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# Breaker Resources NL (BRB)

## Resource update: quality vs quantity

### Recommendation

**Buy** (unchanged)

Price

**\$0.305**

Valuation

**\$0.73** (previously \$0.84)

Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	<b>139.3%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>139.3%</b>

### Company Data & Ratios

Enterprise value	<b>\$57.2m</b>
Market cap	<b>\$62.2m</b>
Issued capital	<b>203.8m</b>
Free float	<b>89%</b>
Avg. daily val. (52wk)	<b>\$138,000</b>
12 month price range	<b>\$0.27-\$0.47</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.36	0.31	0.35
Absolute (%)	-15.3	-1.6	-11.6
Rel market (%)	-18.5	-2.1	-20.5

### Absolute Price



SOURCE: IRESS

### Upgraded Resource a mineable Resource

BRB earlier this month released an updated Mineral Resource for its 100%-owned Lake Roe gold project in WA. The new Resource comprises 4.9Mt @ 1.1g/t Au for 178koz in the Inferred category and 18.4Mt @ 1.4g/t Au for 803koz in the Indicated category for a total Resource of 23.2Mt @ 1.3g/t Au for 981koz contained gold. The updated Resource has resulted in a 10% reduction in contained ounces, a 4% lower grade and a 6% reduction in ore tonnes compared to the previous Resource. However, the Indicated Resource has grown by 29% and at 803koz is available for conversion to Reserves. Key factors that have contributed to this outcome include the application of mining dilution and recovery factors, the application of conservative top-cuts and a change in the geostatistical estimation method. The upshot is that this Resource Estimate is a more conservative and technically robust estimate that is likely to be highly representative of Bombora's Mining Inventory.

### An attractive asset for development – or acquisition

While BRB's Resource upgrade may not have appealed to those looking exclusively for an increase in the contained ounces, it is our view that material value has been added with this latest update and there is potential for a mismatch between the value being attributed to Lake Roe and what it is actually worth. The Bombora deposit is now an advanced exploration asset that is approaching development readiness. With 981koz at 1.3g/t from near-surface on granted Mining Leases and good metallurgical characteristics, it is an attractive near-term mining proposition with the potential to supply high margin, base load ore feed for 6-10 years. While we remain of the view that Lake Roe will have sufficient scale to be a standalone operation, it is hard to ignore that it is within easy trucking distance (~60km to either) of two operating gold mines, being Saracen's (SAR, not rated) Carouse Dam operations and Silver Lake's (SLR, not rated) Mt Monger operations. For an existing operator that can leverage off existing processing infrastructure, the Bombora deposit would likely screen as a very attractive and capital efficient development option.

### Investment thesis – Speculative Buy, valuation \$0.73/sh

We have updated our valuation for BRB to reflect the latest Resource update and our outlook for Resource growth at the Lake Roe Project. Our valuation methodology now applies a market-based Enterprise Value per Resource ounce (EV/oz) metric which we have applied to BRB at ~A\$105/oz. In addition to this, we make an estimation of our expected Resource growth over the next 12 months (~520koz) which is derived from BRB's Exploration Target (implying a total Resource of ~1.5Moz) for a total project valuation of A\$158m. This is 7% lower than our previous project valuation for Lake Roe and is effectively driven by slower-than-anticipated Resource growth. Together with our standard dilution assumptions around an assumed equity raise, this lowers our valuation 13% to \$0.73/sh (from \$0.84). We retain our Speculative Buy recommendation.

# Resource update: quality vs quantity

## Upgraded Resource a mineable Resource

BRB earlier this month released an updated Mineral Resource for its 100%-owned Lake Roe gold project in WA. The new Resource comprises 4.9Mt @ 1.1g/t Au for 178koz in the Inferred category and 18.4Mt @ 1.4g/t Au for 804koz in the Indicated category for a total Resource of **23.2Mt @ 1.3g/t Au for 981koz** contained gold. Importantly, 82% of the ounces are now in the higher-confidence Indicated category and available for conversion to Reserves. This compares to the previous Resource of 24.6Mt @ 1.4g/t Au for 1.08Moz contained, including 12.5Mt @ 1.5g/t Au for 624koz in the Indicated category.

