

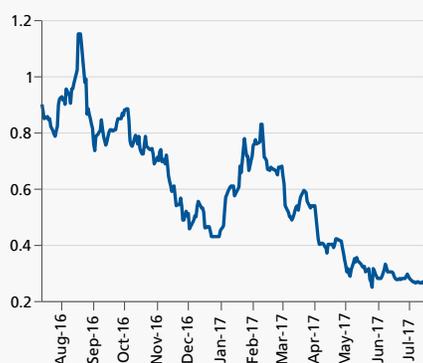
Australian Equity Research

16 July 2017

SPECULATIVE BUY

PRICE TARGET	A\$0.80
Price (13-Jul)	A\$0.23
Ticker	BLK-ASX

52-Week Range (A\$):	0.21 - 1.18
Avg Daily Vol (000s) :	2,222.34
Shares Out. (M) :	338.9
Market Cap (A\$M):	76.1
Dividend /Shr (AUc):	0.00
Dividend Yield (%) :	0.0



Source: FactSet

Priced as of close of business 13 July 2017

Blackham Resources (BLK:ASX) is developing the Matilda Gold Project in Western Australia. First gold pour is expected in the 2H 2016 with a significant resource base likely to support production of ~100kozpa for an initial 5 years.

Canaccord Genuity (Australia) Limited has received a fee as a Joint Lead Manager to the Blackham Resources Limited capital raising announced on 10 February 2017.

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Company Update

JunQ'17 production update

BLK has provided a JunQ'17 production update for its Wiluna operations. Disappointingly, the company has missed guidance for the Q (17-22koz), reporting production of 15.7koz (CG est. 17.8koz), up modestly from the MarQ'17 result of 14.9koz. No cost data has been reported; however, based on the results we expect AISC's to be ~A\$1880/oz for the Q. The company has flagged wet weather, wall slippages and lower than expected underground grades as the reasons for the miss. BLK has flagged a likely increase in grade profile going forward, which should see a transition to generating FCF from the SepQ'17.

Key results vs our expectations

- Total milled 416kt at 1.3g/t for 15.7koz (CG est. 400kt at 1.5g/t for 17.8koz), recoveries of 91.5% in line with our expectations.
- Open pit mining 397kt at 1.1g/t for 14.1koz (CG est. 350kt at 1.6g/t for 18koz), consisting of high grade (271kt of 1.28g/t) and low grade (125kt at 0.7g/t).
- Open pit strip ratio was 11.9:1 (CG est. 10.5:1)
- Underground mining 21.4kt at 4.6g/t for 3.2koz (CG est. 30kt at 4.5g/t for 4.4koz)
- We note that low grade stockpiles accounted for 25% of the mill feed during the Q.

Grade profile to improve over 1H FY18. BLK has indicated that it expects to access higher grade open pit ore in the M4 and Galaxy pits during the SepQ'17, which should see a commensurate improvement in production. Similarly, strip ratios are expected to reduce over the next 2 quarters, which is in line with our modelling and should result in a meaningful improvement in costs. We note that the project has a LOM strip ratio of 8:1, and it has been tracking at 13.8:1 YTD. Underground mine grades improved QoQ to 4.6g/t (3.4g/t MarQ'17); however, BLK struggled to get meaningful tonnage out of the Golden Age mine. The company has previously guided that it expects the underground to produce 4.5-5koz per Q, which is in line with our forecasts for the next 12 months.

Comprehensive JunQ'17 results to be released on 25 July 2017. Key data points to watch in the forthcoming JunQ'17 report will be AISC's for the operation (CG est. A \$1880) and cash balance (CG est. A\$28.7m down from A\$35m in the MarQ'17). BLK has current total debt (and accrued interest) of A\$39.1m, with repayment of a non-amortizing loan of A\$17m (includes interest) due by December 2017, and an amortizing (10% pa) project loan of A\$23m due by February 2019. We also expect the company to provide FY18 production guidance, which we currently forecast at 91koz at an AISC of A \$1245/oz.

Estimates, recommendation and price target unchanged. We will update our forecasts on receipt of the full JunQ'17 results and FY18 guidance. As such, we retain a SPEC BUY recommendation with an A\$0.80/sh price target (unchanged).

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Investment Recommendation

Date and time of first dissemination: July 16, 2017, 22:58 ET

Date and time of production: July 16, 2017, 22:58 ET

Target Price / Valuation Methodology:

Blackham Resources Limited - BLK

We base our valuation on a DCF analysis (NPV5%) of the Matilda gold project.

Risks to achieving Target Price / Valuation:

Blackham Resources Limited - BLK

Funding risk

- As stated in the Corporate and Finance section of this report, we view any significant delays or cost over runs may see the company need to access additional capital. While this does present some funding risk, considering the low level of gearing, we see no impediment to BLK accessing additional funding via an extension to the existing facility or through a new debt arrangements. Further, we can make no assurances that accessing capital won't be done without further dilution to shareholders.

Exploration risks

- Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of Inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

- Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, scheduling and other technical issues. Any increase in costs from those outlines in the PFS could reduce the profitability and free cash generation from the operating assets considerably and negatively impact our valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which could also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

- As with any mining company, BLK is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 07/16/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	579	60.50%	40.24%
Hold	275	28.74%	21.45%
Sell	25	2.61%	12.00%
Speculative Buy	78	8.15%	71.79%
	957*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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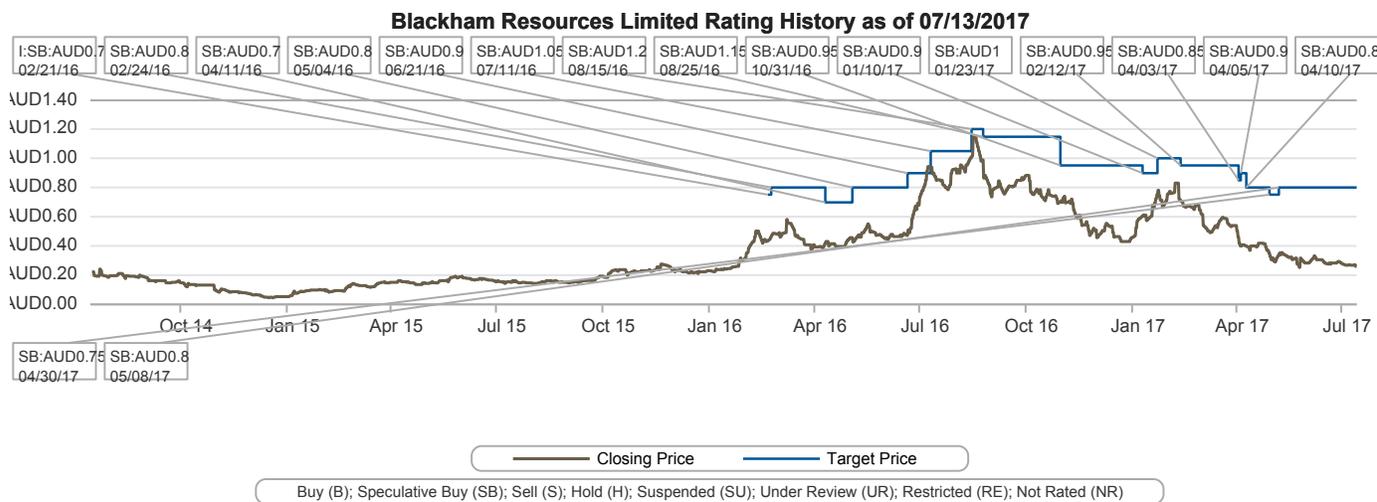
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