

Briggs ready to rig up

Canterbury Resources Limited (ASX:CBY) is a junior minerals explorer established in 2011, listed in 2019 and assessing large-scale copper-gold plays in the south-west Pacific region. The company has a number of active projects in PNG and Queensland. As highlighted in our note of 23-Aug, a return to drilling at the Briggs Project is now imminent with Africa Energy Resources (ASX:AFR) to fund a 3,000m RC drilling campaign focusing on the higher-grade central porphyry zone. The aim of the campaign is to progress Briggs to scoping study stage by perhaps mid-2022. We see this as a critical path item to deliver potentially material value accretion. With multiple drill-ready opportunities, the period FY22-FY23 could see tangible progress on resource definition and partnering across the portfolio. Through high working interests, the company has strong leverage to success. The increasing global demand for metals, particularly copper, should provide ready financing options in a post-COVID, growth economy.

Business Model

Canterbury is a junior minerals explorer established with the aim of generating early-stage opportunities for Cu-Au in the south-west Pacific region including northern Australia. The strategy is to identify tier-one exploration opportunities, define the commercial opportunity and seek partnerships to provide funding at the project level. The Briggs funding and partnering agreement can be considered the template for implementing this strategy and catalysing evaluation activity. Working assets is the critical path to value accretion, particularly in the current bullish copper market.

Set for a big quarter... Briggs drilling poised to commence

Canterbury has indicated the Africa Energy Resources (ASX:AFR) funded drilling campaign at the Briggs copper project is set to commence. Totalling some 3,000m over ~12 holes, the work programme should take about one month to complete, potentially delivering a material expansion and high-grading of the current resource attribution of 142.8Mt @ 0.29%. Drilling results and sampling results could underpin the commencement of a scoping study by perhaps mid-2022.

Valuation – a marginal upgrade

We model a risked NAV of A\$52mn (A\$0.43/share at the mid-point) to the portfolio against a **reference share price of A\$0.098/share**. It's worth highlighting that our valuation benchmarks and weightings are subject to significant change through exploration and evaluation activity. Positive drilling results at Briggs could materially enhance and upgrade the economic potential of the project, providing a mechanism to close the current discount and reset the share price base. We suggest that CBY represents an undervalued play, with significantly strong upside as a copper opportunity given the leverage of the portfolio to the metal via the Briggs asset in Queensland. The next 12-24 months could deliver transformational upside based on material increases and upgrades to existing resources across the portfolio.

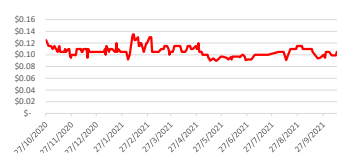
Mining & Exploration

26th October 2021

Share details

ASX code	CBY
Share price (25 Oct)	\$0.10
Market capitalisation	\$11.8M
Shares on issue	120M
Cash (as at 30-Sep)	\$1.13M
Free float	~38%

Share Performance (12 months)



Upside Case

- Partnering options can be secured more rapidly and on better terms than expected
- Drilling results exceed expectations, particularly with respect to increasing the resource tonnages and grades
- Successful outcomes catalyse accelerated pre-development options

Downside Case

- Delays in securing partners also defers next phase evaluation and growth options
- Drilling results in particular fail to meet expectations
- COVID issues continue to negatively impact the timing and resumption of in-field activities

Board of Directors

Grant Craighead	Managing Director/CEO
John Anderson	Chairman
Michael Erceg	Executive Director
Ross Moller	Non-Executive Director
Robin Watts	Non-Executive Director

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Set for a big finish to 2021

Whilst there was only limited field activity through the September quarter, corporately the company put in place a significant and strong deal to underpin the Briggs copper project. Africa Energy Resources (ASX:AFR) will fund Briggs work programmes for up to \$16mn to earn a 70% interest, on a staged basis out to Jul-2031. Critically, the drilling campaign about to commence could see the project enter a feasibility stage by mid-2022.

The company ends the review period with a healthy cash position (~\$1.13mn) to complement its financial carries at Briggs and Bismarck.

