

Sabre Resources (SBR)

Base Metals in Namibia – High Grade Copper Hits

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First up Drilling Success

- Sabre Resources (SBR) is junior explorer targeting base metals in the Otavi region of northern Namibia, an area with a long mining history and excellent infrastructure.
- The SBR team has been working in the region for 5 years and has developed considerable in-country knowledge and a good pipeline of projects.
- In August 2012 SBR reported results from their first drill hole at the Guchab copper prospect. The results included 107.75 m at 1.15% copper, with mineralisation from the surface.

Namibian Focussed & Experienced

SBR's principal focus is the exploration and development of their Otavi Mountain Land Base Metal Project. In May 2012 SBR added to their existing lead/zinc projects with the acquisition of the highly prospective Guchab copper project. Initial drilling results from Guchab have returned some outstanding first pass results.

Highlights from the first drill hole at Guchab included 107.75m at 1.15% copper and 6.93g/t silver. Within this broad intercept there are narrower, higher grade intervals at 13.2% and 2.08% copper. The hole was drilled to a depth of 111m, with mineralisation starting at the surface and extending for almost the entire drillhole's length.

Drilling Ongoing: Subsequent progress of drilling at Guchab has been slow due to recurring break downs associated with the current rig and the difficult terrain. To improve the drilling performance, SBR is looking at replacing the drilling contractor and possibly purchasing a small drill rig of their own.

Catalysts

- Ongoing drilling results from Guchab and Kaskara.
- Defining and drilling new targets based on the ongoing regional exploration.
- Upgrading the lead/zinc resources on the Pavian Trend.

Investment Overview: We have followed SBR's progress for some time and believe that Guchab is an exciting copper prospect. This is due to its location along strike from the Kombat copper mine, the outcropping mineralisation and early drill results. In addition to its copper exploration Sabre has a lead/zinc deposit upside on tenements to the north of Guchab. All of SBR's tenements are within a mining district that has good infrastructure (power, rail and roads) and a smelter within trucking distance.

The management team at SBR have solid experience in the region and good relationships with the landowners and Namibian Government. We visited SBR's projects in late 2012 and came away impressed with the potential that SBR has in their projects. We **Initiate with a Buy recommendation and a \$0.45/share price target.**

Risks: SBR is an early stage exploration play and due to the unknown nature of exploration is a high risk investment.

Recommendation

Buy

Previous Recommendation	Initiation
Risk Rating	Very High
Current Share Price	\$0.17
12 Month Price Target	\$0.45
Price Target Methodology	Peer Comparison
12 Month High/Low	\$0.36/\$0.09
Stock on Issue	226.5m
Market capitalisation	\$30m
Cash (A\$m) (30/09/2012)	\$9.2m

Board and Management

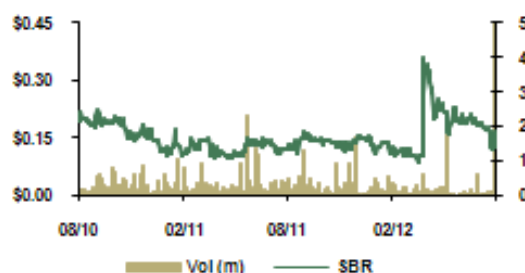
David Zukerman – Exec. Director	Accountant, held a number of board positions over 25 years.
Michael Scivolo – NED	Accountant with extensive experience in the junior resources sector
Jonathan Downes – NED	Geologist with experience in gold, nickel and base metals
Tim Putt – CEO	Geologist, with a diverse geographical and mining experience. Most recently technical director for Amex Resources
Dr Matthew Painter – GM Exploration	Geologist, previously worked with AngloGold in Australia and Tanzania. Prior to joining SBR was with Coffey Mining consulting a number of international

Major Shareholders

Holder	Shares (m)	Percentage
Coniston Pty Ltd	69.20	30.55%
National Nominees Ltd	12.22	10.72%
Brispot Nominees	??	4.15%
BBY Nominees	??	4.03%

Source: Company Report

SBR Share Price Chart



Source: Iress

Projects Overview

SBR's projects are located in northern Namibia ~430 km north of the country's capital, Windhoek. The tenements are close to regional mining town of Tsumeb, which has a population of 14,000 people.

