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Breaker Resources NL (BRB)

More drilling, more gold

Recommendation

Buy (unchanged)

Price

\$0.34

Valuation

\$0.87 (previously \$0.94)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	155.9%
Dividend yield	0.0%
Total expected return	155.9%

Company Data & Ratios

Enterprise value	\$55.2m
Market cap	\$62.1m
Issued capital	182.7m
Free float	88%
Avg. daily val. (52wk)	\$177,000
12 month price range	\$0.21-\$0.595

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.37	0.42	0.57
Absolute (%)	-6.8	-18.1	-40.4
Rel market (%)	-15.2	-22.0	-39.6

Absolute Price



SOURCE: IRESS

Drilling extends Bombora's width, strike and depth

In September 2018 BRB announced a major Resource upgrade at its 100%-owned Lake Roe gold project in WA, for 24.6Mt @ 1.4g/t Au for 1.1Moz. That update added 500,000oz in five months and lowered the discovery cost from A\$23/oz to A\$18/oz. Since then, BRB has had four drill rigs operating continuously and released three rounds of drilling results from infill and extension drilling. This work has extended the strike length of the Bombora deposit from 2.2km to 2.5km, logged the deepest mineralised intersection to date (360mbs, assays pending) and identified a new lode east of the main dolerite host unit. Furthermore, the first satellite deposit has been confirmed at the Crescent prospect. It lies 2km to the north of Bombora, where potentially open-pittable material has been intersected within 50m of surface.

Resource update early in June quarter 2019

All this shows the zone of known mineralisation to be expanding with each round of drilling and points to a substantial Resource increase at the next update. This has now been scheduled for early in the June quarter 2019 and has the potential to be a significant, positive catalyst for the stock. We note the September 2018 upgrade drove in a 53% rally in BRB's share price in a much less favourable gold market. While extension drilling has been successful, a significant amount of infill drilling has also been completed and we expect that a large proportion of the Resource will again be in the higher confidence Indicated category (currently 58% Indicated, 42% Inferred). We also point out that BRB's Exploration Target of an additional 1.2-1.4Moz to potentially be defined below the current Bombora Resource (for a total of 2.3-2.5Moz) makes no allowance for strike extensions.

PFS workstreams advancing

The high proportion of the Resource in the Indicated category has implications for the rapid advancement of the Pre-Feasibility Study (PFS) as Reserves and economic projections cannot be estimated from Inferred Resources. While the timeline for the completion of the PFS is contingent on delineating the open-pit mining limits at Bombora, other key workstreams are advancing. These include geotechnical, hydrological and environmental studies, key aspects of which are now complete. The third phase of metallurgical testwork should also be complete in the current quarter.

Investment thesis – Speculative Buy, valuation \$0.87/sh

In our view, Lake Roe remains the standout greenfields gold discovery in the Australian market, showing the key hallmarks of a major deposit. BRB is in a cost-effective discovery phase driven by increasing geological understanding and a well-resourced drilling program. The deposit remains open in all directions with significant potential for growth. Our updated valuation is lowered 7% to \$0.87/sh (from \$0.94/sh) on a lower cash balance and our standard dilution assumptions for an exploration company. We reiterate our Speculative Buy rating.

