table 2 - Lake Roe gold project - Bombora maiden Resource (April 2018)

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

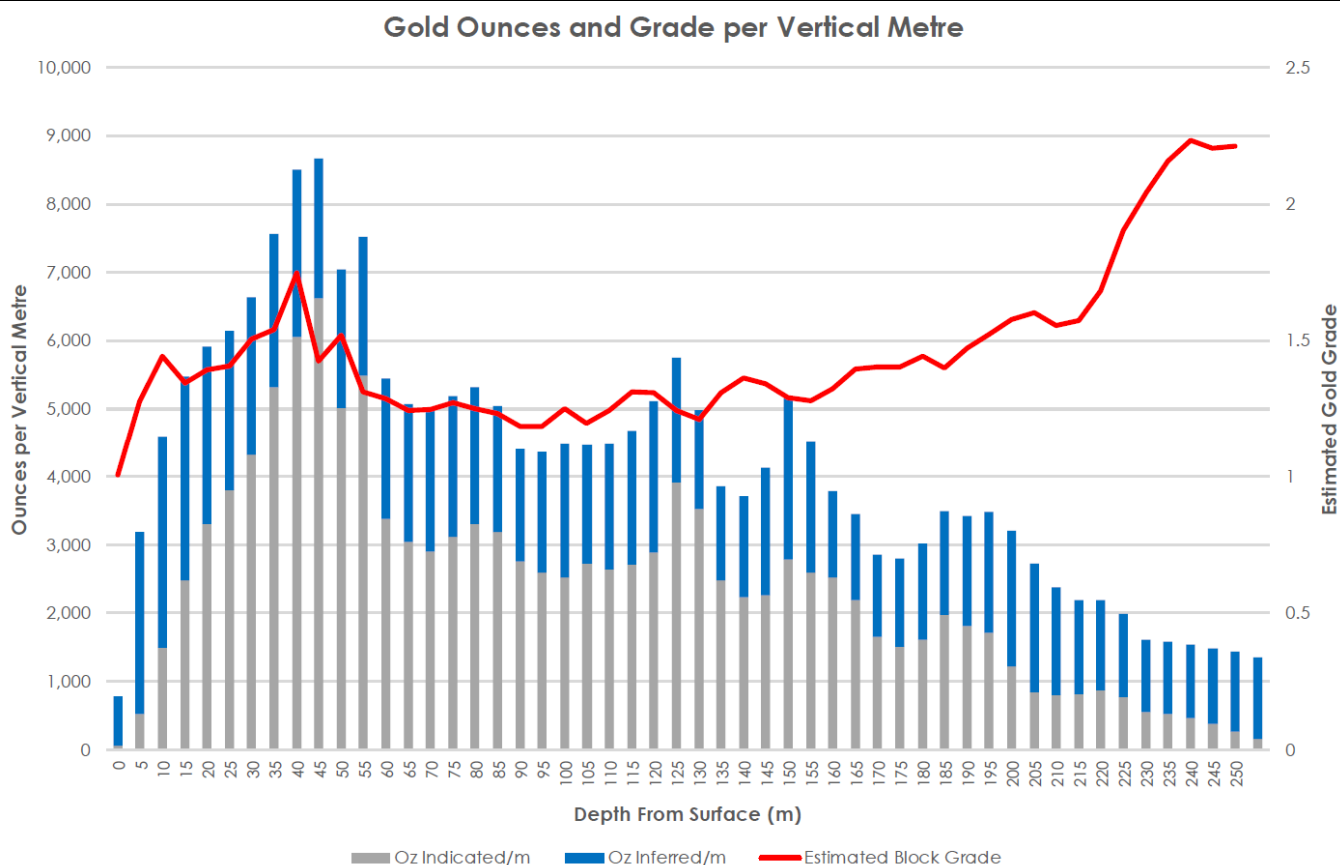
Further showing the hallmarks of a significant discovery

In our view, Lake Roe continues to show the hallmarks of a significant gold discovery:

- Rapid Resource growth;
- Decreasing discovery cost: BRB reports that this metric has dropped from \$23/oz to \$18/oz;
- Higher grade, higher confidence ounces: the Indicated Resource is at 1.5g/t Au vs the Inferred at 1.2g/t Au;
- Lots of shallow ounces, ~800koz within 150m of surface, pointing to likely favourable open-pit economics and a low strip ratio;
- A further positive is the trend of grades increasing with depth - favourable for underground mining potential; and
- The deposit is open in all directions – at depth, along strike and with new parallel lodes continuing to be identified there is plenty of scope for growth.

We like this chart in particular, showing the large amount of shallow gold, notably in the first 60mbs, but also showing the average grade increasing with depth.