The updated Resource is summarised below:

**Table 1 - Lake Roe gold project - Bombora Resource (September 2019, 0.5g/t Au cog)**

Lake Roe	Mt	g/t Au	(koz)
<b>Mineral Resources</b>			
Indicated	18.356	1.4	803.0
Inferred	4.853	1.1	178.0
<b>Total</b>	<b>23.209</b>	<b>1.3</b>	<b>981.0</b>

SOURCE: COMPANY DATA

This compares with the previous Resource:

**Table 2 - Lake Roe gold project - Bombora Resource (September 2018, 0.5g/t Au cog)**

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

SOURCE: COMPANY DATA

The updated Resource has resulted in a 10% reduction in contained ounces, a 4% lower grade and a 6% reduction in ore tonnes compared to the previous Resource. Key factors that have contributed to this outcome include:

- The application of mining dilution and mining recovery factors: Selective Mining Units (SMU's) of 5mN x 5mE x 2.5mRL were used to reflect the anticipated mining selectivity of an open-pit operation. Grades were diluted across these minimum block sizes in order that the Resource grade reflect expected mined grades. This is typically a step undertaken at the calculation of an Ore Reserve and was not applied to the previous Resource calculation. This has contributed to the lower grade;
- The application of conservative top-cuts of 5g/t – 30g/t Au: these were also not applied to the previous Resource calculation and have contributed to the lower grade; and
- A change in the geostatistical method used to estimate the new Resource, from Ordinary Kriging (OK) to predominantly Multiple Indicator Kriging (MIK). While both methods were used, estimation trials showed that the lithological broad zones responded better to MIK (approximately 95% of the Resource).

### More like a Reserve – high conversion rate expected for PFS

The upshot of this is that the September 2019 Resource Estimate is a conservative and technically robust estimate that is highly representative of the likely Mining Inventory to be extracted from the current known Resource. When a Reserve is calculated for the upcoming Pre-Feasibility Study (PFS), we would expect a very high conversion rate from Indicated Resources to Ore Reserves.

### The good news

The headline number was a disappointment to the market and was below our expectations for a 30-40% increase in contained ounces (we had been looking for ~1.5Moz contained). Given the twelve months elapsed, what we estimate to be an additional 61,000m of drilling since the last Resource update (BRB presentation 9 Sept. 2019) and the extensional intersections reported, we do not believe these expectations were unfounded.

However, there are a number of important takeaways that need to be considered beyond this:

- The **Indicated Resource has grown by 29%** and at 803koz represents a low-risk, baseload ore feed for a potential open-pit operation that could produce in the order of 115-130kozpa for an initial mine life of 6-7 years, with clear potential for upside beyond that;
- We continue to note the **higher grade of the Indicated Resource** (1.4g/t Au) compared to the Inferred Resource (1.1g/t Au), showing that higher grade zones are standing up to increased drill densities;
- The Resource includes a **high grade core of 9.4Mt @ 2.2g/t Au for 673koz** (Indicated and Inferred, Table 3, below), estimated at a 1.0g/t Au cut-off-grade (cog) which should support strong project economics and a flexible operating strategy;

**Table 3 - Lake Roe gold project - Bombora Resource (September 2019, 1.0g/t Au cog)**

<b>Mineral Resources</b>			
Indicated	7.843	2.3	568.0
Inferred	1.577	2.1	105.0
<b>Total</b>	<b>9.420</b>	<b>2.2</b>	<b>673.0</b>

SOURCE: COMPANY DATA

- The Resource **remains open at depth and along strike**. There are a multitude of excellent intersections demonstrating high grades at mineable widths both along strike from, and down-dip of, the current Resource envelope – demonstrating clear potential for further Resource growth; and
- The Resource is **shallow, commencing from 5mbs** (metres below surface). While we cannot point to specific data in relation to the updated Resource, charts previously provided by BRB indicated a large proportion of ounces close to surface – we expect this to broadly remain the case. This would point to favourable mining economics such as low unit costs and a low strip-ratio;

