

Blackham Resources Ltd (BLK) |

Rating: **BUY**
 Target Price: **\$0.50**
 Projected Return: **85%**

¹ 12 month target

Company Statistics

Share Price (AUD\$)	0.27
Market Cap (AUD\$)	54.2
Enterprise Value (AUD\$)	55.2
Issued Shares (mil)	200.6
Options & Con	
Notes (mil)	
(unlisted)	46.4
Cash	5.1
Debt	6.0

Earnings Summary

FY Yr. End	2015e	2016e	2017e	2018e
Revenue (\$AU)	0	0	149	128
EBITDA (\$AU)	N/A	N/A	43	28
NPAT (\$AU)	N/A	N/A	25	15
EV/EBITDA			0.37	0.30

Share Price



Company Description

Blackham Resources Ltd is a WA gold exploration and development company now completing a definitive feasibility study to recommence gold production at its Matilda Gold Project in Mid-2016.

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Matilda Gold Project, on track for mid-2016 production

Investment Summary

Blackham Resources has completed a Pre-Feasibility Study on the Matilda Gold Project and is another step closer to recommencing production at the Wiluna Processing Facility. Over the next three months Blackham will incorporate the recent drilling into an upgraded Reserve and Resource, complete the DFS and commit to the Wiluna Processing Facility refurbishment. Underpinned by a large tenement position and a growing gold resource Blackham will emerge in mid 2016 as a producer of over 100,000 ozs of gold per year with the potential to grow both mine life and production.

Investment Highlights

- BW unrisks project valuation based on mine life of 6 years 9 months V BLK 4 years 9 months is A\$226 million. After corporate costs, interest and tax our unrisks valuation is \$156 million. Payback on refurbishment capital is 14 months
- Recent drilling is not yet in mine plan. Ongoing drilling will expand Resources and Reserves increasing mine life towards ten years with the real possibility of increasing gold output in the medium term from a potentially large resource in the Williamson area
- On track for gold production in mid 2016 to re-establish >100,000ozpa gold production
- Tenements of 780km2 surrounding the Wiluna Processing Facility with a total gold resource of 4.7million oz

Investment Recommendation

BUY Rating on an increased price target of \$0.50

Our price target reflects an 85% premium to the recently traded price and is based on a risked NPV derived from our DCF model of the Matilda Gold Project assuming a seven year mine life.

Risks associated with the Matilda Gold Project are rapidly reducing as PFS and DFS work together with ongoing drilling progresses. Redevelopment is fully funded and the target price is based on the completion of the DFS and Blackham Board approval to formally commence engineering work for recommencement of production. This is expected before March 2016

The Pre Feasibility Study demonstrates that re-commencement of gold production with a low capital cost refurbishment of the Wiluna Processing Facility can be achieved by Mid-2016

Resource drilling is ongoing. Recently announced results not in the PFS can increase the mine life by at least two years and allow a rescheduling of higher grade ore to even out planned production to over 100,000 per year.

BW expects that by the time production re-starts next year the mine life will be at close to ten years and growing.

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Matilda Project Background

Gold mining in the Wiluna district has a long history with three eras of production. Discovered in 1896 and worked until 1912, then reopened in 1931 and worked until 1945, producing a reported two million ounces, predominantly from the underground East and West Lodes.

Modern exploitation began in the 1980s with several owners through to 2014. During the early 2000s much of the ground surrounding the processing plant was split off into different ownership. This included the Matilda Mine and surrounding tenements together with the Williamson Mine in a package of 500km² of tenements purchased by Blackham in 2011. Then in 2014, Blackham purchased the Wiluna Processing Plant and immediately surrounding tenements from the liquidator of Apex Resources thus recombining the tenements for the first time in a decade.

The Wiluna Processing Facility (WPF) comprises a 1.3Mtpa processing plant with two milling circuits, one configured for oxide ore and one for harder underground ore together capable of at least 100kozpa gold production. The plant includes a Biox circuit for treating refractory ores. Also included is a gas power station with diesel backup, permitted borefields and infrastructure, a 350 person village, sealed airstrip and roads. Significant underground development and infrastructure is already in place as are operating approvals and licenses.

Matilda Gold Project PFS

Blackham's Matilda Gold Project covers 780km² of tenements surrounding the WPF and has a total Resource of 44Mt @3.3g/t gold for 4.7million ounces of gold. In December 2014, Blackham outlined a mineral inventory of 5Mt @ 2.8g/t for 454,000 ozs of free milling gold which is sufficient for the first four years of production. All the prospects being evaluated are within 20km of the WPF.