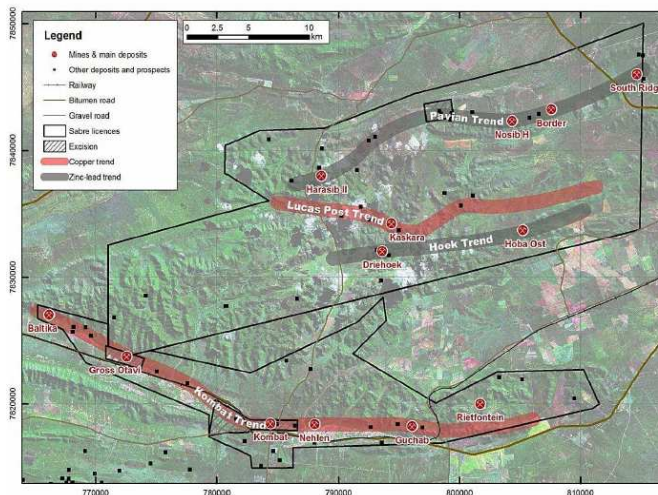
The projects lie within the Namib Copper Belt, a known mineralised terrain, with a long history of mining. Covering over 800 km² of the Otavi Mountain Land, Sabre's projects contain over sixty gazetted historic mines, workings, and prospects containing copper, lead, zinc, silver, and vanadium. The Company is actively exploring two of these historic prospects.

Regional Location of SBR's Otavi Mountain Land Project, highlighting position relative to key infrastructure



Source: Company Report

Prospects within the Otavi Mountain Land Project – Kombat copper mine is in the southern portion of the map and Tsumeb Smelter is to the north of the map.



Source: Company Report

Namibia Mining Friendly

Namibia has a stable and democratic government, with a long mining history and a Mining Act similar to Australian Mining Acts. Namibia produces large amounts of uranium, diamonds and copper. Mining provides ~13% of the country's GDP.

Operating smelter on SBR's doorstep

The Otavi region is home to the Tsumeb copper/lead/zinc/silver/vanadium mine and associated smelter. Whilst the mine has shut down, the smelter remains in operation as one of only five copper smelters in Africa. It is currently operated by the Canadian company Dundee Precious Metals (TSX:DPM). Concentrate for the smelter is shipped to Walvis Bay and then railed the ~550km to Tsumeb. In 2011 Tsumeb processed 180,000t of concentrate and has plans to expand its production capacity.

High grade mine

Historic production from Tsumeb Mine was **24.9 Mt @ 5.5 % copper, 11.8% lead & 171 g/t silver.**

Upside potential for SBR

SBR's close proximity to Tsumeb is advantageous either as the smelter is a potential customer for SBR if they commence production or if SBR wants to export concentrate then there is existing high quality infrastructure in place.

Tsumeb Smelter

The Tsumeb Smelter operated by Dundee Precious Metals is located only ~45km from SBR's projects.



Source: Company Report

Projects - Copper

Prospectivity high

Guchab Prospect (Kombat Cu-Ag Trend) – Guchab is SBR's flagship prospect. It is situated on the Kombat copper trend, along strike from the Kombat Copper Mine. In addition to Guchab, SBR has identified a number of targets along the trend, that remain to be drilled.

The Kombat copper mine and concentrator, located ~8km from Guchab, is currently on care and maintenance and is owned by the Canadian company Kombat Copper (TSXV:KBT).

The Kombat Mine was mined over an extended period, producing **8.7Mt @ 3.7% Cu, 1.1% Pb and 26g/t Ag**. Mining ceased in the 1990's with ore remaining unmined. It is currently thought that there is insufficient ore remaining in the mine to restart the operation. If SBR is successful in defining a resource at Guchab then it is conceivable that there would be sufficient ore to restart the plant.

Infrastructure possibilities are present

In addition to plant and concentrator infrastructure close by the projects are situated close the good rail, road, water and power infrastructure.

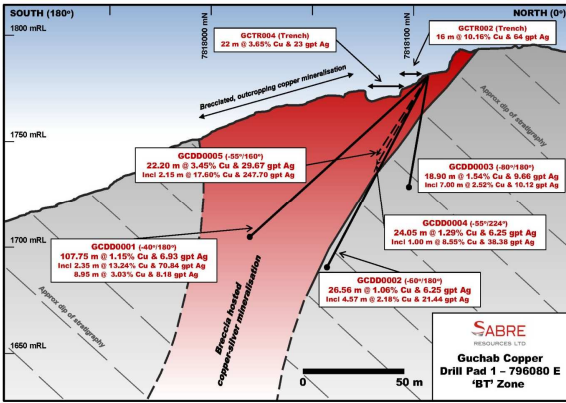
High grade discovery hole with mineralisation over considerable depth and close to surface

The discovery hole at Guchab returned impressive mineralisation over a 100m-plus interval with some high grade intervals. Due to the extreme topography the next 4 holes were positioned from the same drill pad and all intersected mineralisation, however due to the orientation they were not of the same tenor as the discovery hole.