In addition to these positives, other attractions of the project include:

- The **favourable metallurgical testwork** results that have demonstrated high overall gold recoveries (+92%), including a high proportion of gravity gold recovery (+30%-90% in fresh rock), low energy consumption, rapid leach kinetics and a relatively coarse grind size. These characteristics are favourable to both low capital and operating costs;
- BRB's **Exploration Target of 1.2-1.4Moz** at a grade of 4.5g/t Au to 5.5g/t Au as outlined in September 2018 remains unchanged. It is estimated over a vertical distance of 450m, from approximately 250mbs to 700mbs. This was in addition to the September 2018 Resource Estimate, which extended to a maximum depth of 250mbs. The deepest point of the September 2019 Resource is 300mbs;
- The Lake Roe project lies 100km east of Kalgoorlie and the Bombora deposit sits on a granted Mining Lease, making it **an extremely attractive operational setting**; and
- Lake Roe **comprises a highly prospective 600km<sup>2</sup> tenement package**, of which less than 10% has so far been explored.

## Strategic asset, potential corporate target

While BRB's Resource upgrade may not have appealed to the sections of the market that were looking exclusively for an increase in the contained ounces, it is our view that those taking a more technical or strategic view will have seen a material amount of value added with this latest update. As such, there is the potential for a mismatch between the value being attributed to Lake Roe and what it is actually worth.

The updated Resource is a conservative, low-risk, technically robust estimation that should offer a high conversion rate from Resources to Reserves. In a market that has seen a number of failures and disappointments that can be traced back to unrepresentative Resource estimations, we believe this is a factor that sets Lake Roe apart from other assets in the sector.

The Bombora deposit is now an advanced exploration asset that is approaching development readiness. With 981koz at 1.3g/t from near-surface on granted Mining Leases, it is an attractive near-term mining proposition with the potential to supply high margin, base load ore feed for 6-10 years depending upon mining rates.

While we remain of the view that the Lake Roe project will have sufficient scale to support its own standalone mining operation, it is hard to ignore that it is within easy trucking distance (~60km to either) of two operating gold mines. For an existing operator that can leverage off existing processing infrastructure, the Bombora deposit would likely screen as a very capital efficient development option.

### Saracen

Saracen's (SAR, not rated) Carouse Dam operations lie ~60km to the north and in FY20 are targeting production of 350-370koz at All-In-Sustaining-Costs (AISC) of A\$1,025-\$1,075/oz. The process plant there is currently being expanded from 2.4Mtpa to 3.2Mtpa at a capital cost of A\$34m (A\$42.50 per installed tonne of throughput). The additional 800ktpa capacity is planned to be fed from open-pit sources, with the current 2.4Mtpa to be sourced from underground operations.

Carosue Dam currently has **open-pit Reserves** of approximately 8.7Mt @ 1.45g/t Au for 406koz and **open-pit Resources** of approximately 46Mt @ 1.5g/t Au for 2.3Moz (as at 30 June 2019), which are sufficient to support its expansion objectives. However, the Reserve base is spread across 6 deposits, the largest of which is the Million Dollar open-pit, located ~40km as the crow flies from the Carosue Dam mill. The Million Dollar deposit holds Ore Reserves of 3.9Mt @ 1.3g/t Au for 160koz and Mineral Resources of 10.0Mt @ 1.4g/t Au for 440koz.

