



**Breakaway
Research**

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Company Information

ASX Code	BLK
Share Price	A\$0.23
Ord Shares	76.4m
Options	7.8m
Estimated MCAP	A\$17.6m
Cash	A\$2.3m
Total Debt	-
Enterprise Value	15.3m

Directors

Non Exec Chairman	Joseph Gutnick
Managing Director	Bryan Dixon
Executive Director	Greg Miles
Executive Director	Alan Thom
Non-Executive Director	Brett Smith

Substantial Share Holders

Great Central Gold	14.4%
HSBC	11.2%
Kingsreef Pty Ltd	9.5%
Wilderange.	3.5%

Company Details

Address	Level 2, 38 Richardson Street West Perth WA 6005
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Web	www.blackhamresources.com.au

1 Year Price Chart



Source: Bloomberg

Blackham Resources (BLK)

Matilda Gold Project fully funded to add value

Recommendation: Speculative BUY

Company Update

Key Points

- **Resource upgrade to 24.5Mt @ 1.9g/t Au for ~1.5Moz gold**
- **\$13.3M funding agreement with Great Central Gold (GCG)**
- **GCG is controlled by mining entrepreneur Joseph Gutnick**
- **Metallurgical test work indicates 93% recovery rate achievable**
- **Scoping study reveals robust project economics**
- **30,000m drill programme commenced**
- **Exploration potential from high-grade ore shoots below open pits**
- **Low enterprise value of \$10.20 per resource oz**

The 500km² Matilda Gold Project (MGP) has been very fertile for discovering new gold resources, proving the adage that the best place to explore is close to old mine workings. To date, the discovery and acquisition cost is ~\$4.00/oz and with a 30,000m drilling programme underway, further resource upgrades are likely. Since acquisition in late 2011, the global resource for MGP has increased 384% to 24.5Mt @ 1.9g/t for ~1.5Moz gold. A recently agreed funding agreement with GCG provides the necessary capital to complete exploration and feasibility studies. A near term production opportunity exists should BLK reach an agreement to treat their ore through Apex Minerals' Wiluna Gold Processing Plant (WGP).

Investment Thesis

Blackham Resources (ASX: BLK) has the key attributes required for successful transition from explorer to developer; these are a large resource base capable of supporting a dedicated treatment plant, strong potential to increase resources to sustain a long mine life, modest operating costs, initial funding to develop a mine, and relatively low market valuation.

Mining would start with development of the Wiluna open pits. A low CAPEX option of \$10.2M involves toll-treating ore through the Wiluna Gold Plant ("WGP"). This would entail mining and processing 2.45Mt of ore, over ~4 years, for a total of 150,000 ounces. The cash cost for toll treatment at WGP is estimated at \$1,029/oz. Under these assumptions the estimated NPV using a gold price of \$1,700/oz is \$52M, with a payback period of 7 months.

A second development option being considered is construction of a 1.2Mtpa plant at the Matilda site. Exploration is extending and finding new high-grade ore shoots with potential for a long mine life.