Exhibit 1: September quarter highlights and comments

Exploration and evaluation

<p>Briggs – CBY 100%</p> <p><i>Drilling is set to commence with the aim of the activity being to progress Briggs to a scoping study stage by perhaps mid-2022. A 'success case' should deliver a material expansion and high-grading of the current resource attribution of 142.8Mt @ 0.29%.</i></p>	<p>A binding term sheet with Africa Energy Resources (ASX:AFR) was executed with AFR to solely fund \$0.75mn of exploration capex before 31/07/23 as a precursor to beginning the earn-in phase. Through the earn-in phase AFR will have the right to assume up to a 70% JV interest for spending \$15.25mn over nine years, on a staged basis (to 31/07/31).</p> <p>Option phase activity is set to commence imminently with a 3,000m RC drilling campaign, which is expected to comprise around 12 holes across the central porphyry where higher grades have been encountered (Refer RaaS note – 23 Aug). The campaign is expected to take approximately one month to complete.</p> <p>In parallel, a soil sampling programme will be conducted over the northern, central and southern porphyry zones.</p>
<p>Wamum and Ekuti Range – CBY 100%</p> <p><i>In our scoping report (May-2021) we noted the "...company is seeking a partner to fund the next stage of work at Wamum in particular a "resource definition drilling and scoping study proposal" over 15-18 months.</i></p>	<p>Ekuti Range - No field activity was undertaken through the review period with planning under way for a soil sampling programme over potential north-west extensions of the Otibanda and Waikanda lodes.</p> <p>Samples from the Idzan Creek and Wamum Creek deposits were subject to preliminary metallurgical testing, with encouraging metal recovery results from conventional processing methods.</p> <p>A "...high-level evaluation of a potential stand-alone operation" has commenced and will consider both open-cut and underground options.</p> <p>Exploration opportunities continue to be considered.</p>
<p>Bismarck – CBY 40%</p> <p><i>Rio Tinto Exploration (PNG) Limited holds a 60% JV interest with the conditional option to increase to 80%.</i></p>	<p>The company successfully completed a clay sampling programme aimed at "...extending the surface mineral mapping of the lithocap zone".</p> <p>Interpretation of the results will underpin the planning for the next drilling phase.</p>
<h4>Corporate</h4>	
<p>The Briggs deal provided additional working capital</p> <p><i>Major works at Briggs and Bismarck are fully funded through financial carries.</i></p>	<p>AFR has agreed to subscribe to 8.33mn new shares in CBY at 12cps, providing c.\$1.0mn of working capital as noted in the quarterly cashflow statements. AFR has also been granted 3mn share options exercisable at 24cps, expiring on 31/12/23.</p>
<p>The 'Peenam' acquisition remains on track</p>	<p>CBY has signed a binding term sheet for the acquisition of an application area (EPM 27756) – the Peenam Project – through the purchase of the holding company Neillkins Pty Ltd.</p> <p>CBY considers the application area to be prospective for potentially large-scale Cu-Au porphyry deposits based on its evaluation of available physical and geophysical data. Due diligence will be completed once the tenement has been granted.</p>
<p>Cash position as at 30-Sept remains robust</p>	<p>CBY holds a cash balance of ~\$1.1mn against a 3Q operating cost of \$0.33mn. Exploration expenditure for the period was ~\$126k.</p>