**Table 4 - SAR open-pit Reserves and Resources summary (as at 30 June 2019)**

	Total	No. of deposits	Average size	Largest deposit
Reserves – Carosue Dam open-pits	8.7Mt @ 1.45g/t Au for 406koz	6	68,000oz	Million Dollar: 160,000oz @ 1.3g/t Au
Resources – Carosue Dam open-pits	46Mt @ 1.5g/t Au for 2,300koz	21	108,000oz	Million Dollar: 440,000oz @ 1.4g/t Au
Resource - Bombora open-pit (0.5g/t Au cog)	23.2Mt @ 1.3g/t Au for 981koz	1	981,000oz	Bombora: 981,000oz @ 1.3g/t Au
Resource - Bombora open-pit (1.0g/t Au cog)	9.4Mt @ 2.2g/t Au for 673koz	1	673,000oz	Bombora: 673,000oz @ 2.2g/t Au

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

While the two deposits cannot be directly compared (Million Dollar is hosted in a shallow dipping granitoid unit, for a start), BRB's Bombora Resource of 23.2Mt @ 1.3g/t Au for 981koz would stand out in SAR's Resource inventory. If necessary, at the higher 1.0g/t Au cut-off-grade, the Bombora Resource of 9.4Mt @ 2.2g/t Au for 673koz would likely be more than enough to cover any higher unit mining costs compared with Million Dollar.

Reserves are yet to be calculated for the Bombora deposit, but should come with the Pre-Feasibility Study (PFS) due in the next month. As mentioned, we anticipate a high rate of conversion from Resources to Reserves. Should this eventuate, Bombora would stand out in SAR's open-pit Reserve inventory as well.

**Silver Lake**

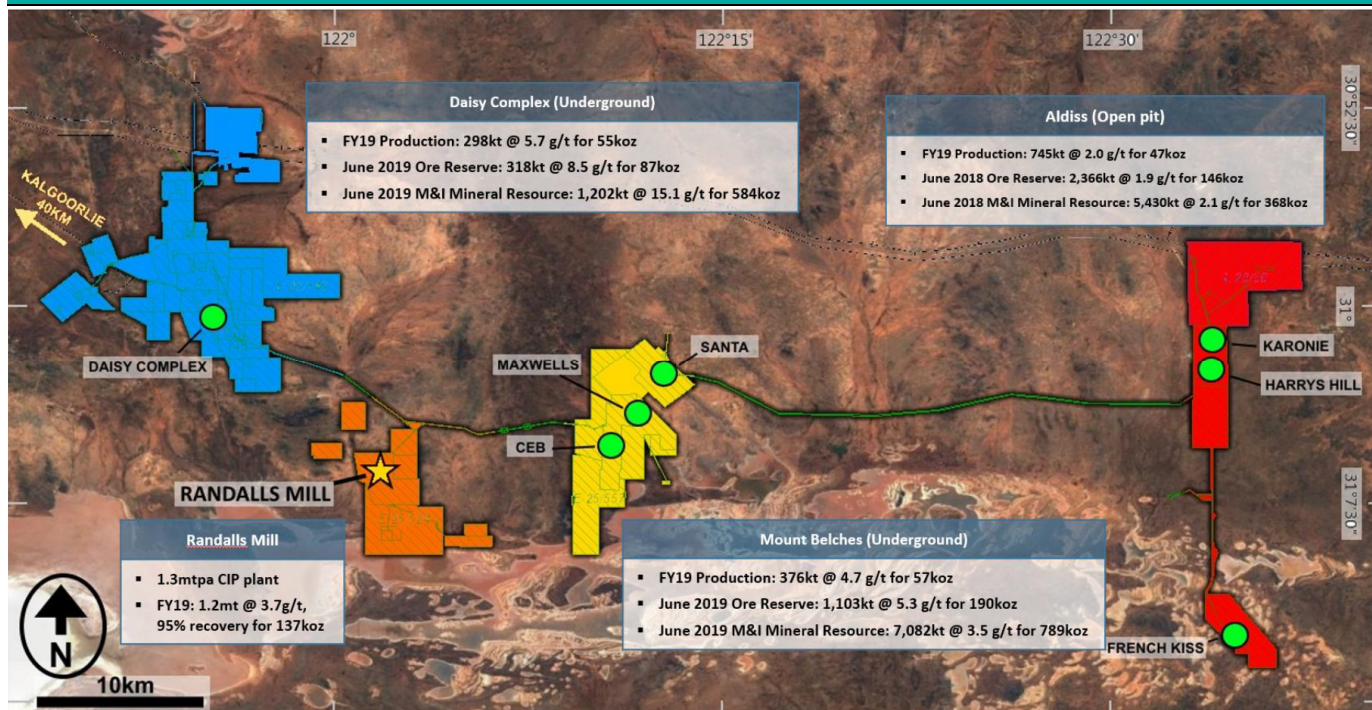
Silver Lake’s (SLR, not rated) Mt Monger operations are located approximately 60km to the west of the Lake Roe project and currently producing ~120-130kozpa at AISC of ~A\$1,400/oz. The core of these operations is the high grade Daisy underground mining complex. SLR has a clearly stated strategy of leveraging the existing infrastructure at Mt Monger to develop Resources they have defined in regional mineralised corridors and satellite deposits. Ore is processed through the 1.3Mtpa Randalls mill, approximately 10km to the south-east of Daisy (and towards Bombora).

