
BREAKAWAY RESOURCES LIMITED
ABN 16 061 595 051

**NOTICE OF MEETING
AND
EXPLANATORY MEMORANDUM**

**MONDAY, 25 JULY 2005
4.00 PM**

AT

**CONFERENCE ROOM
LEVEL 8, EXCHANGE PLAZA
2 THE ESPLANADE
PERTH, WESTERN AUSTRALIA**

CORPORATE DIRECTORY

DIRECTORS

Jon Young : Non-Executive Chairman
Michael Mulroney : Managing Director
Garry Connell : Non-Executive Director
Peter Buck : Non-Executive Director

AUDITORS

PKF
Level 7, BGC Centre
28 The Esplanade
Perth WA 6000

COMPANY SECRETARY

Grant Mooney

INDEPENDENT EXPERT

BDO
Level 2
267 St George's Terrace
Perth WA 6000

REGISTERED AND PRINCIPAL OFFICE

Level 1, Redgum House
18 Richardson Street
West Perth WA 6005
Phone: +61 (08) 9278 6444
Facsimile: +61 (08) 9278 6449
Email: admin@breakawayresources.com.au
Website: www.breakawayresources.com.au

SOLICITORS

Wright Legal
Suite 1
103 Colin Street
West Perth WA 6005

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2
45 St George's Terrace
Perth WA 6000
Phone: +61 (08) 9323 2000
Facsimile: +61 (08) 9323 2033

NOTICE OF GENERAL MEETING AND EXPLANATORY MEMORANDUM

MONDAY, 25 JULY 2005

*A General Meeting of
Breakaway Resources Limited
ABN 16 061 595 051
will be held at 4.00pm on Monday, 25 July 2005 at
Conference Room, Level 8, Exchange Plaza,
2 The Esplanade
Perth, Western Australia*

Dated 24 June 2005

THIS IS AN IMPORTANT DOCUMENT AND SHOULD BE READ IN ITS ENTIRETY. IF YOU DO NOT UNDERSTAND ANY PART OF IT, YOU SHOULD CONSULT A PROFESSIONAL ADVISER WITHOUT DELAY.

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ACTION REQUIRED BY SHAREHOLDERS

Step 1 : Read the notice of meeting and the explanatory memorandum. The explanatory memorandum sets out details in relation to the approval of a proposed issue of converting notes and ratification of previous share issues. This information is important.

Step 2 : Vote on the resolutions: Your vote is important. You may cast your vote by:

- attending and voting at the meeting to be held at Conference Room, Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia on Monday, 25 July 2005 commencing at 4.00pm; or
- completing and returning the enclosed proxy form so as to be received by the Company at its registered office by 4.00pm am (Perth time) on Saturday, 23 July 2005.

BREAKAWAY RESOURCES LIMITED
ABN 16 061 595 051
("COMPANY")

NOTICE OF GENERAL MEETING

Notice is given that a general meeting of the Shareholders of the Company will be held Conference Room, Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia on Monday, 25 July 2005 commencing at 4.00pm.

If you are unable to attend the meeting, you are encouraged to complete and return the enclosed proxy form. The completed proxy form must be received by the Company at its registered office at least 48 hours prior to the commencement of the meeting.

AGENDA

SPECIAL BUSINESS

1. Approval to acquire greater than 20% Voting Power

TO CONSIDER AND IF THOUGHT FIT PASS AS AN ORDINARY RESOLUTION:

That for the purposes of section 219 and item 7 of section 611 of the Corporations Act, and for all other purposes, the members of the Company approve and authorise:

- (a) the Directors to allot and issue 70 converting notes which convert into ordinary shares with a face value of \$50,000 each to LionOre Australia Pty Ltd with a conversion price of between \$0.025 (2.5 cents) and \$0.045 (4.5 cents) per share and otherwise on the terms and conditions set out in the Explanatory Memorandum;*
- (b) upon the conversion or redemption of the converting notes, and whether by way of one or more allotments, the issue to LionOre Australia Pty Ltd of up to a maximum of 140,000,000 ordinary shares; and*
- (c) the acquisition by LionOre Australia Pty Ltd and its Associates of relevant interests in the ordinary shares of the Company as more particularly set out in the Explanatory Memorandum;*

in each case irrespective of whether LionOre Australia Pty Ltd's and its Associates entitlement to shares in the Company changes between the date of the notice calling this meeting and the date of this meeting.

- *A report prepared BDO Consultants (WA) Pty Ltd accompanies this Notice of Meeting.*
- *The converting notes to be issued under this resolution will be issued within 7 business days of the date of this meeting.*

Short explanation: Resolution 1 seeks approval to issue an aggregate of \$3,500,000 in converting notes to LionOre, converting at between \$0.025 (2.5 cents) and \$0.045 (4.5 cents) per share within 3 years after they are issued. Up to a maximum of 77,777,777 ordinary shares may be issued on the exercise by LionOre of its right to convert the notes and up to a maximum of 140,000,000 ordinary shares may be issued on the redemption of the notes by the Company.

Voting exclusion statement

The Company will disregard any votes cast on this resolution by LionOre Australia Pty Ltd and any associate of it. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. Ratification of Option Issue

TO CONSIDER AND IF THOUGHT FIT PASS AS AN ORDINARY RESOLUTION:

For the purposes of Listing Rule 7.4, and for all other purposes, Shareholders ratify the issue to Argonaut Capital Limited of 5,000,000 options to subscribe for Shares with an exercise price of \$0.06 (6 cents) exercisable on or before 30 June 2006 and otherwise on the terms and conditions set out in the Explanatory Memorandum in consideration for the provision of corporate advisory services.

Short explanation: Resolution 2 seeks shareholder ratification of the issue of 5,000,000 options to Argonaut Capital Limited with an exercise price of \$0.06 (6 cents) and which expire on 30 June 2006 in consideration for the provision of corporate advisory services.

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Argonaut Capital Limited and any associate of Argonaut Capital Limited. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. Ratification of Share Issue

TO CONSIDER AND IF THOUGHT FIT PASS AS AN ORDINARY RESOLUTION:

For the purposes of Listing Rule 7.4, and for all other purposes, Shareholders ratify the issue of 44,943,050 Shares at an issue price of \$0.038 (3.8 cents) to clients of Siafu Securities Pty Ltd on the terms and conditions set out in the Explanatory Memorandum.

- *The shares referred to in this resolution were issued on 31 December 2004 pursuant to the Prospectus dated 9 December 2004.*

Short explanation: Resolution 3 seeks shareholder ratification of the issue of 44,943,050 shares to various investors at an issue price of \$0.038 (3.8 cents).

Voting exclusion statement

The Company will disregard any votes cast on this resolution by any person who participated in the issue and any associate of those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. Ratification of Share Issue

TO CONSIDER AND IF THOUGHT FIT PASS AS AN ORDINARY RESOLUTION:

For the purposes of Listing Rule 7.4, and for all other purposes, Shareholders ratify the issue of an aggregate of 1,500,000 Shares at an issue price of \$0.038 (3.8 cents) on the terms and conditions set out in the Explanatory Memorandum.