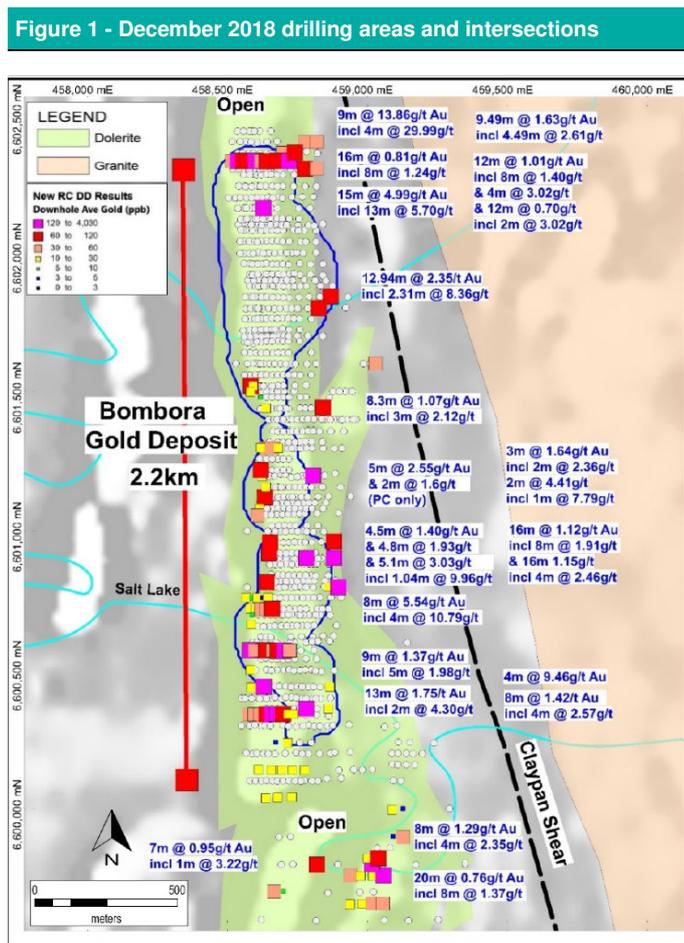
More drilling, more gold

Drilling extends Bombora's width, strike and depth

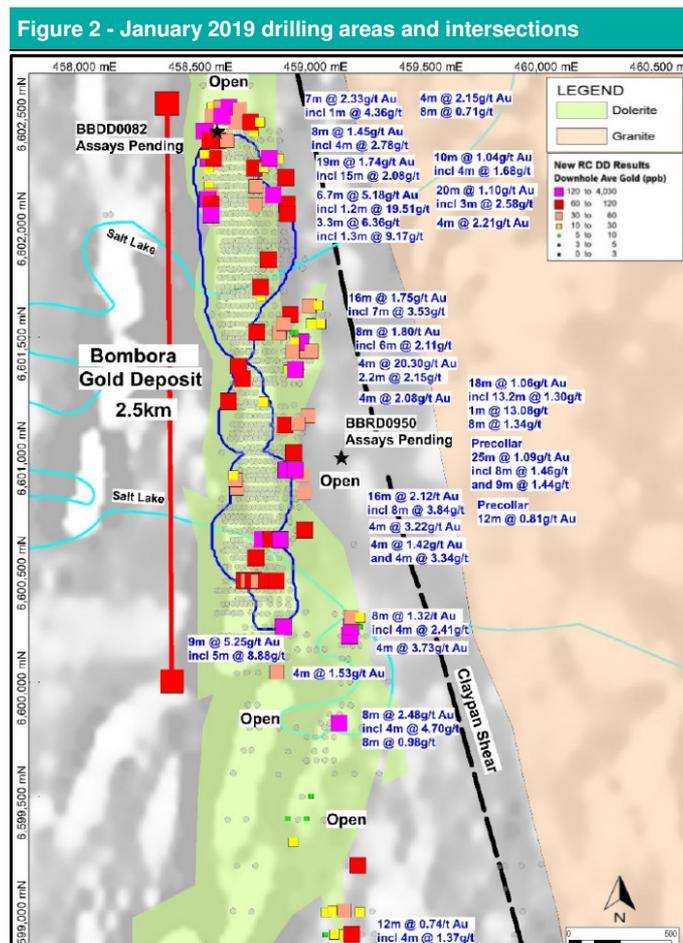
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This work has extended the strike length of the Bombora deposit from 2.2km to 2.5km, logged the deepest mineralised intersection to date (360 metres below surface (mbs), assays pending) and identified a new lode east of the main dolerite host unit.

The figures below show some of the significant intersections reported from the December 2018 and January 2019 rounds of drilling. It can be seen that drilling has been focussed on the northern, southern and eastern extremities of the Bombora deposit and good grades have been returned from all these areas. Figure 3 includes hole BBDD0082 which intersected visible gold (assays pending) from the newly identified Morant lode (260mbs) and hole BBRD0950 (assays pending), which is interpreted to have intersected the down-plunge extension of the Tura lode 360mbs and, if confirmed, will be the deepest intersection achieved to date. The lowest point of the current Resource is 250mbs.



SOURCE: COMPANY DATA

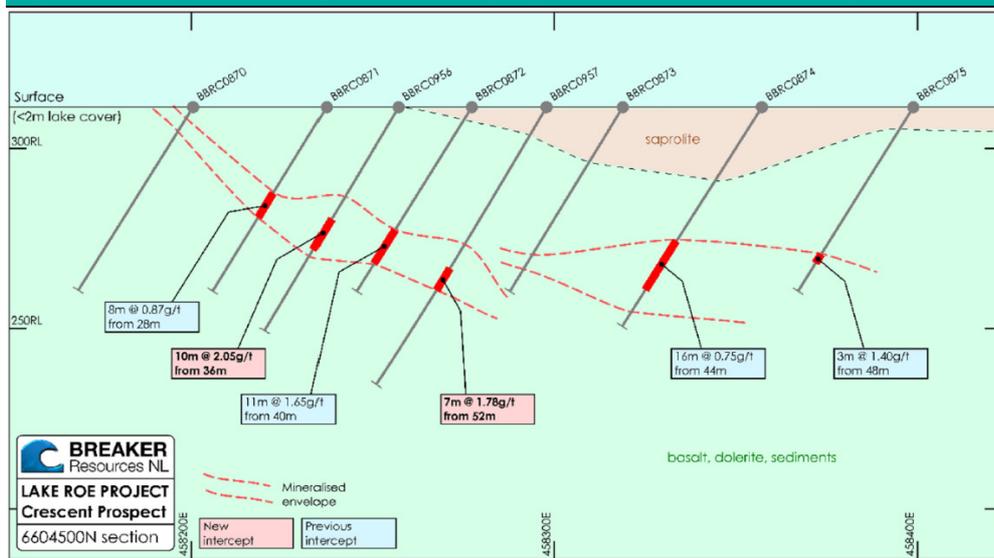


SOURCE: COMPANY DATA

Furthermore, the first satellite deposit at the Lake Roe project has been confirmed at the Crescent prospect. It lies 2km to the north of Bombora, where potentially open-pittable material has been intersected within 50m of surface.