The satellite operations at Mt Monger include the Aldiss mining centre and Karonie open-pit, a further 30km to the east of Randalls and lying ~35km due south of Bombora. Aldiss’ consolidated open pit **Resources** comprise 8.7Mt @ 2.1g/t Au for 578koz and **Reserves** of 2.4Mt @ 1.9g/t Au for 146koz (both as at 30 June 2019).

The total Resources at Mt Monger are 31.0Mt @ 3.7g/t Au for 3.7Moz and total Ore Reserves stand at 7.1Mt @ 3.7g/t Au for 492koz. The low conversion rate reflects the dominance of underground ounces in Mt Monger’s inventory and, in turn, the focus on higher grade ounces to drive production from a relatively small processing plant.

In our view, while SLR would likely need to invest in expanding its milling capacity, the relatively large scale Bombora Resource and its high grade optionality could present a compelling opportunity for SLR to combine its high grade underground ore with a long-life base load open pit feed. This would underpin a long, low-risk, high margin, life of mine at Mt Monger. A high Resource to Reserve conversion ratio at Bombora would materially increase the Reserve base at Mt Monger and remove any concerns around mine life.

Figure 1 - SLR’s Mt Monger operations – to the south and south-east of Lake Roe and the Bombora deposit



SOURCE: COMPANY DATA

## Valuation considerations

We measure the market as currently valuing Resource ounces at around A\$110/oz (Enterprise Value per Resource ounce or EV/oz). While this is a crude metric, it is a starting point referenced by the market. It should, in theory, give some reflection of the quality of those ounces, the likelihood they will reach commercial production and the strength of the margins they will deliver. Factors that influence an EV/oz valuation include, but are not limited to:

- The grade of the Resource in relation to the likely mining method;
- Confidence category of the Resource and how representative it is of what could be mined;
- Metallurgical considerations and the likely process route;
- Potential for further Resource growth;
- Jurisdiction, security of tenure, permitting and social licence considerations;
- Location, access to services and logistical considerations;
- Overall technical risk of the proposed mining and processing operations; and
- Financing requirements of the project and the fiscal regime it will operate under.

We have discussed most of these factors on page 3 of this note and, in our view, the Bombora deposit rates very well across all of them. In terms of financing requirements, we will have greater visibility on this with the release of the Pre-Feasibility Study. However, in considering either a 1.5Mtpa or 2.5Mtpa ore mining scenario we estimate a CAPEX range of A\$130-\$180m (A\$80-\$90/t installed throughput capacity), which is comparable with a number of other projects of similar scale in Western Australia that have been successfully financed.