Company Update

Matilda Gold Project

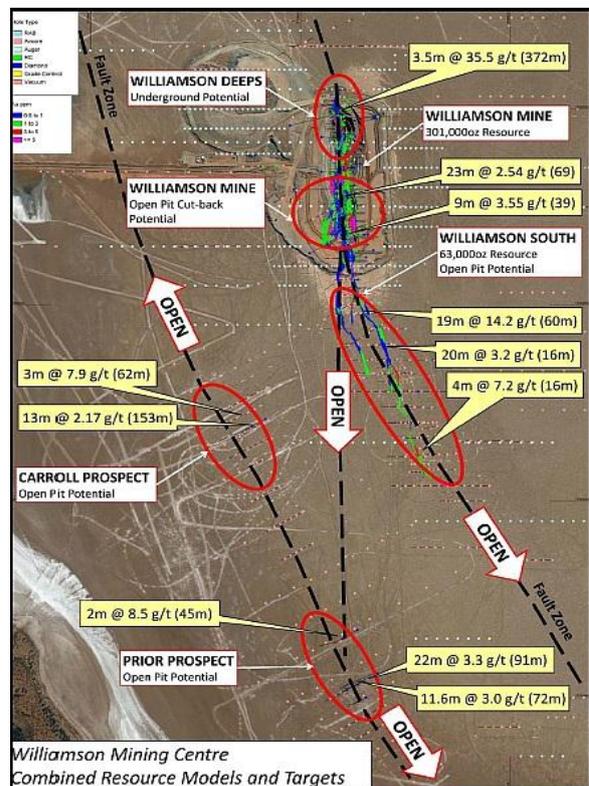
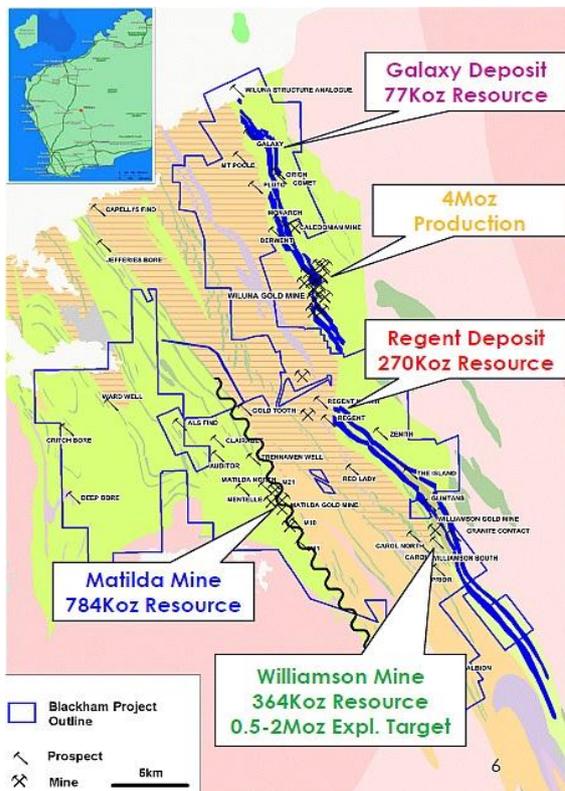
Potential for 75,000oz p.a. from a 1.2Mtpa processing plant.

Breakaway believes that one of the outstanding aspects of the Matilda Gold Project is the speed at which Blackham has been able to increase the JORC Compliant Resource to 24.5Mt @1.9G/t Au for 1.5Moz. All of the company's gold resources are within 10km of the Matilda Mine or within 20km of WGP.

The current Scoping Study is investigating the construction of a dedicated mill with 0.85Mtpa throughput rate and which could be expanded to 1.2Mtpa. This higher throughput would target gold production rates around 75,000oz p.a. However, the study does not include the likely upward revision to the resource base stemming from the recent drill results. Breakaway is confident that resources will attain a level to justify a processing plant on site.

Figure 1: Cluster of deposits with parallel structures and 50km of strike length offers plenty of potential to discover additional resources to sustain a long

Figure2: The Williamson Resource is part of a very large system with potential for a very large Increase in JORC Resources.



Historical drilling was mainly shallow. Deeper drilling is producing very encouraging results.

Figure 1 shows the cluster deposits over a strike length of 50kms. Key points to note are the parallel structures and the location of the Wiluna Gold Mine which has historical production of four million ounces. Over 1,000 drill holes were drilled in vicinity of the Williamson Mine, but most of the drill holes were shallow, yet only 18km along strike 6 million ounces of gold was discovered at the Wiluna Gold Mine. Drill results reported in the December 2012 Quarterly Report were very encouraging as have been the results of metallurgical test work, all of which support a robust project.



Recent drill intercepts include 10m at 5.47 g/t from 120m and 5m at 5.3 g/t from 125m. Figure 2 shows prospectivity of the Williamson Mining Centre.

At the Matilda Mine, recent drilling extended the down dip extension of high-grade ore shoots by 50 metres. It is significant that many holes from the recent drilling programme returned thicker and higher grade intercepts than were obtained by previous explorers. Part of the reason for this was that historical drilling was too shallow to find high-grade lodes. At the M1 Deposit shown in Figure 3, drilling has defined thick, continuous zones of mineralisation where down-plunge drill intercepts of 13m at 6.59 g/t, 12m at 5.71 g/t and 13m at 6.76 g/t were recorded from the Central and Western Lodes. A follow-up drilling programme will test high-grade lodes at M1 and M4. Other exploration results of notable interest are from the Williamson Mine (Figures 2 & 4), where there is significant potential for positive surprises.