- *The shares referred to in this resolution were issued on 12 January 2005.*
- *200,000 Shares were issued to Piccadilly Resources Pty Ltd.*
- *1,300,000 Shares were issued to Sept. Pty Ltd*

Short explanation: Resolution 4 seeks shareholder ratification of the issue of 1,500,000 shares to various investors at an issue price of \$0.038 (3.8 cents).

Voting exclusion statement

The Company will disregard any votes cast on this resolution by any person who participated in the issue and any associate of those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Snapshot Date

The Directors have determined that for the purposes regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the persons eligible to attend and vote at the meeting are those persons who are Shareholders at 5.00pm (Perth time) on Friday, 22 July 2005.

Bodies Corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

Proxies

In accordance with section 249L(d) of the Corporations Act, Shareholders are advised:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise.

If multiple proxies are appointed but no proportion of votes is specified, each proxy shall be entitled to vote an equal proportion of the votes attached to the Shareholder's Shares.

In accordance with Section 250BA of the Corporations Act, the Company specifies the following address for receipt of completed proxy appointments:

Registered Office: Private Bag 109
West Perth, Western Australia, 6872

Facsimile Number: (08) 9278 6449

An instrument appointing a proxy must be received at the above specified address no later than 48 hours prior to the commencement of this meeting. A completed proxy form may be sent by facsimile transmission to the number specified above and identified in the proxy form.

Incorporation of Explanatory Memorandum

The Explanatory Memorandum to Shareholders attached to this Notice of Meeting, is hereby incorporated into and forms part of this Notice of Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to be 'Paul Rooney', written over a faint, illegible printed name.

Company Secretary
Dated 24 June 2005

BREAKAWAY RESOURCES LIMITED

ABN 16 061 595 051

EXPLANATORY MEMORANDUM

Resolution 1 – Convertible Note

A. Introduction

On 20 May 2005, the Company entered into an agreement with LionOre Australia Pty Ltd (*LionOre*), under which, subject to satisfaction of certain conditions precedent, LionOre would subscribe for 70 converting notes (*Notes*) each with a face value of \$50,000 (in aggregate, \$3,500,000). At the date of this notice of meeting, the conditions precedent to the subscription for the Notes that have not yet been satisfied are:

- (a) the approval of Shareholders as contemplated by this notice of meeting;
- (b) FIRB approval in relation to the subscription for the Notes by LionOre;
- (c) completion of the mining assets sale agreement with respect to Bannockburn;
- (d) extension of the pre-emptive rights to treat nickel from the Miranda Nickel Project; and
- (e) completion of a restructure of the Miranda and Vivien Joint Ventures with Agnew Gold Mining Company Pty Ltd.

The meeting called by this notice seeks Shareholder approval contemplated as a condition precedent to the issue of the Notes.

It is anticipated by the Company that prior to the holding of this meeting all of the conditions precedent to the subscription for Notes other than the approval of shareholders will be satisfied. The Company will advise shareholders by way of an announcement to ASX prior to the meeting that status of conditions precedent.

B. Terms of Convertible Notes

A summary of the material terms of the Notes is as follows:

- (1) the conversion price is \$0.045 (4.5 cents) per share;
- (2) the Maturity Date is the date that occurs 3 years after the date of issue of the Notes;
- (3) no interest rate is payable on the Notes and they are unsecured;
- (4) if a Note is not converted prior to the Maturity Date, it is mandatorily redeemed on that date by the Company electing to either repay the notes in cash or convert the notes by the issue of Shares at an issue price calculated in accordance with the following:
 - (i) if the VWAP is greater than \$0.045 (4.5 cents), at \$0.045 (4.5 cents);
 - (ii) if the VWAP is equal to or below \$0.025 (2.5 cents), at \$0.025 (2.5 cents); and
 - (iii) if the VWAP is less than \$0.045 (4.5 cents) but greater than \$0.025 (2.5 cents), at a price equal to the VWAP;
- (5) the notes may be redeemed after the first 12 months of the term on the basis outlined in paragraph (4) above, subject to LionOre being entitled to elect to convert the notes prior to the redemption date;

- (6) if the Corporations Act or Listing Rules requires that a further shareholder approval is required, LionOre may request that the Company seek that consent provided that if that consent is not obtained, the Company is required to repay the Notes in cash or, if the VWAP is equal to or greater than \$0.045 (4.5 cents), issue such Shares as it is able to and pay to LionOre an amount equivalent to the cash value of the shares at the applicable market price that would have been issued to LionOre if that further approval was obtained;
- (7) if the Company issues bonus shares, then on conversion of the notes, LionOre will be issued with that number of Shares it would have received if the notes had been converted before the record date for the issue of those bonus issue; and
- (8) if the Company re-organises its capital, then the notes will be reorganised in the manner required by the Listing Rules.

C. Section 611 of the Corporations Act

Except as provided by Chapter 6 of the Corporations Act, section 606(1) of the Corporations Act prohibits a person from acquiring shares in a company if, after the acquisition, that person's voting power in the Company increases above 20%. On conversion of the Notes, LionOre's voting power in the Company will exceed 20%.

Section 611, item 7 of the Corporations Act provides that section 606(1) of the Corporations Act does not apply to an acquisition of shares in a company by virtue of an allotment or agreement if the company has agreed to the allotment or agreement by resolution passed at a general meeting at which no votes are cast in relation to the resolution by the person to whom the shares are to be allotted or by an associate of that person. There are also specific disclosure requirements under section 611, item 7.

D. Expert's Report

An expert's report by BDO Consultants (WA) Pty Ltd, commenting on resolution 1 is attached to and forms part of this Explanatory Memorandum. This report is provided pursuant to Australian Securities and Investments Commission (*ASIC*) Policy Statement 74, which reflects the views of the ASIC on acquisitions of more than 20% of the shares in a company for which shareholder approval is sought.

In summary, the expert's report concluded the proposed issue of the Shares is fair and reasonable to the non-associated shareholders of the Company taking into account the following factors:

- (a) LionOre are effectively paying a premium over the market price for the Shares; and
- (b) on redemption, the maximum dilution is fixed at a conversion price of \$0.025 (2.5 cents) per share which results in a maximum of 140,000,000 ordinary shares that would be issued on conversion.

E. Required Information

The information set out below is provided in accordance with section 611 of the Corporations Act, and ASIC Policy Statement 74.

1 Identity of LionOre

LionOre is a wholly owned subsidiary of LionOre Mining International Limited (*LIM*) (ASX Code: LIM). LIM is an international nickel and gold producer with a strong record of growth through an integrated program of acquisitions, exploration success and operational efficiency. LIM owns the Activox® process, a proprietary technology for processing metal concentrates. The company's major mining assets are located in southern Africa and in Western Australia.

2 Persons who are Associates of LionOre

Each of the persons outlined in schedule 2 (*Associates*) are associates of LionOre being subsidiaries of the ultimate holding company of LionOre, LionOre Mining International Limited.

3 Change in holding and increase in LionOre's Voting Power

If resolution 1 is passed the Company will issue 70 Notes to LionOre. It should be noted at the date of this Notice, LionOre holds 33,333,333 options with an exercise price of \$0.06 (6 cents) exercisable on or before 23 June 2005.