The PFS released on 21 October 2015 confirmed a low capital cost pathway to production based on a mining inventory of 6.0Mt at 2.8g/t gold for a total of 540,000 ounces. Sufficient for 4 years and nine months production the PFS demonstrated robust operation with rapid payback of the low capital requirement. The production schedule is conservative with Measured and Indicated Resources at the time of the study scheduled in the early years of the project and an average gold recovery through the mill at 86%. BW is of the view that since the August cut-off date for the PFS the drilling results announced can increase the mine life by two years and allow a rescheduling of higher grade ore to boost gold production in the early years.

Metallurgical work for the PFS has confirmed expected operating parameters for the oxide open pit ore and only minimal changes to the existing mill circuit are required. Blackham plans to add a gravity circuit to the capture free gold that should allow reduced reagent costs and leach times. An engineering review of the WGP estimates refurbishment capital at \$17.5 million, including a new gravity circuit and extension to the tailings dam. In addition \$11.6 million will be required for pre-production mining and working capital.

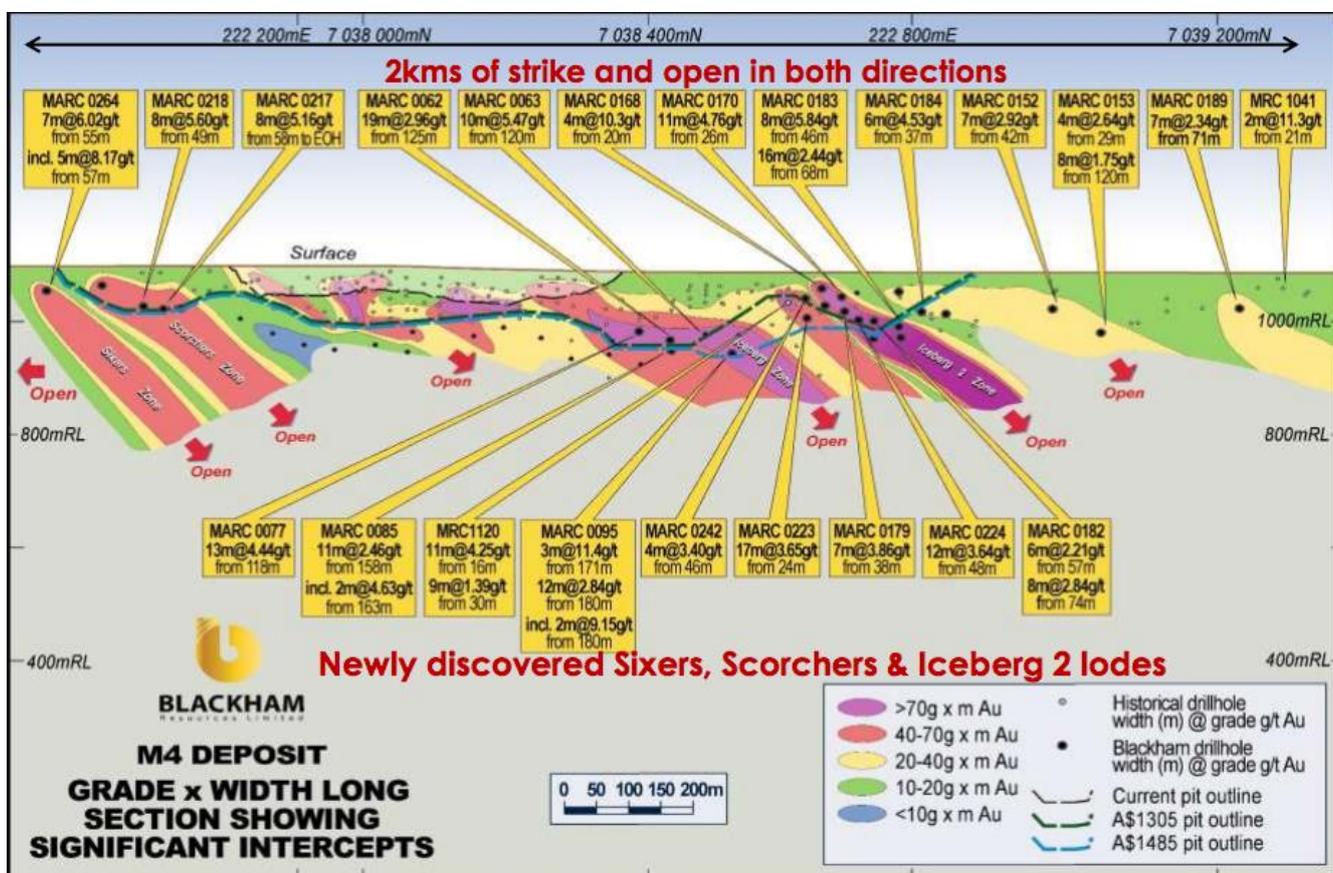
Production Schedule

The PFS was based on drilling up to August 2015. As the major drill program for 2015 only got underway in July 2015 the PFS mine schedule does not include the high grade intersections at Golden Age, Galaxy, mineralisation outside the pit design at Matilda and most recently the Williamson results. In BW's opinion these results will likely allow a re-scheduling of the mine schedule for the DFS to increase throughput in years two and three to in excess of 100,000 ozs of gold and extend the planned life an additional two years. Most importantly at Williamson the recently announced results (18 Nov 2015) suggest a much larger system that could materially increase the mine life providing low cost bulk feed to the mill.