High-grade lodes intersected down-plunge at the M1 Deposit.

Potentially a large 2M ounce target within the Williamson project area.

The Williamson Region hosts as a very large system. The exploration target is 0.5-2.0 million ounces. The Williamson Resource currently stands at 364,000 ounces. Further drilling will probe extensions to high-grade lodes (Figure 4) and increase the confidence level from inferred resources to higher JORC status.

Figure 3: Matilda Deposits & Multiple Targets

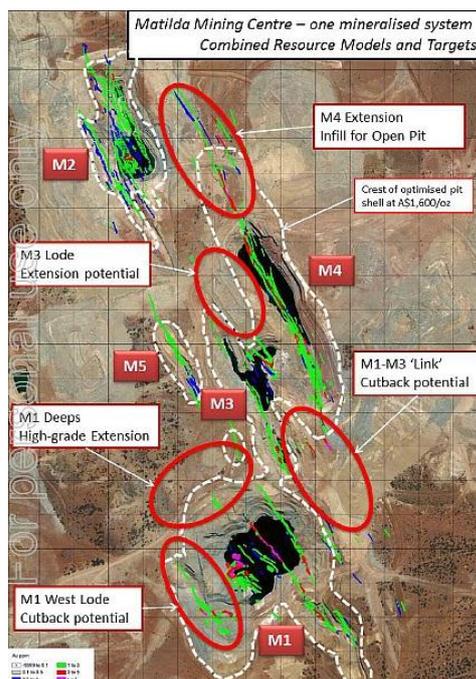
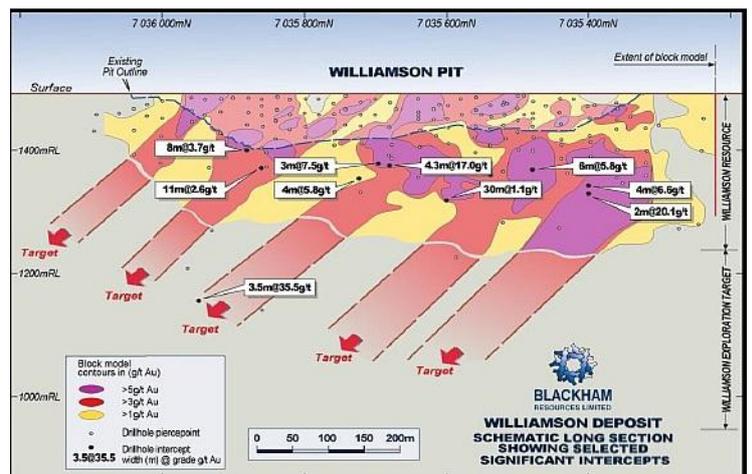


Figure 4: Long-term potential from underground mining of high-grade ore shoots below the Williamson Pit



It is noteworthy that at the Wiluna Gold Mine, 4Moz of gold occurred below 100 metres depth with known mineralisation extending to at least 1,000m depth. The average depth of the Williamson Pit is only 80 metres. Historical production from this mine was 664,000t at 1.98g/t for 42,000oz of contained gold. BLK has confirmed an Inferred Resource of 301,000oz below the pit floor. One drill hole outside the current resource intersected 3.5m at 35.5g/t gold from 372m, believed to be one of the high-grade lodes previously identified, but which is not yet included in the resource model.

Drilling at Williamson Deposit confirmed a high-grade shoot with an intersection of 3.5m at 35.5 g/t gold.



Good gold recovery of 93% overall with very high 99% recovery from oxide ore.

Metallurgical test work supports a standard metallurgical circuit.

Positive Scoping Study shows a robust project.

Cash operating costs are below global average.

Blackham Resources is undervalued awaiting a trigger point for a significant upward re-rating of the company's share price...