Summary of the best intersections from the holes at Pad 1 are;

- Hole 1** 107.5m @ 1.15% copper & 6.93g/t silver from 0.6m,
including 2.35m @ 13.24% copper & 70.8g/t silver
- Hole 2** 26.5 m @ 1.06% Copper & 6.25g/t silver from 1.4m
- Hole 3** 18.9 m @ 1.54% Copper & 9.6g/t silver from 1.0m
including 7.0 m @ 2.52% Copper & 10.12g/t silver from 1.0m
- Hole 4** 24.05 m @ 1.29% Copper & 10.91g/t silver from surface
including 1.0 m @ 8.55% Copper & 38.38g/t silver from 23m
- Hole 5** 22.20 m @ 3.45% Copper & 29.67g/t silver from surface
including 2.15 m @ 17.6% Copper & 247.7g/t silver from 20m

Drill hole trace for Drill Pad 1



Source: Company Report

Plan View of the Drill Pads and surface mineralisation outline



Source: Company Report

Promising early days, more drilling justified.

The drill rig was then moved to Drill Pad 2, targeting extensions of the mineralisation along trend. The results from Pad 2 were impacted by poor drilling conditions and equipment breakdowns.

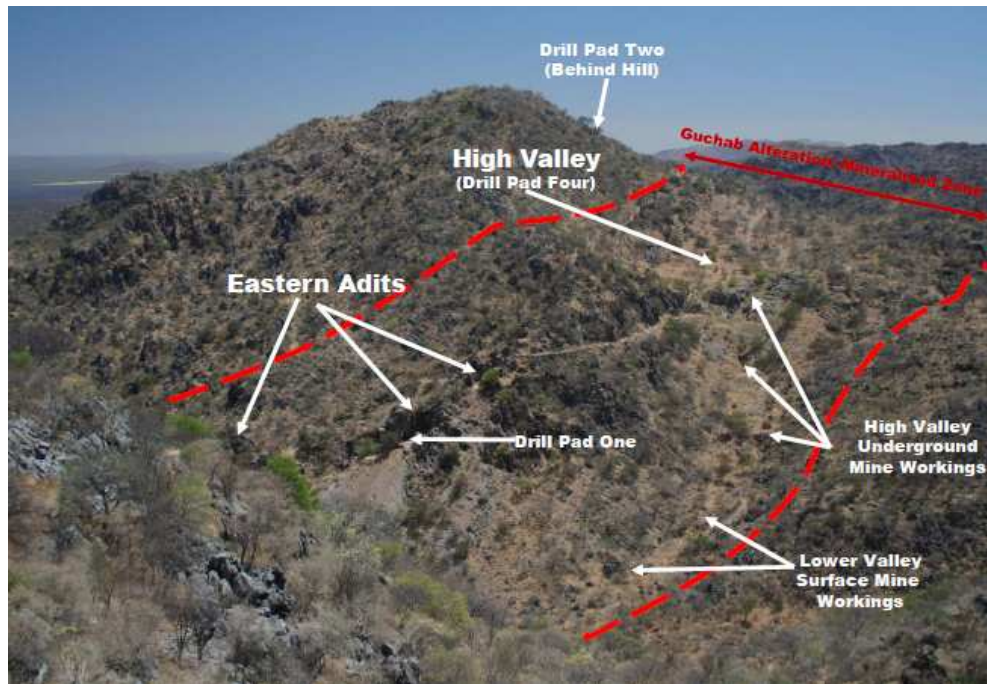
From our inspection of the core on site and discussions with the company geologists it appears that the mineralisation intersected to date is oxide dominated, with minor sulphides becoming apparent at depth.

The drill results and the mapping of the surface mineralisation are very positive, more drilling is required to determine the exact orientation and extent of the mineralisation.

Soil sampling has outlined the surface copper anomaly at Guchab over more than 4,000 metres of strike. SBR are undertaking surface and downhole geophysics to target future drilling. It will be interesting to see the results of the work targeting extensions of the surface mineralisation undercover.