Figure 1 – Gold ounces per vertical metre and Resource grade with depth



SOURCE: COMPANY DATA

This chart also indicates that the Resource continues to be constrained by drilling, with fewer ounces at depth being a function of a lack of drill samples – implying that further drilling will continue to grow the Resource.

Drilling below 250mbs has already been undertaken and returned significant intersections, indicating continuity of the deposit. These have not yet been included in the Resource but follow-up drilling at depth is a focus.

New Exploration Target – looking for 2.5 Moz, PFS underway

BRB has confirmed a **new Exploration Target of 1.2-1.4Moz** to potentially be defined at depth, **below and in addition to the current Bombora Resource - i.e. implying 2.3-2.5Moz in total**. The updated Exploration Target is also only estimated to 700mbs. In our view this is relatively shallow, with numerous underground gold operations in WA mining at greater depths in similar settings. The estimate equates to an ounce per vertical metre (ovm) range of 2,600ovm to 3,100ovm, or roughly half that of the updated Resource (in areas of adequate drilling above 150mbs). The updated Exploration Target also does not include any allowance for strike extensions beyond the current Resource – which remains open in both directions.

Ongoing drill program targeting further growth

While BRB points out the delineation of a Resource to 700mbs will likely occur over a period of years, an aggressive ongoing drill program utilising 3-4 diamond and RC rigs will include an immediate focus on depth extensions, where significant intersections outside the Resource indicate continuity of identified high grade gold zones.

Strike extensions to the north and south, again where significant intersections outside the Resource are yet to be followed up, are also being targeted for the addition of cheap, shallow ounces to the Resource.

BRB's improving understanding of the mineralisation controls is evidenced by the rapid growth of the Bombora Resource and the declining discovery cost. We believe the discovery remains at an early stage and that this update confirms the commencement of a period of cost effective exploration success and value creation.

PFS to scope initial options – a 'proof-of-concept'

In parallel with this, a Pre-Feasibility Study (PFS) has commenced on the current Resource to evaluate a standalone open-pit development. We point out that 58% of the Resource is in the higher-confidence Indicated category, thus available for conversion to Ore Reserves.

Ordinarily, we would anticipate a 3-6 month time frame for an evaluation of this scale of operation. However, holding our view that the Resource is going to continue to grow also implies that the scale and scope of the project is going to change.

The PFS will therefore be able to provide a 'proof-of-concept' for several key workstreams, particularly on the processing side, but mining parameters and costs - particularly CAPEX, will not be bedded down for some time. Even so, these studies will achieve de-risking milestones for the project.

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. At that time BRB also announced an Exploration Target of 1.1-1.3Moz, the low end of which has now been realised with the announcement in September 2018 of an upgraded Resource of 24.6Mt @ 1.4g/t Au for 1.08Moz contained gold.

Investment thesis – Buy (Speculative), valuation \$0.99/sh

Combined with the positive metallurgical testing to date, the location east of Kalgoorlie and the pending granting of Mining Leases, this update reinforces our view that Lake Roe is the most compelling greenfields gold discovery in the market. With an EV/oz of just A\$33/oz BRB represents cheap exposure to a growing and strategic Resource. We retain our Speculative Buy rating and lift our valuation 10% to \$0.99/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 24.6Mt @ 1.4g/t Au for 1.08Moz contained gold. BRB has also stated an Exploration Target of 1.2-1.4Moz, over and above the defined Resource, implying a target of 2.3-2.5Moz at Bombora alone. Our valuation comprises:

- \$165m 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 two-thirds of current levels. We have lifted our valuation 10% following this update, reflecting the de-risking of the Exploration Target, the rapid Resource growth and indications of more Resource additions to come.
- 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)		146.2
Options in the money (m)		4.6
Assumed equity raise (m)		28.6
Diluted m		179.3
Sum-of-the-parts		
	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	165.0	1.13
Corporate overheads	(2.1)	(0.01)
Subtotal	162.9	1.11
Net cash (debt)	5.2	0.04
Total (undiluted)	168.1	1.15
Cash from options	0.9	@ 0.34
Assumed equity raise	8.0	@ 0.28
Total (fully diluted)	177.0	0.99

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	146.2
Performance shares / other	m	0.0
Total shares on issue	m	146.2
Share price	\$/sh	0.28
Market capitalisation	\$m	40.9
Net cash	\$m	5.2
Enterprise value (undiluted)	\$m	35.7
Options outstanding (m)	m	(wtd avg ex. price \$0.34 per share) 10.3
Options (in the money)	m	4.6
Issued shares (diluted for options)	m	150.8
Market capitalisation (diluted)	m	42.2
Net cash + options	\$m	6.1
Enterprise value (diluted)	\$m	36.1

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
Trojan	6.8%	10.0
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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