The effect of the conversion of the Notes is set out in the schedule.

If all of the Notes are converted, the total holding of Shares by LionOre and its associates will be 24.18% assuming no exercise of any options.

4 Pro-forma effect on the Company

Set out below is the pro forma unaudited financial effect on the Company's statement of financial position:

Unaudited Pro-forma Statement of Financial Position
as at 31 March 2005

	Consolidated		Adj.
	31 March 2005	Adj. for Note	31 March 2005
Current Assets			
Cash assets	168,501	3,500,000	3,668,501
Receivables	298,671		298,671
Other financial assets	46,250		46,250
Other	22,730		22,730
Total Current Assets	536,152	3,500,000	4,036,152
Non Current Assets			
Receivables	1,684,833		1,684,833
Property, plant and equipment	795,461		795,461
Exploration, evaluation and development expenditure	10,579,365		10,579,365
Total Non Current Assets	13,059,660	-	13,059,660
Total Assets	13,595,812	3,500,000	17,095,812
Current Liabilities			
Payables	1,449,240		1,449,240
Interest bearing liabilities	38,662		38,662
Provisions	583,038		583,038
Total Current Liabilities	2,070,940	-	2,070,940
Non Current Liabilities			
Interest bearing liabilities	-		-
Non-Interest bearing liabilities	-	2,980,648	2,980,648
Provisions	2,137,484		2,137,484
Total Non Current Liabilities	2,137,484	2,980,648	5,118,132
Total Liabilities	4,208,424	-	7,189,072
NET ASSETS	9,387,388	519,352	9,906,740
Equity			
Contributed equity	58,821,824	519,352	59,341,176
Accumulated losses	(49,434,436)		(49,434,436)
TOTAL EQUITY	9,387,388	519,352	9,906,740

5 Persons Who Will Acquire Relevant Interests if resolutions are passed

LionOre and its Associates are the only persons who will acquire a relevant interest in shares in the Company if resolution 1 is passed and the converting notes are converted.

6 Directors

It is not intended that there will be any change to the directors of the Company if the shareholders agree to the issue of the Notes and the subsequent issue of Shares pursuant to the conversion or redemption of those Notes.

7 Intentions as to the future of the Company

If resolution 1 is approved, the intention of LionOre is to maintain the current business of the Company. LionOre has **no** present intention to do any of the following after the issue of the Notes or the subsequent issue of Shares:

- change the business of the Company;
- inject further capital into the Company;
- transfer any property between the Company and LionOre; or
- redeploy the fixed assets of the Company.

While the business activities of the Company may change as new opportunities arise, the directors also understand that LionOre have no specific or immediate intention to have further capital injected into the Company. If new investment opportunities arise or become available to the Company, LionOre may, if they desire to do so, participate in any rights issue or other capital raising programme undertaken by the Company.

8 Anticipated Date of Issue

Subject to the approval of shareholders to this resolution, it is intended to issue the Notes referred to in these resolutions within 7 Business Days of the meeting.

9 Reasons for the issue

As mentioned above, the issue of the Notes will permit the Company to refocus its energies on its existing business. The Notes provide the Company with working capital which completes its recent rationalisation and will permit the Company to maintain its present scale of operations for the next 2 years.

10 Interests of Directors in the Allotment and Acquisition

Mr Peter Buck is a director of LionOre. The remaining directors of the Company do not have any interest in the issue of the Notes.

11 Approval of the Directors

A meeting of the Board was held on 10 June 2005 at the Company's registered office to discuss the proposal to issue the Notes to LionOre. It was agreed by all directors of the Company except Mr Buck to proceed with the Notice of Meeting and Explanatory Memorandum in order to obtain shareholder approval. Mr Buck was not present at the meeting of the Board during discussion about the issue of the Notes and did not vote on the resolution to proceed with the Notice of Meeting and Explanatory Memorandum.

12 Recommendations by Directors

All of the directors of the Company except Mr Buck recommend that the shareholders of the Company vote in favour of the resolutions to implement the proposal for the following reasons:

- (a) provides much needed working capital to aggressively pursue excellent exploration projects following recent project portfolio restructure;
- (b) augments the Company's strategic relationship with nickel major LionOre;
- (c) raises capital effectively above current market price; and
- (d) the Notes are interest free.

In addition, it was noted that a feature of the Notes was that the maximum dilution was a fixed amount of 140,000,000 shares.

Mr Buck does not consider it appropriate to make a recommendation because of his directorship of LionOre.

13 Financial and Dividend Policies of the Company

LionOre has no intention to change the current financial and dividend policies of the Company.

F. Listing Rules

Exception 16 to Listing Rule 7.2 provides that the approval of Shareholders to Resolution 1 will mean that the Notes (and any Shares issued on a consequence of a conversion of the Notes) will not be included as being issued by the Company under the 15% placement capacity provided by the Listing Rule 7.1.

G. Information requirements under Section 219

It may be arguable that LionOre is a related party of the Company for the purposes of Chapter 2E of the Corporations Act due to its substantial holding and the common director it shares in Mr Buck. Therefore, out of an abundance of caution, shareholder approval is being sought pursuant to section 208 of the Corporations Act to the issue of the Notes.

The following information is provided to satisfy the requirements of Section 219 of the Corporations Act:

- (a) the proposed financial benefit to be given to LionOre is the issue of the Notes;
- (b) the non-associated Directors (being all of the directors other than Mr Buck) unanimously recommend that Shareholders vote in favour of Resolution 1 for the reasons set out in item E.12 above;
- (c) no non-associated Director has an interest in the outcome of the proposed resolution other than as a Shareholder in the Company; and
- (d) additional information in relation to Resolution 1 is included in the Independent Expert's Report and each Shareholder should read that report in its entirety before making a decision as to how to vote.

H. Voting Restriction

In accordance with the Corporations Act and Listing Rules, the Company will disregard any votes cast on this resolution by:

- LionOre and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolutions are passed; and
- an associate of LionOre.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 2 – Ratification of Previous Option Issue

This resolution seeks Shareholder ratification of the issue 5,000,000 options at an exercise price of \$0.06 (6 cents) per Share.

Subject to certain exceptions, Listing Rule 7.1 limits the number of equity securities the Company may issue in any 12 month period without Shareholder approval to 15% of Shares on issue at the commencement of that period. The exception to this rule contained in Listing Rule 7.4 provides an issue made within the 15% limit will be treated as having been made with the approval of Shareholders under Listing Rule 7.1 if subsequently approved by Shareholders, thereby “refreshing” the Company’s ability to issue shares within the 15% limit, and restoring the Company’s ability to make placements within that limit (if that is thought desirable) without the need for Shareholder approval.

While the options described in Resolution 2 were issued within the 15% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4, so that the Company’s ability to issue securities will be “refreshed” and it will have flexibility to issue further securities should the need or opportunity arise.

In accordance with the requirements of Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess the ratification of the issue of the Shares the subject of Resolution 2:

- The options the subject of Resolution 2 were issued and allotted to Argonaut, 2,500,000 on 17 December 2004 and a further 2,500,000 on 18 April 2005.
- None of the allottees are related parties to the Company or their associates.
- The options issued are exercisable into fully paid ordinary shares that rank equally in all respects with existing Shares.
- The options were issued as consideration for certain corporate advisory services provided by Argonaut to the Company.