The following picture is taken from the hill opposite Guchab it shows the extent of outcropping mineralisation and the position of the Drill Pads used to date. Based on our site visit, the current location of the drill rig is Pad 4, is an area of intense surface mineralisation. The slow pace in reporting of results from this area has been due to technical issues with the drill rig. It is planned that this will be resolved early in January.

Guchab Prospect – outcropping mineralisation and drilling locations



Source: Company Report

Kaskara Prospect (Copper-Lead-Vanadium) – is situated on a the Lucas Post Trend, located ~20km to the north of the Kombat Trend. The Lucas Post trend has seen no modern exploration, and has not been explored since the 1950's, due to land access issues that SBR has been able to overcome. Establishing positive relationships with the local farmers is a good example of the abilities of the SBR in-country team to undertake exploration effectively in Namibia.

The Kaskara prospect has similar mineralogical, geochemical and structural signatures to the Tsumeb Cu-Pb-Ag, mine located to the north. The surface mineralisation at Kaskara consists of up to 18 gossans outcropping over a 2-4km trend.

An extensive RC drilling program is underway at Kaskara, with results from the first 10 holes reported in December 2012. Highlights included:

8.0m @ 2.15% lead, 0.91% vanadium & 0.24% copper from 12m

Including 3.0m @ 5.16% lead, 2.21% vanadium & 0.59% Cu from 12 m

6.0m @ 1.17% lead, 0.47% vanadium & 0.18% copper from Surface

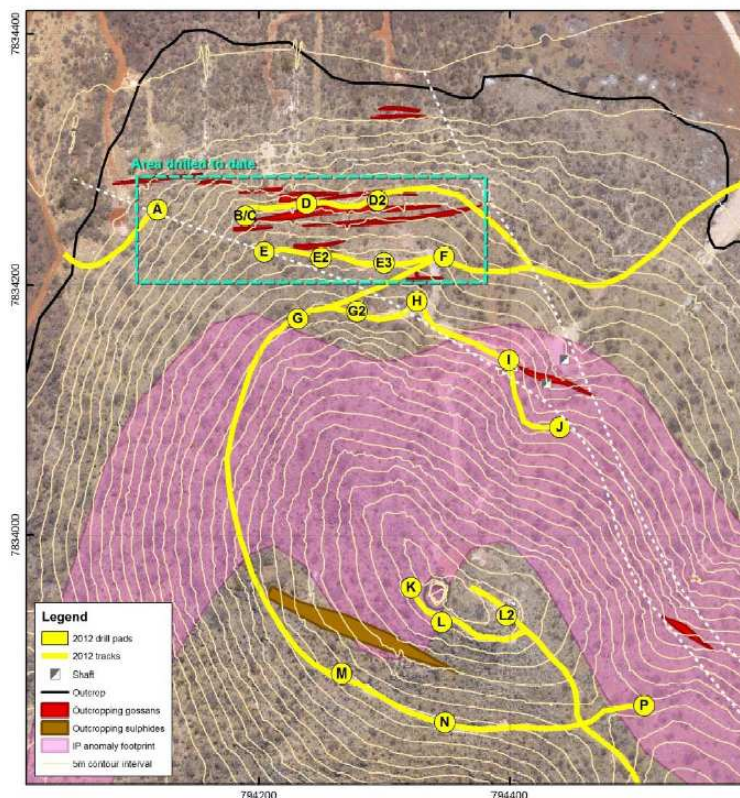
2.0m @ 1.32% lead, 0.29% vanadium & 0.11% copper from 119m

The drilling is testing a number of gossans and also targeting IP (Induced Polarization) anomalies at depth. RC drilling is proving to be more efficient than diamond drilling, the deep weathering profile meant that recoveries were low when diamond drilling was used.

To date the drilling has focussed on the outcropping gossans located at the base of a dominant hill, the next phase of drilling will see the rig move to top of the hill and test the IP anomaly.

Plan View of Kaskara

Kaskara prospect plan, showing the outcropping gossans in red and the IP anomaly in pink. The drill so far has been on the gossans and next will move to test the IP anomaly.



Source: Company Report

Projects – lead/zinc/silver

The Pavian mineralised trend hosts the Border Deposit, in addition to a number of targets and considerable Greenfields potential with first pass exploration to be undertaken over the trend. The mineralisation setting is a modified Mississippi Valley-Type (MVT) deposit.