**Table 5 – ASX-list gold developers/explorers: Enterprise Value per Resource ounce comparison table**

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
Catalyst Metals Limited	CYL	\$2.58	\$203.5	\$15.9	\$187.6	0.000	0.00	na	-	-	na	7.8%
Apollo Consolidated Limited	AOP	\$0.24	\$53.2	\$10.2	\$43.0	0.000	0.00	na	-	-	\$0	19.2%
Spectrum Metals Limited	SPX	\$0.08	\$116.4	\$11.7	\$104.7	0.036	4.80	\$2,908	-	-	na	10.1%
Gold Road Resources Limited	GOR	\$1.36	\$1,195.3	-\$2.0	\$1,197.3	3.310	1.32	\$362	2.0	1.25	\$611	-0.2%
Vango Mining Limited	VAN	\$0.21	\$133.9	-\$12.0	\$145.9	0.410	8.00	\$356	-	-	na	-9.0%
Meteoritic Resources NL	MEI	\$0.06	\$59.1	\$4.7	\$54.4	0.261	6.30	\$209	-	-	na	7.9%
Bellevue Gold Limited	BGL	\$0.63	\$356.0	\$35.0	\$321.0	1.800	11.10	\$178	-	-	na	9.8%
West African Resources Limited	WAF	\$0.55	\$478.8	-\$28.0	\$506.8	3.089	1.77	\$164	1.7	2.40	\$307	-5.8%
Artemis Resources Limited	ARV	\$0.05	\$34.5	-\$4.5	\$38.9	0.260	1.06	\$150	-	-	na	-13.0%
Capricorn Metals Ltd	CMM	\$0.22	\$295.4	\$87.0	\$208.4	1.525	0.90	\$137	0.9	1.00	\$234	29.4%
Echo Resources Limited	EAR	\$0.34	\$236.8	\$17.3	\$219.5	1.755	2.00	\$125	0.8	1.60	\$268	7.3%
Egan Street Resources Limited	EGA	\$0.30	\$41.9	\$3.1	\$38.8	0.454	9.20	\$85	0.2	4.40	\$194	7.4%
Musgrave Minerals Limited	MGV	\$0.08	\$29.4	\$3.5	\$25.9	0.441	2.84	\$59	-	-	na	11.9%
<b>Breaker Resources NL</b>	<b>BRB</b>	<b>\$0.31</b>	<b>\$62.2</b>	<b>\$5.0</b>	<b>\$57.2</b>	<b>0.981</b>	<b>1.30</b>	<b>\$58</b>	-	-	<b>na</b>	<b>8.0%</b>
Genesis Minerals Limited	GMD	\$0.04	\$46.3	\$2.6	\$43.7	0.760	3.30	\$57	-	-	na	5.6%
Bardoc Gold Limited	BDC	\$0.11	\$134.9	\$6.5	\$128.4	2.582	2.10	\$50	-	-	na	4.8%
Prodigy Gold NL	PRX	\$0.11	\$63.9	\$15.0	\$48.9	1.010	2.00	\$48	-	-	na	23.5%
Horizon Minerals Limited	HRZ	\$0.12	\$51.4	\$5.1	\$46.3	1.175	1.55	\$39	-	-	na	9.9%
Cardinal Resources Limited	CDV	\$0.46	\$188.8	-\$18.1	\$206.9	6.990	1.13	\$30	5.1	1.13	\$41	-9.6%
De Grey Mining Limited	DEG	\$0.05	\$50.7	\$12.0	\$38.7	1.679	1.80	\$23	-	-	na	23.7%
Nusantara Resources Limited	NUS	\$0.29	\$48.7	\$7.9	\$40.8	2.000	1.38	\$20	1.1	1.32	\$36	16.2%
Tanami Gold NL	TAM	\$0.05	\$59.9	\$28.3	\$31.6	1.646	2.80	\$19	-	-	na	47.3%
Ausgold Limited	AUC	\$0.02	\$15.8	\$0.3	\$15.5	1.038	1.29	\$15	-	-	na	1.9%
Middle Island Resources Limited	MDI	\$0.01	\$7.3	\$0.9	\$6.4	0.503	1.40	\$13	-	-	na	12.9%
Calidus Resources Limited	CAI	\$0.03	\$58.0	\$13.1	\$44.9	1.250	1.83	\$6	-	-	na	22.6%
<b>Total / wtd average</b>			<b>\$4,021.9</b>			<b>35.0</b>	<b>2.3</b>	<b>\$109</b>	<b>11.8</b>	<b>1.4</b>	<b>\$323</b>	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, PRICED AS AT 24/9/19