Resolution 3 – Ratification of Previous Share Issue

This resolution seeks Shareholder ratification of the issue 44,943,050 Shares at an issue price of \$0.038 per Share made on 31 December 2004.

As described in the explanatory material for Resolution 2, subject to certain exceptions, Listing Rule 7.1 limits the number of equity securities the Company may issue in any 12 month period without Shareholder approval to 15% of Shares on issue at the commencement of that period. The exception to this rule contained in Listing Rule 7.4 provides an issue made within the 15% limit will be treated as having been made with the approval of Shareholders under Listing Rule 7.1 if subsequently approved by Shareholders, thereby “refreshing” the Company’s ability to issue shares within the 15% limit, and restoring the Company’s ability to make placements within that limit (if that is thought desirable) without the need for Shareholder approval.

While the Shares described in Resolution 3 were issued within the 15% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4, so that the Company’s ability to issue securities will be “refreshed” and it will have flexibility to issue further securities should the need or opportunity arise.

In accordance with the requirements of Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess the ratification of the issue of the Shares the subject of Resolution 3:

- The Shares the subject of Resolution 3 were issued and allotted on 31 December 2004 to certain clients of Saifu Securities.
- None of the allottees are related parties to the Company or their associates.
- The Shares issued are fully paid ordinary shares that rank equally in all respects with existing Shares.
- The funds raised by the issue of the Shares the subject of Resolution 3 have, and will be, applied toward exploration expenditure and programs and for general working capital purposes as described in the Company’s prospectus dated 9 December 2004.

Resolution 4 – Ratification of Previous Share Issue

This resolution seeks Shareholder ratification of the issue 200,000 Shares at an issue price of \$0.038 per Share made on 12 January 2005.

As described in the explanatory material for Resolution 2, subject to certain exceptions, Listing Rule 7.1 limits the number of equity securities the Company may issue in any 12 month period without Shareholder approval to 15% of Shares on issue at the commencement of that period. The exception to this rule contained in Listing Rule 7.4 provides an issue made within the 15% limit will be treated as having been made with the approval of Shareholders under Listing Rule 7.1 if subsequently approved by Shareholders, thereby “refreshing” the Company’s ability to issue shares within the 15% limit, and restoring the Company’s ability to make placements within that limit (if that is thought desirable) without the need for Shareholder approval.

While the Shares described in Resolution 4 were issued within the 15% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4, so that the Company’s ability to issue securities will be “refreshed” and it will have flexibility to issue further securities should the need or opportunity arise.

In accordance with the requirements of Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess the ratification of the issue of the Shares the subject of Resolution 4:

- The Shares the subject of Resolution 4 were issued and allotted on 12 January 2005 to Piccadilly Resources Pty Ltd and Sept Pty Ltd.
- None of Piccadilly Resources Pty Ltd, Sept Pty Ltd or any of their associates are related parties of the Company.
- The Shares issued are fully paid ordinary shares that rank equally in all respects with existing Shares.
- The funds raised by the issue of the Shares the subject of Resolution 4 have, and will be, applied toward exploration expenditure and for general working capital purposes.

Glossary

Argonaut means Argonaut Capital Limited ABN 18 099 761 547.

Board means the board of Directors of the Company.

Constitution means the constitution of the Company.

Company means Breakaway Resources Limited ABN 16 061 595 051.

Corporations Act means *Corporations Act 2001* (Cth).

Directors means directors of the Company.

Explanatory Memorandum means this explanatory memorandum.

Independent Expert means BDO Consultants (WA) Pty Ltd.

Independent Expert’s Report means the report by the Independent Expert attached to this Explanatory Memorandum and dated 8 June 2005.

Listing Rules means the Listing Rules of Australian Stock Exchange Limited.

LionOre means LionOre Australia Pty Ltd ABN 71 076 976 906.

Notes means the converting notes described in paragraph B of the explanatory material for Resolution 1.

Saifu Securities means Saifu Securities Pty Ltd ABN 76 101 152 863 (AFSL 224 815).

Share means an ordinary share in the capital of the Company.

Shareholder or *member* means a registered member of the Company.

Voting Power is defined in section 610 of the Corporations Act and means the total number of votes attached to all the voting shares in the Company of a person and their associates as a percentage of the total voting shares of the Company.

VWAP means the volume weighted average price.

SCHEDULE 1 – VOTING POWER

	Present	Voting Power %	Conversion of Notes at \$0.045 per share	Voting Power %	Conversion of Notes at \$0.025 per share	Voting Power %	Conversion of Notes at \$0.045 per share assuming exercise of options	%	Conversion of Notes at \$0.025 per share assuming exercise of options	Voting Power %	Fully diluted assuming conversion at \$0.045 per share	Voting Power %	Fully diluted assuming conversion at \$0.025 per share	Voting Power %
Shares on issue at date of Notice of Meeting other than held by LionOre	448,405,047	87.30	448,405,047	75.82	448,405,047	68.60	448,405,047	71.78	448,405,047	65.27	448,405,047	69.77	448,405,047	69.77
Existing holding by LionOre (and its associates)	65,217,391	12.69	65,217,391	11.03	65,217,391	9.98	65,217,391	10.44	65,217,391	9.49	65,217,391	10.15	65,217,391	10.15
Maximum increase in LionOre and its Associates' Voting Power on issue of Shares on conversion of Notes			77,777,777	13.15	140,000,000	21.42	77,777,777	12.45	140,000,000	20.38	77,777,777	12.10	140,000,000	21.78
Exercise of options by LionOre							33,333,333	5.33	33,333,333	4.85	33,333,333	5.19	33,333,333	5.19
Exercise of all other options											18,000,000	2.80	18,000,000	2.80
Total	513,622,438	100.00	591,400,215	100.00	653,622,438	100.00	624,733,548	100.00	686,955,771	100.00	642,733,548	100.00	704,955,771	100.00

SCHEDULE 2 – LIONORE' ASSOCIATES

LionOre Mining International Ltd
LionOre UK Ltd
GMR Gold Inc
LionOre Australia Pty Ltd
MPI Mines Limited
Fodina Minerals Pty Ltd
Black Swan Nickel Pty Ltd
MPI Nickel Pty Ltd
Kumura Pty Ltd
LionOre Technology Pty Ltd
Western Minerals Technology Pty Ltd
WMT Consulting Pty Ltd
Dalrymple Resources NL
Scotia Nickel Ltd
LionOre Australia (Avalon) Pty Ltd
LionOre Australia (Nickel) Ltd
LionOre Nickel Operations Pty Ltd
LionOre Nickel (Maggie Hays) Pty Ltd
Forrestania Gold NL
Fornewco Pty Ltd
LionOre Australia (East Kimberley) Pty Ltd
LionOre Australia (Wildara) NL
GMR (Barbados) Ltd
King Securities Ltd
BCL Ltd
Ordover Pty Ltd
Botswana RST Ltd
Global Mining Resources Inc.
Francistown Mining & Explorations (Jersey) Limited
Morex Botswana (Pty) Limited
Lexan Trading Inc.
Tati Nickel Mining Company (Proprietary) Ltd
LionOre Mauritius
LionOre South Africa (Pty) Ltd