Metallurgical Test Work

BLK recently announced the results from metallurgical test work completed from using 616 metres of diamond core. The results were extremely pleasing with a big increase in recovery compared with earlier studies. Using a combination of a standard gravity circuit and CIL circuit, the overall gold recovery was 93%. Gold recovery from oxide ore of 99% is very high. Recovery falls to 91% for transitional ore and to 86% for primary sulphide ore.

The importance of the recent results is to show that the Matilda Project is economic using standard metallurgical circuits. Using the revised metallurgical recoveries, a 1.2Mtpa processing plant in combination with a head grade of 2.1 g/t and a recovery of 92.8%, yields annual gold recovery of 74,900 ounces.

The next step is for a feasibility study to be completed, incorporating the two pathways to production, toll treating and onsite processing plant.

Matilda Project Scoping Study

The results of a Scoping Study released last November were very encouraging indicating a robust project. In this study, the first four years is 2.45M tonnes with a head grade 2.11 g/t to produce 150,000 ounces or 37,500 ounces per annum. The financial metrics were calculated using a gold price of US\$1,700 per ounce and an \$A/US\$ exchange rate of 1.02.

The key operating assumption is that ore is toll treated through Apex Minerals' Wiluna facility. Apex does have excess capacity at its mill and is in the process of a strategic review, which includes discussions with potential suppliers of ore in the region. The low CAPEX involved in toll treatment combined with contract mining, resulted in a NPV of \$52M with a very high IRR of 300%.

The operating cost for contract mining and toll treatment is estimated at \$64 per tonne, versus \$58 per tonne with ore treated at an onsite plant at the Matilda Mine. In terms of cash operating costs, the cash cost for toll treatment is \$1,039 per ounce, and \$942 per ounce from own facility. In both instances, the projected cash costs are below world average.

Valuation

The current valuation that the market ascribes to gold developers exhibits wide variation. In terms of Enterprise Value per gold equivalent resource ounce, the market average is around US\$25 per ounce. It is noticeable that this valuation increases three to four times for gold producers. In the current market BLK is only being valued at around A\$10.20 per ounce on an Enterprise Value per resource ounce basis. BLK is a cheap entry into an emerging gold producer where global gold resources are only constrained by drilling. The trigger points for a revaluation will be further exploration success and a potential toll treatment deal with Apex Minerals, - that latter appearing likely from public statements made by Apex CEO Mr Eduard Eshuys. The key issues will be how the deal is structured.



Project Funding

Great Central Mines commits \$13.32M towards development of a mine and fund exploration.

At the end of December Quarter 2012, the company had low cash reserves at \$173,000. The funding situation was transformed, when Great Central Mines (GCG) led by mining entrepreneur Joseph Gutnick, stepped forward as a White Knight with a funding commitment of \$13.32M. In return for financial assistance, Joseph Gutnick was appointed Non-Executive Chairman of Blackham Resources. This funding deal is a validation of the exploration success at the Matilda project last year but had not been priced the market due to the company's low cash reserves at that time.

Great Central Mines pays a big premium for its investment in BLK.

The financing deal struck with GCG has two components. The first component is a share placement of 15.79 million shares to GCG at a price of \$0.21 per share, which was at a 37% premium to market at the time. Most of the shares have been placed and BLK has already received \$2.6M, with balance requiring shareholder approval. When the placement is completed, GCG will hold 19.8% of BLK. This gives GCG a platform from which to launch a bid if BLK continues to be mispriced in the market.

The second component is a \$10M convertible note issue. The notes were issued at \$0.25 each, and when exercised, convert to one ordinary share per note. It is important to recognise that the issue price of notes was at a 63% premium to the share price at the time. The notes are being issued to GCG in two tranches. The notes have a term of five years and carry 8% pa interest payable half yearly.

Joseph Gutnick believes that BLK is undervalued and has paid a significant premium to market to position GCG in a gold developer with a resource base that is only constrained by the limited amount of drilling that has been carried out. The 30,000-metre drilling programme that is currently underway is aimed at extending known mineralisation and increasing the confidence level of known resources. This programme will most certainly produce significant results and increase the resource base. GCG's timing to invest may prove impeccable.



Analyst Verification

We, Grant Craighead and Nick Raffan, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may hold direct and indirect shares in the Blackham Resources. It has also received a commission on the preparation of this research note.

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