As shown in Table 5, BRB is currently being valued at A\$58/oz. We would argue that not only should BRB be valued in-line with the rest of the market, but at a premium. This is due to what we view as the factors in favour of the successful commercial development of the Bombora deposit. However, applying an EV/oz valuation metric of A\$105/oz (a slight discount to the current market average) implies a valuation of A\$103m.

### Exploration Target a guide to BRB premium

BRB has outlined an Exploration Target of 1.2-1.4Moz at a grade of 4.5g/t Au to 5.5g/t Au. While the Exploration Target is not a Resource, it is an estimate of the potential of a deposit in a defined geological setting and needs to be supported by exploration results. In that context, it provides a guide as to the potential scale of a deposit and a starting point in considering its near-term Resource growth. The current Exploration Target is over and above the current Resource and indicates a potential Resource of 2.2-2.4Moz at Bombora.

### Resource growth slower than expected

One aspect of the Lake Roe project and Bombora deposit that we have over-estimated is the rate of Resource growth. We had clearly expected Resource growth to be more rapid than has eventuated. With this in mind, we apply a 40% discount to the ounces in the Exploration Target, broadly reflecting that we expect these (~520koz) to be defined in the next 12 months (for a total Resource of ~1.5Moz) and a total valuation of A\$158m. This is a reduction of ~7% compared to our previous valuation for Bombora.

### Key drivers – PFS, maiden Reserve and Resource growth

We remain of the view that the upcoming PFS and ongoing Resource growth are the key valuation drivers for BRB. The PFS will outline the operating and economic parameters, allowing the market to more confidently value the project.

It will also deliver a maiden Reserve for Bombora and another valuation data point: taking the current market valuation of Reserve ounces of gold development companies of ~A\$320/oz. Assuming a 70% Resource to Reserve conversion rate for a 687koz Reserve (approximating the 1.0g/t Au cog Resource of 673koz) implies an EV of ~A\$220m. We do not incorporate this into our valuation, but it shows clear upside from our current estimate.

### Upcoming catalysts

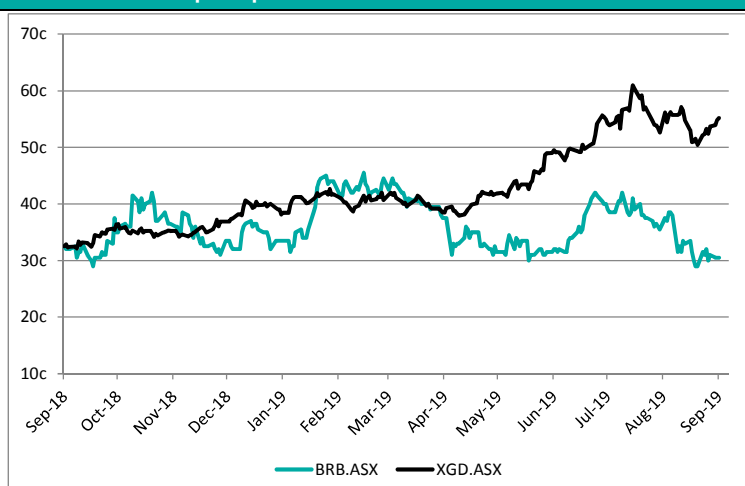
Upcoming catalysts for BRB include:

- The release of the Pre-Feasibility Study on the mining of the Bombora deposit. This is expected around the end of October 2019; and
- Ongoing drilling updates from the Resource development drilling program at Bombora deposit within the Lake Roe gold project.

### Share price performance vs ASX Gold Index

Relative performance chart of BRB vs XGD:

Figure 2 - MOY relative share price performance vs XGD



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

# 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 556km<sup>2</sup>.

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 3.2km, 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.