Border resource:
16Mt @ 2.12% Pb+Zn & 4.76g/t Ag

Border Deposit is a relatively moderate grade deposit, metallurgical testing undertaken by SBR has shown that the ore can be cost effectively upgraded.

The inferred resource at Border is 16.2Mt @ 2.12% lead plus zinc and 4.76g/t silver

Crushing the ore to 12.5mm and using the low cost Dense Media Separation (DMS) process reduces volume by ~83% and produces a high grade feedstock, with grades of 6.3% lead (92% recovery) and 12.5% zinc (86% recovery).

Ore upgrades well

This would mean that only 17% of the ore mined would need to be milled and passed through a float circuit.

Scoping Study Results

Based on a 1mtpa operation the value of the ore is ~US\$45/t, with mining and milling costs ~US\$16/t.

Upside potential

Given the early stage of exploration at Border and along the whole Pavian trend there is scope for SBR to increase the resource at Border and also discover similar style deposits.

The model proposed by SBR is ore mined from a number of deposits feeding a central processing plant.

The mineralisation model for Border is a modified Mississippi Valley Type (MVT).

The advantage that SBR has at Border is that it is close to either the Tsumeb smelter and rail/port facilities.

Valuation

Our valuation for SBR is based upon review of the potential scale of mineralisation and with reference to the size of other projects in the area combined with undertaking a peer comparison on the potential contained copper at Guchab. We have also ascribed nominal valuations for the Kaskara and Border projects along with the exploration potential.

Comparison deposits.

Historical production at Tsumeb was **24.9 Mt @ 5.5 % copper, 11.8% lead & 171 g/t silver** for ~1.37mt contained copper.

At Kombat production was **8.7Mt @ 3.7% Cu, 1.1% Pb and 26g/t Ag**, when the remaining ore is included at Kombat the amount of contained copper is ~400,000t.

Peer Companies

We have selected a number of ASX listed copper companies with resources to use as a comparison to SBR and determined the average market capitalisation per ton of contained copper.

Table heading

Company	Market Cap* (A\$m)	Average Grade (Cu%)	Contained Copper (t)	Market Cap*/Resource tonne (A\$/t)
Avanco Resources Limited	89	1.27%	660,613	135
Avalon Minerals	34	1.12%	520,252	63
Azure Minerals Limited	10	4.70%	23,594	420
Chinalco Yunnan Copper	21	0.53%	102,767	208
Emmerson Resources Limited	25	2.04%	50,220	494
Finders Resources Limited	53	2.46%	212,965	251
Fox Resources Limited	17	0.74%	113,942	147
Genesis Resources	23	0.28%	429,234	46
Hot Chili Limited	179	0.60%	510,600	320
Horseshoe Metals Limited	13	1.06%	91,160	146
Indophil Resources NL	295	0.52%	5,717,625	52
Marengo Mining Limited	148	0.41%	2,351,800	63
Mithril Resources Ltd	8	0.57%	151,050	54
Robust Resources Limited	31	0.09%	42,090	732
Syndicated Metals Limited	11	0.49%	334,200	33
Ventnor Resources	43	1.60%	101,253	271
YTC Resources Limited	73	0.97%	97,228	754
			Average	\$246/t

Source: PhillipCapital estimates and company data

* Market Capitalisation is fully diluted basis

Based on a \$246/t average for contained copper and the resource at Kombat containing ~400,000t contained copper this would imply a market capitalisation of \$98m or \$0.43/share on the current number of SBR shares on issue.

If we apply the same measure and use the Tsumeb resource, a valuation of \$1.49/share is reached. Given the proximity to Tsumeb and the geology at Guchab we feel that Kombat is a better comparison at this stage.

We have given Kaskara and Border a nominal value of \$10m or \$0.04/share, with an additional \$5-\$10m (\$0.02-\$0.04/sh) for the exploration potential of the rest of the tenements

Our NAV valuation based on peer comparisons is

Guchab	\$0.43-\$1.49
Kaskara/Border	\$0.04
Exploration potential	\$0.02 - \$0.04
Total	\$0.49 - \$1.57/sh

Given the early nature of the exploration at Guchab and the still modest pace of drilling to date, we feel that a target price of \$0.45/share is achievable.

SBR is a high risk exploration play leveraged to further exploration success. The early drilling success, experienced team and high quality infrastructure in the region make SBR an attractive proposition, prompting us to **initiate coverage with Buy recommendation and a \$0.45/share price target**.

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Recommendation Criteria

Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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