FINANCIAL SERVICES GUIDE

AND

**INDEPENDENT EXPERT'S
REPORT**

**BREAKAWAY RESOURCES
LIMITED**

20 JUNE 2005



BDO Consultants (WA) Pty Ltd

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Financial Services Guide

20 June 2005

BDO Consultants (WA) Pty Ltd ABN 92 008 864 435 ("**BDO Consultants**" or "**we**" or "**us**" or "**ours**" as appropriate) has been engaged by Breakaway Resources Limited ("**Breakaway**") to provide an independent expert's report on the proposal to issue to LionOre Australia Pty Ltd unsecured redeemable converting notes ("**Notes**") with an aggregate face value of \$3.5 million. The Notes are convertible into fully paid shares in Breakaway with a conversion price range of 2.5 cents to 4.5 cents per share. You will be provided with a copy of our report as a retail client because you are a shareholder of Breakaway.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our **Australian Financial Services Licence, Licence No. 246328**;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Consultants (WA) Pty Ltd is ultimately owned by the Perth partnership of BDO. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors are partners in the Perth partnership of BDO.

The Perth partnership of BDO is a member firm of BDO in Australia, a national association of separate partnerships and entities. The financial product advice in our report is provided by BDO Consultants (WA) Pty Ltd and not by the Perth partnership of BDO or its related entities.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Perth partnership of BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice to retail and wholesale clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues in relation to:

- ◆ derivatives limited to old law securities options contracts and warrants;
- ◆ debentures, stocks or bonds issued or proposed to be issued by a government;
- ◆ interests in managed investments schemes (excluding investor directed portfolio services);
- ◆ securities; and
- ◆ superannuation.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice

Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement will be approximately \$15,000.

Except for the fees referred to above, neither BDO Consultants, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from Breakaway for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Consultants (WA) Pty Ltd, PO Box 7426 Cloisters Square, Perth WA 6850.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("**FICS**"). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FICS will be able to advise you as to whether or not they can be of assistance in this matter. Our FICS Membership Number is F-3820.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Services Limited
PO Box 579
Collins Street West
Melbourne VIC 8007
Toll free: 1300 78 08 08
Facsimile: (03) 9621 2291

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

BREAKAWAY RESOURCES LIMITED

INDEPENDENT EXPERT'S REPORT

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Our Ref: SA/768

20 June 2005

The Directors
Breakaway Resources Limited
1/18 Richardson Street
WEST PERTH WA 6005

Dear Sirs

INDEPENDENT EXPERT'S REPORT – BREAKAWAY RESOURCES LIMITED

1. INTRODUCTION

BDO Consultants (WA) Pty Ltd ("**BDO**") has been engaged by Breakaway Resources Limited ("**Breakaway**" or "**the Company**") to prepare an Independent Expert's Report ("**our Report**") to express an opinion as to whether or not the proposal to issue to LionOre Australia Pty Ltd ("**LionOre**") 70 unsecured redeemable converting notes ("**the Notes**") with an aggregate face value of \$3.5 million and with a conversion price range of 2.5 cents to 4.5 cents per fully paid ordinary share in Breakaway ("**the Transaction**"), is fair and reasonable to non-associated shareholders ("**Shareholders**") of Breakaway.

Our Report is to be included in the Explanatory Memorandum for Breakaway to be sent to all Shareholders to assist them in deciding whether to accept or reject the Transaction.

2. OUTLINE OF THE TRANSACTION

2.1 Summary

On 23 May 2005 Breakaway announced the proposed Transaction. The Transaction is that Breakaway will issue to LionOre 70 Notes with a face value of \$50,000 each, being an aggregate value of \$3.5 million. The Notes will mature three years after issue and will be convertible by LionOre at any time up to 30 days prior to the Maturity Date into fully paid ordinary shares in Breakaway. The conversion price will be 4.5 cents per share. At maturity, all Notes which have not been converted must be redeemed by Breakaway either by:

- ◆ Paying LionOre the outstanding amount of the Notes in cash; or
- ◆ Converting the outstanding amount of the Notes into shares based upon an agreed conversion formula subject to a minimum floor price of 2.5 cents.

The Transaction is subject to and conditional upon the grant of non-associated shareholder approval. Peter Buck, a director of Breakaway, is also a director of LionOre and therefore has an indirect interest in 65,217,391 shares in Breakaway held by LionOre representing 12.69% of Breakaway's issued capital. Accordingly, Peter Buck is an associated shareholder of Breakaway. LionOre also holds 33,333,333 options in Breakaway, exercisable on or before 25 June 2005 with an exercise price of 6 cents each.

If the Transaction is approved, LionOre will have the capacity through the conversion of the Notes to increase its shareholding in Breakaway from 12.69% to 24.18%. Further, if LionOre also exercises its 33,333,333 options and all other optionholders exercise their options in Breakaway, LionOre's shareholding in Breakaway would increase to 27.44%.

2.2 Capital Structure

Prior to the Transaction, LionOre holds 65,217,391 shares and 33,333,333 options in Breakaway. The options held by LionOre are exercisable at 6 cents each.

Table 1 shows the capital structure of Breakaway immediately after the Transaction is approved and assuming LionOre converts all of the Notes.

Table 1

Number of Shares	Pre Transaction share structure		Post Transaction share structure	
	Number	%	Number	%
LionOre	65,217,391	12.69	142,995,168	24.18
Non-associated shareholders	448,405,047	87.31	448,405,047	75.82
Total	513,622,438	100.00	591,400,215	100.00

If LionOre was to exercise all of the options that it holds and no other options are exercised, following approval of the Transaction, LionOre would hold 176,328,501 shares in Breakaway representing 28.2% of Breakaway's issued share capital.

3. SUMMARY AND OPINION

3.1 We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is **fair and reasonable** to Shareholders.

3.2 We believe the Directors would be justified in recommending that Shareholders vote in favour of the Transaction.

3.3 In Sections 10 and 11 we determined that if the Transaction is approved:

- ◆ the value of each Breakaway share at the date of this Report is less than the conversion price per share that LionOre will pay during the life of the Notes;
- ◆ the value of each Breakaway share at the time of conversion is unknown; however, if the share price is greater than 4.5 cents per share Breakaway will have the option to repay the \$3.5 million to LionOre, however, LionOre has 30 days in which to choose to convert the Notes at 4.5 cents per share. If the share price stays below 4.5 cents per share LionOre may choose not to convert the Notes, preferring to wait until the Notes mature; and
- ◆ the value of each Breakaway share at the date of maturity of the Notes is unknown, however, if the share price is greater than 4.5 cents per share Breakaway will repay the \$3.5 million to LionOre, if the share price is between 2.5 cents and 4.5 cents LionOre will pay that amount as the conversion price, and if the share price is less than 2.5 cents LionOre will pay 2.5 cents as the conversion price.

Table 2 summarises our assessment of values

Table 2

	Value	
	Low cents	High cents
Value of each Breakaway share at the date of this Report (Section 9.4)	3.0	3.9
Conversion price per share payable by LionOre during the life of the Notes (Section 10)	4.5	4.5
Conversion price per share payable by LionOre at maturity of the Notes (section 10)	2.5	4.5

The above pricing indicates that the Transaction is fair for Shareholders.