Source: Company data; RaaS commentary

Exhibit 2: Financial Summary

CANTERBURY RESOURCES				CBY			
YEAR END		Jun					
NAV	A\$	\$0.43 at the mid-point					
SHARE PRICE	A\$	\$0.10					
MARKET CAP	A\$M	11.8					
ORDINARY SHARES	M	120.2					
OPTIONS	M	5.4					
COMMODITY ASSUMPTIONS		FY20	FY21	FY22f	FY23f	2024f	
Gold			1,819	1,773	1,778	1,799	
Copper			4.51	4.23	4.17	4.11	
AUD			0.7474	0.7289	0.7273	0.7264	
RATIO ANALYSIS		FY20	FY21	FY22f	FY23f	2024f	
Shares Outstanding	M	87	120	123	123	123	
EPS (pre sig items)	A\$ cps	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)	
EPS (post sig items)	A\$ cps	(0.01)					
PER (pre sig items)	x						
OCFPS	A\$ cps	(0.01)	(0.01)	(0.01)	0.00	(0.00)	
CFR	x						
DPS	A\$ cps						
Dividend Yield	%						
BVPS	A\$ cps					9.6	
Price/Book	x					0.0x	
ROE	%					-3%	
ROA	%					-2%	
(Trailing) Debt/Cash	x						
Interest Cover	x						
Gross Profit/share	A\$ cps						
EBITDAX	A\$M	156	104	450	1,150	54,515	
EBITDAX Ratio	%						
EARNINGS		A\$000s	FY20	FY21	FY22f	FY23f	2024f
Revenue			6				
Cost of sales			0				
Gross Profit			6	0	0	0	0
Other revenue							
Other income			161	104	450	1,150	900
Exploration written off							
Finance costs			(3)	(1)	(15)	(15)	(15)
Impairment			(403)	(569)			
Other expenses			(1,050)	(1,220)	(1,182)	(1,181)	(1,181)
EBIT			(1,297)	(1,310)	(732)	(31)	(280)
Profit before tax			(1,288)	(1,312)	(747)	(46)	(295)
Taxes							
NPAT Reported			(1,288)	(1,312)	(747)	(46)	(295)
Underlying Adjustments			406				
NPAT Underlying			(882)	(1,312)	(747)	(46)	(295)
CASHFLOW		A\$000s	FY20	FY21	FY22f	FY23f	2024f
Operational Cash Flow			(877)	(792)	(652)	50	(200)
Net Interest			13	(23)	(15)	(15)	(15)
Taxes Paid							
Other							
Net Operating Cashflow			(864)	(815)	(667)	35	(215)
Exploration			(3,069)	(1,049)	(302)	(150)	(150)
PP&E							
Development							
Net Asset Sales/other			(18)				
Net Investing Cashflow			(3,087)	(1,049)	(302)	(150)	(150)
Dividends Paid							
Net Debt Drawdown			(14)				
Equity Issues/(Buyback)			1,122	2,372	1,000	0	0
Other			50				
Net Financing Cashflow			1,158	2,358	1,000	0	0
Net Change in Cash			(2,793)	494	31	(115)	(365)
BALANCE SHEET		A\$000s	FY20	FY21	FY22f	FY23f	2024f
Cash & Equivalents			68	546	573	458	93
PP&E			35	52	28	0	0
Exploration & Development			8,164	8,171	8,473	8,623	8,773
Total Assets			11,269	11,898	12,311	12,515	12,221
Debt			22	34	10	10	10
Total Liabilities			699	230	210	460	460
Total Net Assets/Equity			10,570	11,668	12,101	12,055	11,761
Net Cash/(Debt)			46	512	563	448	83
Gearing (dn/(dn+e))			na	na	na	na	na

nm = not meaningful

na = not applicable

priced intraday

25-Oct

PRODUCTION	FY20	FY21	FY22f	FY23f	2024f
Product					

TOTAL

Ave Unit Production Cost

Ave Unit Revenue

Operating Margin

RESERVES & RESOURCES

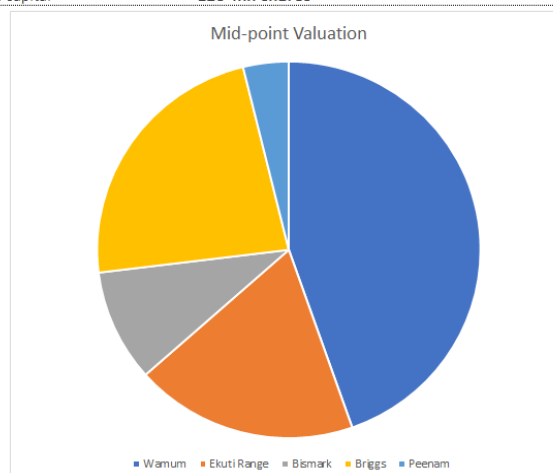
	Indicated			Inferred		
	Mt	Au g/t	Cu %	Mt	Au g/t	Cu %
Idzan creek				137.3	0.53	0.24%
Wamum Creek				141.5	0.18	0.31%
Briggs				142.8		0.29%
Au				278.8	0.35	
Cu				421.6		0.28%

Contained Metal

	Koz	Kt
Idzan creek	2,340	330
Wamum Creek	819	439
Briggs		414
Au	3,158	
Cu		1,182

EQUITY VALUATION

	A\$M			Acps		
	Low	Mid	High	Low	Mid	High
PNG						
Wamum	\$15	\$23	\$31	\$0.12	\$0.19	\$0.26
Ekuti Range	\$9	\$10	\$12	\$0.08	\$0.08	\$0.10
Bismark	\$5	\$5	\$5	\$0.04	\$0.04	\$0.04
Qld						
Briggs	\$10	\$12	\$23	\$0.08	\$0.10	\$0.19
Peenam	\$2	\$2	\$2	\$0.02	\$0.02	\$0.02
Net Cash/(debt)		\$2				
Corporate costs		(\$2)				
	\$41	\$52	\$72	\$0.34	\$0.43	\$0.60
Issued capital	120 mn shares					



Source: RaaS estimates, company data

FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

Effective Date: 6th May 2021

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- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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