

BGFEquities Gold Sector Analysis

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BCD Resources BCD

Update for Company Presentation

Improved mining methods to cut costs \$100-200/oz in 2010

Share Price	\$0.115	-4% disc. (prem.) to valuation
Valuation	\$0.12	based on US\$1115/oz, A\$0.89
12 Mth High/Low	\$0.10 - \$0.21	
Market Cap'n	\$47m	
ASX Listed Shares	412.0	million ord.
Unlisted Opt/Ctg	16.0	mill. various
Cash Balance	\$8.2m	(30/09/09)
Debt	\$0.00m	
Largest Shareholders	Malaysia Smelting Corp. 22.1%	
	Nefco Nominees Pty Ltd 3.0%	
	Drysdale Metals Pty Ltd 2.8%	

Investment Perspective: BCD Resources (formerly Beaconsfield Gold), is emerging from a period of convalescence. The Company is undergoing a re-branding now that the effects of the infamous seismic event in 2006 are now history and its focus has shifted to optimising production methods.

The Tasmania Mine is one of the higher cost operations in the country, with cash costs recently around \$1,000/oz. To counter to this BCD is introducing a new stoping method in Q1 2010, which could reduce cash costs by up to \$200/oz. As benefits of these initiatives will not be reflected in operating results until the second quarter of 2010, margins will remain tight in the short term. The Tasmania orebody can sometimes provide higher grade pods and it is these that may provide the boost to production figures that the Company needs. These cannot be predicted however, and fortunes cannot be pinned to them.

The overriding issue for underground mines such as the Tasmania Mine is that of mine life. It is impractical to develop resources to the level of reserve status due to the capital and geometrical constraints of narrow underground mines. Thus they are always criticised for "having a short life". This issue is perennial.

In BCD's case, exploration drilling is targeting a potential 3-4 more years of production at current rates but there seems nothing on the horizon that points to anything more than incremental gold.

Also weighing heavily on the Company's stock price is the overhang created by BCD's major shareholder, Malaysia Smelting Corp. After purchasing 22% of the Company in 2008, the Group is now looking to offload its holding through an orderly sale process. BCD are optimistic that this divestment decision may be reconsidered, but only time and financial performance will tell.

BCD is working hard to change its image but a name change doesn't do the trick. It needs to be seen to be taking initiatives that point to material growth, from new opportunities, if it is to have any chance of a re-rating in the market. Unless this happens its appeal will be restricted to



private client-type investors that have an affinity with the Company, while share price performance will be dictated by quarterly mine performance and gold price movements. The Company's shares are currently trading at a 4% discount to our valuation of \$0.12. This is not sufficiently cheap to give it a buy rating. We continue to see better opportunities with companies with larger production profiles, lower costs and better growth prospects (though we do acknowledge that higher cost producers offer the greatest leverage to a rising gold price).

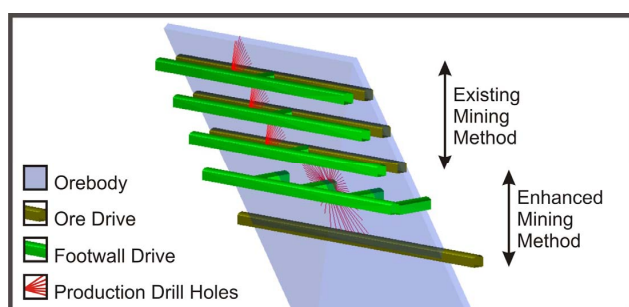
Company Update (09.12.09)

BCD's Tasmania Mine operations performed according to our expectations during the past 12 months. The Company produced 70,178 oz during 2008/09 at a cost of \$934/oz, making this one of Australia's highest cost producers.

BCD has recognised that its mining method has been missing some of the higher grade ore on the contact of the hanging wall in some places, and in others places it has been suffering from greater hanging wall dilution than necessary. In response it has designed a new mining method which involves development drilling parallel to the hanging wall rather than perpendicular drilling. This has been successfully trialled and will be progressively implemented from March 2010.

Not only will this address the problems identified above, but the position of the development drive 12m away in the footwall, rather than 6m from the orebody, will provide better ground stability and greater flexibility in stope development. Block development could be reduced by 60% and production drilling can be reduced by 25%. All up BCD believes that it could cut cash costs by \$100-200/oz.

Other initiatives to extract the most from the mine include mining the crown pillar, a 20m thick zone containing 30,000 oz. It will resume narrow vein mining in the Eastern areas, employing tribute miners using airleg equipment.