3.4 Reasonableness

We have considered the analysis in Section 13 of this report, in terms of the advantages and disadvantages of the Transaction.

The respective advantages and disadvantages considered are summarised in Table 3:

Table 3

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.1.1	The Transaction is Fair	13.2.1	Dilution of non-associated Shareholders' interests
13.1.2	Availability of working capital		
13.1.3	Cap on the number of shares that may be issued on conversion of the Notes		
13.1.4	The Notes are interest free		

In our opinion, the position of Shareholders if the Transaction proceeds is more advantageous than the position if the Transaction does not proceed. Accordingly, we believe the Transaction is reasonable for Shareholders.

4. REPORT REQUIREMENTS

- 4.1** Section 606 of the Corporations Act ('the Act') generally prohibits the acquisition of further shares by an entity where the acquisition would increase the entity's voting power in a company from below 20% to more than 20% unless a full takeover offer is made to all shareholders.

If the Transaction is approved LionOre will have the capacity through the conversion of the Notes to increase its shareholding in Breakaway from 12.69% to 24.18%. Further, if LionOre also exercises its 33,333,333 options and no other optionholders exercise their options in Breakaway, LionOre's shareholding in Breakaway would increase to 28.2%.

- 4.2** By way of exception, section 611 of the Act permits an acquisition of shares in a company by an entity who, holding less than 20%, would acquire more than 20%, if the shareholders of the company have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast by any party who is associated with the party to whom the shares are to be

issued. Section 611 states shareholders must be given all information that is material to the decision on how to vote at the meeting.

4.4 Policy Statement 74 issued by the Australian Securities and Investments Commission ("**ASIC**") deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Breakaway, by either:

- ◆ undertaking a detailed examination of the Proposal themselves, if they consider that they have sufficient expertise; or
- ◆ by commissioning an Independent Expert's Report.

The directors of Breakaway have commissioned this Independent Expert's Report to satisfy this obligation.

5. BASIS OF EVALUATION

5.1 Regulatory Guidelines

In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by the ASIC in their Policy Statements 74 and 75. These Policy Statements suggest that an opinion as to whether transactions are fair and reasonable should entail consideration of all the circumstances of the Transaction.

Such consideration includes a comparison of the likely advantages and disadvantages for Shareholders if the Transaction is accepted, with the advantages and disadvantages to those Shareholders if it is not.

5.2 Adopted Basis of Evaluation

Having regard to both Policy Statements above, BDO has completed this comparison in two parts:

- ◆ A comparison between the value of each Breakaway share at the date of this Report and the conversion price per share that LionOre will pay if the Transaction is approved, to convert the Notes to fully paid ordinary shares in Breakaway (fairness – see Section 11 "Is the Transaction Fair?"); and
- ◆ An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness – see Section 13 "Is the Transaction Reasonable?").

The Transaction could be considered "reasonable" if there are valid reasons to approve the Transaction, notwithstanding that it may not be regarded as "fair" to Shareholders.

6. PROFILE OF BREAKAWAY RESOURCES LIMITED

6.1 History

In March 2003, Amalg Resources NL, a listed company incorporated in 1993, acquired Breakaway Resources Limited, changed its status from a 'no liability' company to a company limited by shares and changed its name to Breakaway Resources Limited.

The Company's principal activities were focused on the production of gold, nickel and copper, along with further exploration and development of its gold, copper and nickel projects. Breakaway's key mining and exploration assets in 2003 were the

Spargoville project area (nickel and gold), the Eloise Mine (copper), Bannockburn project (gold and nickel), Vivien joint venture project (gold), Miranda joint venture project (gold and nickel) and Spargos Reward area (nickel). The joint venture partner for the Vivien and Miranda projects was Gold Fields Australasia Pty Ltd.

In June 2004 Breakaway sold the Eloise Copper Mine and the four Eloise Mining Leases, retaining a 30% interest in net profits from the Eloise Mine, commencing when the net profit from mining operations and/or the sale of the Eloise Mine equals \$15.6 million. Breakaway also retained approximately 245 square kilometres of exploration tenements surrounding the Eloise Mine.

Also in June 2004, Breakaway granted LionOre a pre-emptive right to enter into an off-take agreement for the treatment of nickel ore and/or concentrates produced from Breakaway's existing tenement interests. Breakaway also raised \$3 million cash by issuing LionOre with 65,217,391 Breakaway shares at 4.6 cents each and 33,333,333 options with an exercise price of 6 cents each, expiring 23 June 2005.

LionOre is a wholly owned subsidiary of LionOre Mining International Limited, a company headquartered in Toronto, Canada and listed on the Toronto, Australian and London Stock Exchanges. LionOre Mining International Limited has mining interests in Australia and Botswana.

In March 2005 Breakaway executed a Heads of Agreement securing a 100% interest (up from 40%) in the base metal rights over all the Miranda and Vivien joint venture tenements. As consideration, Gold Fields Australasia Pty Ltd will receive 100% interest in the precious metal rights over the Miranda and Vivien project areas.

On 6 May 2005 the Company also executed a Heads of Agreement with Jubilee Mines NL, Breakaway's joint venture partner in the Bannockburn Nickel and Base Metal Joint Venture ("**BNJV**"). The Agreement will result in the dissolution of the BNJV and the splitting of the BNJV tenements into Gold tenements and Nickel tenements. Breakaway will own 100% of the Gold tenements, which includes the existing 489,000 ounce gold resource at Bannockburn as well as 18 strike kilometres of the major Bannockburn Shear Zone. Jubilee Mines NL will own the Nickel tenements. Breakaway will also receive \$305,317 in cash.

On 23 May 2005 Breakaway executed a Heads of Agreement to sell the Bannockburn Gold Project to LionOre for \$0.5 million cash ("**the Bannockburn Sale Agreement**"). Upon completion of the sale Environmental Performance Bonds for the project will be released, providing Breakaway with a further \$1.5 million in available cash. The sale is subject to:

- ◆ LionOre completing due diligence procedures to its satisfaction;
- ◆ completion of the BNJV restructure;
- ◆ execution of an agreement whereby Arrow Resources Management Pty Ltd assigns to LionOre its rights and obligations as they relate to the Tenements;
- ◆ LionOre obtaining any ministerial consent under the Mining Act 1978; and
- ◆ LionOre obtaining any necessary Foreign Investment Review Board approvals in relation to the transaction.

Once the restructuring arrangements undertaken by Breakaway since June 2004 are completed, the Company will have:

- ◆ 100% ownership of the Kambalda West Nickel tenements

- ◆ 100% of the Miranda Nickel Project
- ◆ 100% of the Eloise Regional exploration tenements
- ◆ A contingent 30% Net Profit interest in the Eloise Copper Mine, and
- ◆ Cash reserves of approximately \$4.5 million

6.2 Converting Notes

On 20 May 2005 LionOre subscribed to Breakaway for the Notes. The Notes will not be interest bearing and the issue of the Notes is subject to non-associated shareholder approval. Each Note will be convertible at any time up to 20 April 2008, into fully paid ordinary shares in Breakaway at a conversion price of 4.5 cents per share. Otherwise at maturity of the Notes, the conversion price will be between 2.5 cents and 4.5 cents per share (see section 10).