It represents a zone of continuous shallow gold mineralisation over a 300m x 200m area that is open to the north and down-dip.

Figure 3 - Cross section through the Crescent prospect, 2km north of Bombora deposit



This is all the more encouraging as this is some of the first comprehensive follow-up drilling of air-core gold anomalies (which have been good indicators for the Bombora deposit) outside the main Resource zone.

It should be remembered that the Bombora deposit is just a portion of a large scale gold anomaly delineated by air-core drilling over 8km of strike.

Eastern mineralisation a new development

Extension drilling designed to test the limits of mineralisation and help define the boundary of a potential open-pit has in fact identified a new lode east of the main dolerite host unit. There are two key points to this:

- The intersection of new mineralisation over a ~350m strike length, outside the main host unit, opens up the prospectivity of a whole new area around the Bombora deposit. The mineralisation has initially been interpreted to be associated with the Tura lode, with the implication there a several other settings where this may be repeated;
- Secondly, shallow extensions to the mineralisation from the current boundary of a potential open-pit would improve its economics via the effective reduction of the strip-ratio. This would enable the depth of the pit to be increased for the extraction of more ounces.

Overall, this is a new development that points to potential for further Resource growth and to more favourable project economics.

Breaker Resources NL (BRB)

Company description

Breaker Resources NL (BRB) is an Australian domiciled, Perth based gold exploration company, 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 8km of strike. This includes the Bombora discovery which now extends over a continuous strike length of 2.5km, and remains open in all directions. 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. Earlier indications of further mineralisation to the north have been confirmed with the delineation of the Crescent prospect, 2km to the north of the Bombora deposit.

Investment thesis – Speculative Buy, valuation \$0.87/sh

In our view, Lake Roe remains the standout greenfields gold discovery in the Australian market, showing the key hallmarks of a major deposit. BRB is in a cost-effective discovery phase driven by increasing geological understanding and a well-resourced drilling program. The deposit remains open in all directions with significant potential for growth. Our updated valuation is lowered to \$0.87/sh (from \$0.94/sh) on a lower cash balance and our standard dilution assumptions for an exploration company. We reiterate our Speculative Buy rating.

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:

- \$170m 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. A \$5m increase to our valuation reflects the advancement of the PFS 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;
- Dilution for in-the-money options and an assumed equity raise of \$8.0m at \$0.35/sh in the coming 12 months; and
- BRB's last reported net cash position.

Table 1 - BRB valuation summary

Ordinary shares (m)		182.7
Options in the money (m)		4.6
Assumed equity raise (m)		22.9
Diluted m		210.2
Sum-of-the-parts	\$m	\$/sh
Project (unrisked NPV10)	-	-
Other exploration	170.0	0.93
Corporate overheads	(2.1)	(0.01)
Subtotal	167.9	0.92
Net cash (debt)	6.9	0.04
Total (undiluted)	174.8	0.96
Cash from options	0.9	@ 0.38
Assumed equity raise	8.0	@ 0.35
Total (fully diluted)	183.7	0.87

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 155.9% from the last closing share price to our valuation, we retain our Speculative Buy recommendation in conformity with our ratings structure.

The latest capital structure is summarised below:

Table 2 - BRB capital structure summary

Shares on issue	m		182.7
Performance shares / other	m		0.0
Total shares on issue	m		182.7
Share price	\$/sh		0.34
Market capitalisation	\$m		62.1
Net cash	\$m		6.9
Enterprise value (undiluted)	\$m		55.2
Options outstanding (m)	m	(wtd avg ex. price \$0.38 per share)	14.5
Options (in the money)	m		4.6
Issued shares (diluted for options)	m		187.3
Market capitalisation (diluted)	m		63.7
Net cash + options	\$m		7.8
Enterprise value (diluted)	\$m		55.9

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

BRB's largest shareholder is Executive Chairman, Tom Sanders, who has an interest of 22.6m shares (12.3% of issued capital). Institutional presence on the register is light, with a handful of local and international institutions at just below substantial holdings.

Table 3 - BRB top shareholders

Shareholder	%	m
TS&H Sanders	12.3%	22.6
Trojan	8.5%	15.5
Kurraba Investments	2.7%	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 Lead Manager to the September 2018 equity raise of \$10.5m 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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