The sections following summarises the impact of recently announced drilling results not included in the PFS that BW Equities believe will result in increased gold production and mine life.

Matilda Mine

Drilling at the Matilda Mine through 2015 has intersected new higher grade zones of gold mineralisation. Since the August cut-off date for inclusion in the PFS continued drilling success has included higher grade flat lying mineralisation in the M1 South pit floor, intersections in the currently planned M3 pit floor and flat lying supergene mineralisation in the Iceberg Lode outside the pit design at M4. In addition drilling has confirmed the high grade nature of the small M10 pit. These results were detailed in an announcement by the company on 7 October 2015 and will reduce stripping ratios and increase confidence levels resulting in an upgraded Resource at Matilda when the DFS is completed. Mineralisation at Matilda Mine is open in both directions along strike with higher grade plunging lodes likely to be repeated. Newly discovered lodes appear to have strong and predictable structural control and may allow underground production beyond the open pit life.



Galaxy

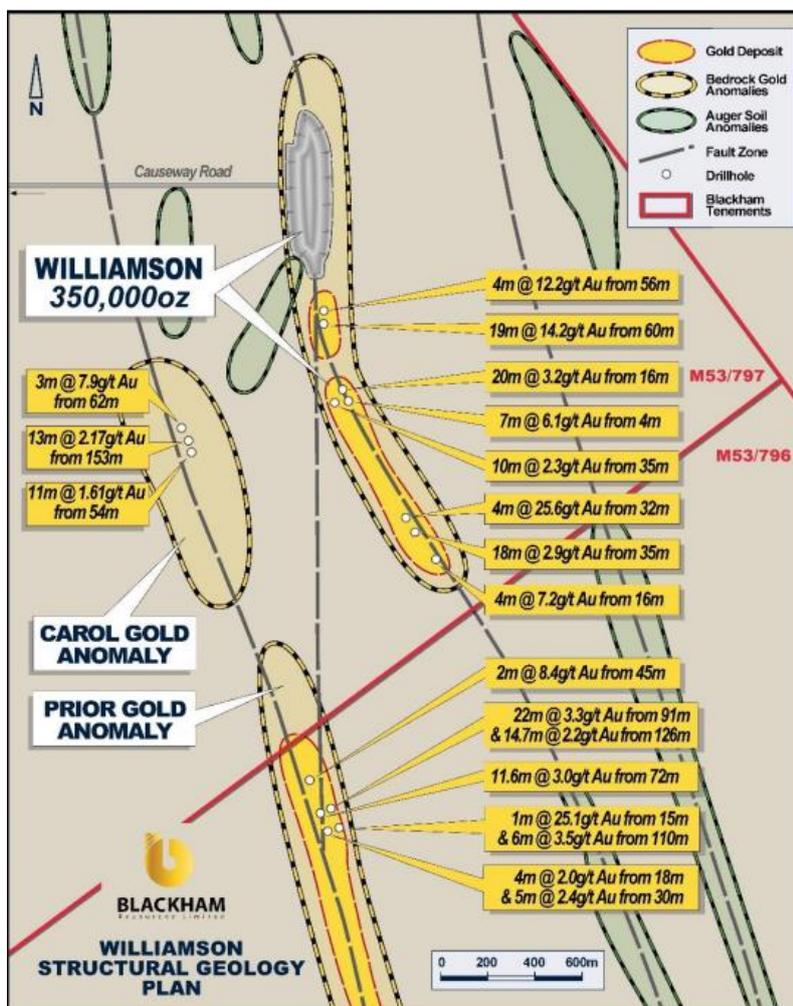
The northern most prospect in the Blackham tenements located 13km NNW from the WPF, Galaxy is interpreted to be the fault offset extension of the Golden Age/Republic/Brothers reef system. Completion of drilling for the DFS announced on 7 Nov 2015 identified higher grade mineralisation in the deeper north eastern portion of the optimised pit, including high grade mineralisation outside the PFS pit design. This will add modestly to the size of the Galaxy resource which is one of the high grade free milling sources to be mined early in the life of the project. Importantly between the WPF and Galaxy there are a number of quartz reef prospects that Blackham intends to drill.