6.3 Other Recent Company Announcements

Breakaway announced on:

- ◆ **22 February 2005**– High initial gold results at Yilmia project at Kambalda West. Breakaway found that recent geochemical programs at Yilmia, within the Kambalda West project have defined several new gold anomalies with a peak spot value of 9 grams per tonne.
- ◆ **7 February 2005** – Miranda North Nickel Potential. Breakaway reviewed existing data prior to pursuing a nickel exploration program at the Miranda exploration Joint venture. The recent exploration success at adjacent prospects suggests the presence of an extensive nickel sulphide system in the region.
- ◆ **9 December 2004** - it had issued a prospectus for a \$2m capital raising, entailing the placement of 52,631,578 shares at \$0.038 each. The funds raised would be used for continued Nickel exploration, resource extension drilling at Kambalda, funding Joint Venture projects, geophysical projects in Queensland and various working capital requirements.
- ◆ **7 December 2004** – the appointment of and Investment Bank, Argonaut Capital, to assist in providing ongoing strategic advice. Specifically, the aim of the appointment was to maximise the value of the company's asset base.
- ◆ **3 September 2004** – the Company had acquired a prospective nickel tenement package at Yilmia, near Kambalda, Western Australia. Breakaway issued 853,659 fully paid ordinary shares plus granting a 1.5% Net Smelter Return royalty for any nickel and cobalt produced and 2% gross gold royalty.

6.4 Capital Structure

6.4.1 The capital structure of Breakaway as at 30 May 2005 is as follows:

Table 4

Ordinary Shares	30 May 2005
Total Ordinary Shares on Issue	513,622,438
Top Twenty Shareholders - Ordinary Shares	264,421,219
Top Twenty Shareholders - % of Ordinary Shares on Issue	51.47%

Source: Computershare Share Registry Report

6.4.2 The spread of Breakaway shareholders as at 31 May 2005 is as follows:

Table 5

Range of Shares Held	No. of Ordinary Shareholders	Shares	%
1-1,000	35	23,226	0.00
1,001-5,000	130	435,062	0.08
5,001-10,000	199	1,733,547	0.34
10,001-100,000	1,043	52,334,108	10.19
100,001 - and over	516	459,096,495	89.38
TOTAL	1,923	513,622,438	100.00

Source: Computershare Share Registry Report

6.4.3 The number of shares held by the substantial shareholders as at 30 May 2005 is as follows:

Table 6

Shareholder	Ordinary Shares	% Held
Barmenco Ltd	92,511,292	18.01
LionOre Australia Pty Ltd	65,217,391	12.69

Source: Computershare Share Registry Report

6.4.4 The number of options on issue as at the date of this report is as follows:

Table 7

Options	Options	Exercise Price
Unlisted	33,333,333	Exercisable at 6 cents expiring on or before 23 June 2005
Unlisted	5,000,000	Exercisable at 10 cents expiring before 1 December 2006
Unlisted	5,000,000	Exercisable at 12.5 cents expiring before 1 July 2007
Unlisted	3,000,000	Exercisable at 15 cents expiring before 1 November 2007
Unlisted	5,000,000	Exercisable at 6 cents expiring before 30 June 2006

Source: Appendix 3B and Share Registry Report

6.5 Breakaway - Historical Statements of Financial Performance

Table 8

Breakaway	Unaudited Nine Months ended 31 March 2005	Audited Year ended 30 June 2004	Audited Year ended 30 June 2003
	\$'000	\$'000	\$'000
Revenue from sale of goods	-	21,997	67,088
Other revenue from ordinary activities	236	15,344	4,139
Total Revenue	236	37,341	71,227
Cost of goods sold	-	28,321	67,794
Borrowing costs	41	86	598
Employee costs	617	2,312	-
Exploration costs	937	1,181	-
Depreciation and amortisation costs	44	1,613	-
Other expenses from ordinary activities	768	7,005	11,342
Total expenses	2,407	40,518	79,734
Loss from ordinary activities before tax	(2,171)	(3,177)	(8,507)
Income tax benefit relating to loss from ordinary activities	-	-	-
Loss from ordinary activities after related income tax	(2,171)	(3,177)	(8,507)
Net loss attributable to outside equity interests	-	-	-
Net loss attributable to members of the parent entity	(2,171)	(3,177)	(8,507)

Source: Audited financial statements for the year ended 30 June 2004 and management accounts for the nine months ended 31 March 2005

6.6 Breakaway - Historical Statements of Financial Position

Table 9

Breakaway	Unaudited As at 31 March 2005 \$'000	Audited As at 30 June 2004 \$'000	Audited As at 30 June 2003 \$'000
CURRENT ASSETS			
Cash assets	168	2,309	4,641
Receivables	299	252	5,728
Other financial assets	46	28	17
Other	23	-	732
TOTAL CURRENT ASSETS	536	2,589	11,118
NON-CURRENT ASSETS			
Receivables	1,685	1,212	434
Property, plant and equipment	796	796	2,563
Exploration, evaluation and development expenditure	10,579	8,409	11,815
TOTAL NON-CURRENT ASSETS	13,060	10,417	14,812
TOTAL ASSETS	13,596	13,006	25,930
CURRENT LIABILITIES			
Payables	1,449	646	14,125
Interest bearing liabilities	39	27	155
Provisions	583	581	668
TOTAL CURRENT LIABILITIES	2,071	1,254	14,948
NON CURRENT LIABILITIES			
Interest bearing liabilities	-	6	138
Provisions	2,137	1,987	2,012
TOTAL NON CURRENT LIABILITIES	2,137	1,993	2,150
TOTAL LIABILITIES	4,208	3,247	17,098
NET ASSETS	9,388	9,759	8,832
EQUITY			
Contributed equity	58,822	57,022	52,918
Accumulated losses	(49,434)	(47,263)	(44,086)
TOTAL EQUITY	9,388	9,759	8,832

Source: Audited financial statements for the year ended 30 June 2004 and management accounts for the nine months ended 31 March 2005

7. OVERVIEW OF THE NICKEL, COPPER AND GOLD INDUSTRIES IN AUSTRALIA

The following industry analysis, other than the comments on production risks, is taken from the following reports published by IBISWorld Pty Ltd:

- ◆ 'Nickel Ore Mining in Australia', 15 October 2004
- ◆ 'Gold Mining in Australia', 1 October, 2004
- ◆ 'Copper Ore Mining in Australia', 15 October 2004.

The mining industry generally in Australia is highly regulated. The State Governments oversee virtually all aspects of operations. They determine which land is open to exploration and mining, issue exploration and mining leases and collect royalties from producers. The industry is also subject to native title claims under the Native Title Act 1993, commonly known as the Mabo legislation.

Breakaway's operations and investments are influenced by nickel, copper and gold commodity price fluctuations. Within each industry sector, Breakaway is a small explorer by global standards and is therefore a price taker in the international markets.