In September 2019 an upgraded Resource of 23.2Mt @ 1.3g/t Au for 981koz contained gold was announced. BRB has also released an Exploration Target of 1.2-1.4Moz at a grade of 4.5g/t Au to 5.5g/t Au, over and above the estimated Resource. This, together with the delineation of the Crescent prospect, 2km to the north of the Bombora deposit indicates significant potential for further Resource growth.

## Investment thesis – Speculative Buy, valuation \$0.73/sh

We have updated our valuation for BRB to reflect the latest Resource update and our outlook for Resource growth at the Lake Roe Project. Our valuation methodology now applies a market-based Enterprise Value per Resource ounce (EV/oz) metric which we have applied to BRB at ~A\$105/oz. In addition to this, we make an estimation of our expected Resource growth over the next 12 months (~520koz) which is derived from BRB's Exploration Target (implying a total Resource of ~1.5Moz) for a total project valuation of A\$158m. This is 7% lower than our previous project valuation for Lake Roe and is effectively driven by slower-than-anticipated Resource growth. Together with our standard dilution assumptions around an assumed equity raise, this lowers our valuation 13% to \$0.73/sh (from \$0.84). We retain our Speculative Buy recommendation.

## 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 deposit which has a Resource of 23.2Mt @ 1.3g/t Au for 981koz contained gold. BRB has also stated an Exploration Target of 1.2-1.4Moz, over and above the defined Resource, implying a target of 2.2-2.4Moz at Bombora alone. Our valuation comprises:

- \$158m valuation for BRB's main exploration asset, Lake Roe, based on our assessment of the value of the current Resource and our expectations for Resource growth over the coming 12 months. Our valuation considers the key factors driving the path to commercial production for the Lake Roe project.
- 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; and
- BRB's last reported net cash position and capital structure.



**Table 6 - BRB valuation summary**

<b>Ordinary shares (m)</b>		<b>203.8</b>
Options in the money (m)		4.5
Assumed equity raise (m)		25.8
<b>Diluted m</b>		<b>234.1</b>
<b>Sum-of-the-parts</b>		
	<b>\$m</b>	<b>\$/sh</b>
Project (unrisked NPV10)	-	-
Other exploration	158.0	0.78
Corporate overheads	(2.1)	(0.01)
Subtotal (EV)	155.9	0.76
Net cash (debt)	5.0	0.02
<b>Total (undiluted)</b>	<b>160.9</b>	<b>0.79</b>
Cash from options	0.9	@ 0.37
Assumed equity raise	8.0	@ 0.31
<b>Total (fully diluted)</b>	<b>169.7</b>	<b>0.73</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 139% 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 7 - BRB capital structure summary**

Shares on issue	m	203.8
Performance shares / other	m	0.0
<b>Total shares on issue</b>	<b>m</b>	<b>203.8</b>
<b>Share price</b>	<b>\$/sh</b>	<b>0.305</b>
Market capitalisation	\$m	62.2
Net cash	\$m	5.0
<b>Enterprise value (undiluted)</b>	<b>\$m</b>	<b>57.2</b>
Options outstanding (m)	m (wtd avg ex. price \$0.37 per share)	13.7
Options (in the money)	m	4.5
Issued shares (diluted for options)	m	208.3
Market capitalisation (diluted)	m	63.5
Net cash + options	\$m	5.9
<b>Enterprise value (diluted)</b>	<b>\$m</b>	<b>57.7</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Top shareholders

BRB's largest shareholder is Executive Chairman, Tom Sanders, who has an interest of 22.5m shares (11.1% of issued capital). Institutional presence on the register is light, with a handful of local and international institutions at just below substantial holdings.

**Table 8 - BRB top shareholders**

<b>Shareholder</b>	<b>%</b>	<b>m</b>
TS&H Sanders	11.1%	22.5
Trojan	7.6%	15.5
Kurraba Investments	2.5%	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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