New mining method schematic - Tasmania Mine

Source: BCD Resources

The real issue however, is the mine life. The Company is also targeting a doubling of current mine life, where drilling is focussing on untested strike extensions and potential high grade pods within the main orebody. As at December 31 2008, total reserves stood at 265,000 oz (excluding mine depletion) from total resources of 416,000 oz. The Company indicated that a revised estimate could be expected in October 2010, where an additional 300,000 oz from current drilling may be added, but accounting for mine depletion between now and then may see a reserve base of only 200,000 to 220,000 - still only 2-3 years of life.

On a regional exploration basis, BCD is looking for repeats of the Tasmania Reef, while the nearby 30,000 oz Lefroy deposit may pose as a potential source of additional mill feed.

Stavelly Copper Project, Victoria:

BCD have recently restarted drilling at its Stavelly copper project where grades encountered to date indicate potential for further resources. Existing resources are shallow (within 80 of surface) and could be amenable to an open pit mining scenario. The Company is currently evaluating alternative strategies may see this project spun out into a new IPO or JV'd to realise value.

Sep Qtly Report (30/10/09)

BCD's September quarter results were largely flat versus the June quarter. Despite a 5% drop in head feed grade as a result of development ore being fed through the plant, total gold produced was essentially unchanged due mainly to increased mining volumes.

Production costs remained high in the quarter at \$998 per oz, although it is important to note that the capital cost component of this fell 72%. BCD has attributed this to the

Quarterly Comparisons		Dec Qtr	Mar Qtr	Jun Qtr	Sep Qtr	% Chg
Ore Hoisted	t	64,660	61,513	78,652	85,215	8%
Ore Treated	t	65,762	61,241	76,019	78,684	4%
Head Grade	gpt	7.90	9.80	7.90	7.50	-5%
Recovery		90.2%	95.4%	85.2%	86.4%	1%
Gold Prod.	oz	15,143	18,340	16,414	16,375	-0%
Cash Costs	A\$/oz	\$1,134	\$874	\$1,022	\$998	-2%
Capital Costs	A\$/oz	N/A	\$71	\$115	\$32	-72%
Gold Price	A\$/oz	\$1,189	\$1,379	\$1,211	\$1,153	-5%
Cash Margin		5%	58%	18%	16%	11%
Cash Balance	A\$m	\$7.3m	\$7.9m	\$6.2m	\$5.1m	-18%

completion of mine infrastructure such as a new ventilation circuit and tailings dam, during the period.

Cash margins fell slightly to 16% during the quarter making this mine an almost marginal operation at these current levels.

Full Year 2008-9 Financials (29/09/09)

BCD Resources made some improvement in the June '09 half with an 18% increase in revenues. Gold production remained flat versus the Dec '08 half, but, the company returned to profitably announcing an after tax profit of \$11.4m.

Half Year Comparisons	Jun H '08	Dec H '08	Jun H '09	Chg
Revenue	\$20m	\$39.2m	\$46.1m	18%
EBITDA	-\$8.4m	\$3.2m	\$12m	275%
NPAT	-\$20.8m	-\$2.3m	\$11.4m	596%
EPS	-5.2c	-0.6c	2.9c	
PE (annualized)	-47.1x	-426.1x	86x	
Dividend	0c	0c	0c	0%
Gold Prod'n oz	20,727	35,424	34,754	-2%

Company Guidance

BCD produced just over 70,000 oz for financial year 2008/09, well below their original guidance of 80-90,000 oz. At current rates, BCD will be likely to produce around 65,000 oz for the current calendar year. Company forecasts for 2010 are for gold production to remain at around 70,000 oz.

Treasury and Hedge Position

Cash at the end of the Quarter was \$5.1m, while the Company expected to receive an additional \$3.1m from bullion sales post the end of quarter. BCD paid out the last of its bank debt and now has just \$1m in convertible securities on issue.

BCD remains unhedged but the Company has stated that this position is reviewed regularly.

Description of Operations

BCD operates the Tasmania Mine (formerly Beaconsfield) mechanised underground gold mine in Tasmania, accessed by a shaft. It is a refractory orebody requiring recovery via bacterial leaching. The treatment plant has capacity for 1,000 tpd (300,000 tpa), but the mining rate is only expected to achieve 300,000 tpa in the current plan, and targeted gold production is 70,000 oz p.a. Capacity exists to accept concentrates from other sources.

It is considered a high cost mine, with latest reported cash costs in excess of \$950/oz. The current mine life is 2-3 years.

BCD also hold the Stavelly (100%) and Ararat (earning 75%) copper projects in Western Victoria. The projects consist of three granted exploration licences covering 750 sq km, and currently feature six known shallow copper deposits. Total JORC compliant inferred resources across both projects currently stand at 66,000 tonnes copper at an average grade of 0.50%.

Disclosure The authors do not own shares in any of the companies covered in this research paper.

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