Williamson Mine

Located some 20km south of the WPF, Williamson was developed and mined by Agincourt in 2005-2006. Williamson is part of a system that includes the Carroll and Prior prospects on parallel and linking structures. It is a wide lower grade structure with an existing free milling resource of 6.3 Mt @ 1.7g/t for 350koz of gold with potential to supply low cost open pit feed to the WPF.

Results from the recently completed 19 hole RC drill programme announced by Blackham on 18 Nov 2015 resulted in discovery of a new shallow high-grade zone of oxide mineralisation along the western (footwall) flank of Williamson (e.g. 2m @ 95.14g/t Au from 33m). This shallow newly discovered lode extends into the PFS pit design which is likely to increase the size of the mineable resource and improve the pit's economics. Only about 1 Mt of Williamson ore is currently scheduled into the mine plan, however, mineralisation is known to extend along the structure for at least 1.3km south of the pit and includes some high grade intersections, Blackham intend to drill out this area. Williamson is a major mineralised system that has potential to materially increase the mineable resource and ultimately support increased gold production

At the nearby Carroll and Prior, mineralisation has been identified over some 3km also comprising free milling multiple stacked gold lodes. Blackham has a target resource at Carroll and Prior of 230koz to 640koz.



Underground Mines

The pre-Feasibility Study sources ore from two underground mines, Golden Age and East West.

Blackham gained access to the **Golden Age** underground workings in June 2015 and undertook a very successful drilling program to both infill and extend the known mineralisation. Results included the bonanza grade intersection in GAUD0003 (Reported 10 August 2015) of 5.1m @ 198g/t gold from 173.1m, including 0.8m @ 1,148g/t gold. The results from the program suggest that the existing total resource will be extended at a higher grade to provide at least twice as much high grade free milling ore to that currently scheduled in the PFS.

East West has not been drilled by Blackham. It is fully developed and was previously mined by Apex Minerals. Mine workings are currently flooded, but this should not be an impediment to scheduling production from this source. However, BW anticipate that as other open pit sources are extended together with additional high grade from Golden Age and Galaxy then the importance of East West as an ore source in year three and year four of the current production schedule will be reduced.

Valuation

We base our valuation of Blackham on a Discounted Cash Flow (DCF) valuation in the context of comparable listed gold producers.

Although the DFS for the Matilda Gold Project is not yet complete the operating history at Wiluna and Blackham's work to date has reduced much of the risk compared to a greenfields gold project. We have applied the DCF approach on the assumption that Blackham meets its announced timetable and commences production in H2 2016 with a 6 year 9 month mine life – that is 2 years additional to the pre-feasibility study. We have used a USD gold price and exchange rate range around the current market values. On conversion this gives an average AUD gold price of \$1500/oz that has been used in the DCF model. Key parameters are:

Gold Price	US\$1050 -1125/oz
AUDUSD	0.70 – 0.75
Gold Price	A\$1500
Avg Annual Tonnes Ore mined and processed	1.2 -1.3mtpy 80% OP/20% UG
Avg Grade processed	2.7g/t gold
Avg Recovery	88%
7 yr total production	684kozs gold
Cash Cost C1	A\$1015/oz
All in Sustaining Cost AISC	A\$1130/oz
Capex (inc DFS drilling)	\$35m
Project Debt	\$36m
Project Equity*	\$7m
Average annual EBITDA	\$45m
Project 5 year NPV(8%)	\$208m
Unrisked Value per Share [#]	\$0.64
Valuation risked at 80%	\$0.50
*Project Equity (additional working capital) is assumed to be \$7million from in the money options exercisable at 30c or less and the convertible note priced at 18c per share. Value per share is on a fully diluted basis after conversion.	
[#] Value per share on expanded issued shares (see above) and after head office expenses and tax but assumes no existing tax shelter.	

Head grade, strip ratio, costs and capital are based on public information from Blackham and comparison with similar operations in WA. Discounted cash flow valuations prior to all production parameters being confirmed are by the nature of the assumptions somewhat subjective.

Valuation Summary

The valuation assumes that Blackham achieves its short term objective and reduces project risk by confirming the Resource upgrade, completing the DFS and commits to refurbishment of the Wiluna Processing Facility for a production start around mid-2016. BW expects that the equity market will recognise the achievement and move to value Blackham accordingly. As such we have a target risked share price of \$0.50 by early 2016 when the commitment to a time-table for refurbishment and production is made. With upside from that target as Blackham moves to a production start.

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