The following overview of the nickel, copper and gold markets will provide some context for assessing Breakaway's operations and investments in these mining sectors.

7.1 Nickel Ore Mining

7.1.1 Market Size

The real revenue and value added of the nickel ore mining industry are estimated to have been \$2,034 million and \$1,302 million respectively in 2003-04. Domestic demand is estimated to have been \$1,470 million in 2003-04 and exports account for around 24 per cent of industry turnover.

There were no exports of nickel ore until 1992-93 but since then nickel ore exports have risen to represent approximately 24 per cent of industry revenue. Only around 1 to 2 per cent of domestic demand is imported and most imported ore is refined in Australia and then exported.

The nickel ores industry mined around 185,000 tonnes of nickel (metal content) in 2003-04.

7.1.2 Industry Conditions

Industry concentration is high, WMC Resources Ltd ("**WMC**") accounts for around 50 per cent of nickel ore production, and the top four producers for well over 70 per cent. Over the five year period to 2003-04 WMC continued to dominate but a number of new producers also entered the market.

There are substantial barriers to entry into the nickel industry, including significant capital required to either discover or purchase a nickel prospect and the lack of prospective nickel areas not already being actively explored or mined. Other barriers include sufficient working capital to survive until positive cash flows are obtained and expertise to establish trading links with a purchaser for the nickel.

Wages and salaries absorb around 7 per cent of revenue, stores and materials (12 per cent), fuel (7 per cent), contractors (12 per cent) and maintenance and freight (both

4 per cent). The return to capital is relatively high, around 55 per cent, reflecting the capital intensive nature of the industry.

Most of Australia's nickel mines are underground operations. Newer mines are often initially open-cut, but as shallow reserves of nickel-bearing ore are exhausted, deeper ore is accessed by sinking underground shafts. Most of the new nickel mines coming on stream in Australia are geologically different to the mines currently in production, that is, Laterite ore will be mined, as opposed to the current sulphide bodies being mined. Most Laterite mines are based on new technology which incorporates processing facilities as well as a mine. To date these have been less than successful.

The nickel ore industry is highly volatile with large year to year swings in the volume of production and the real Australian dollar ("AUD") price for nickel.

7.1.3 Demand Determinants

The demand for nickel is primarily driven by the demand for stainless steel, around eight per cent of which is nickel. This accounts for around two-thirds of current nickel consumption worldwide. Although nickel is also used in other iron and steel products, most of the remaining output is used in non-steel applications. These include anodes, nickel salts in electrolytes for plating, catalysts in the chemical industry and non-ferrous alloys such as cupronickel for coinage.

The nickel ore mining industry's major domestic customer is the basic non-ferrous metal manufacturing industry. The local nickel processing industry accounts for around 76 per cent of the mining industry's turnover.

7.1.4 Current Performance

The performance of the nickel ore mining industry is heavily dependent upon trends in nickel output, the nickel price (denominated in US dollars ("USD")) and the value of the AUD. Nickel prices generally respond strongly to shifts in the demand/supply balance for the metal.

It is thought industry revenue almost doubled during 1999-00, due to higher output and a much higher USD nickel price. Although USD nickel prices slumped during 2000-01, the declining value of the AUD offset the bulk of the decline. This, combined with substantially increased output, has underpinned industry revenue rising again, around 45 per cent.

Nickel ore production jumped to around 144,000 tonnes during 1999-00 due to output from new mines and a return to higher levels of production by WMC. Output continued to rise during 2000-01, reaching 195,000 tonnes. Production at Murrin Murrin rose strongly, WMC again boosted output and Jubilee Mines' Cosmos project produced its first full years' production. Nickel production reduced to 193,000 tonnes in 2001-02 as output at Murrin Murrin continued to rise (reaching 28,652 tonnes), and production at WMC's Mt Keith mine eased. Production fell to around 183,000 tonnes in 2002-03, reflecting resource depletion at the Radio Hill mine and reduced output at the Black Swan/Silver Swan operation. The decline occurred despite the first full year's output of 6,921 tonnes from the new Emily Ann nickel mine, owned by LionOre Mining International Ltd. Nickel production rose to around 185,000 tonnes in 2003-04, as higher output from WMC operations more than offset falls elsewhere, notably Bulong.

Both demand for and production of stainless steel has risen, especially in Asia, underpinning very strong gains in nickel prices since early 2002. The average USD

nickel price rose nearly 30 per cent in 2002-03 from the previous year. Although the AUD firmed over this period, nickel prices in AUD still rose strongly. These higher prices are believed to have more than offset the impact of lower output, resulting in a 5.8 per cent rise in real industry revenue.

USD nickel prices again rose around 66 per cent in 2003-04. Stainless steel manufacturers' demand for nickel was driven by strong growth in industrial production in the USA and China. In addition, nickel stocks fell to historically low levels as demand exceeded supply. It is estimated real industry revenue increased almost 28 per cent during the year, due to the AUD nickel prices rising markedly during 2003-04 together with slightly increased output. .

Table 10 – Average Nickel Prices since 1994

Year	\$US Per Tonne
1994-95	9,180
1995-96	9,874
1996-97	8,435
1997-98	6,669
1998-99	5,059
1999-00	8,972
2000-01	7,640
2001-02	6,185
2002-03	7,850
2003-04	12,264

7.1.5 Outlook

Nickel prices for 2004-05 are expected to show further growth, reflecting continued strong demand for the metal and low nickel stocks. Additions to the world supply of nickel during the outlook period will take some time to come on stream. In early 2000, the Canadian nickel producer, Inco, announced the Voisey Bay mine which was to commence operating in 2003, is now scheduled to start-up at 50,000 tonnes per year from the second half of 2005. Jinchuan Nickel, China's largest nickel producer's 30,000 tonne per year smelter is due to commence operation in 2005 and BHP Billiton has committed to a 140 per cent increase in the capacity of its Yabulu refinery in Queensland. These additions to supply from 2005-06 onwards, together with moderating demand growth, will see nickel prices ease.

Trends in USD nickel prices, the value of the AUD and the volume of nickel production, will continue to drive industry performance during the outlook period.

The real revenue and value added of the nickel ore mining industry are expected to expand modestly over the outlook period, rising at average annual rates of around 1.5 per cent and 1.6 per cent, respectively. Growth is expected to be very uneven, with a large increase in revenue of around 26 per cent in 2004-05, followed by declines.

7.2 Copper

7.2.1 Market Size

During 2003-04 the copper ore mining industry in Australia is estimated to have generated real industry revenue of \$2,248 million, value added of \$1,349 million and domestic demand around \$1,011 million. The two largest participants, Xstrata and WMC, together represent around 60% of production.

Around 44% of the copper ore produced in Australia is exported in concentrate form. The remainder is used in the domestic production of refined copper. The major export market for copper concentrate during 2003-04 was Japan, which accounted for nearly 32% of exports. China absorbed nearly 23% and South Korea 5% of exports.

The industry produced around 794,000 tonnes of copper (mainly in concentrate form) during 2003-04, down from 883,200 tonnes in 2002-03.

7.2.2 Industry Conditions

There are substantial barriers to entry into the copper ore mining industry. Existing producers are able to expand their operations (where ore reserves permit) at relatively low capital cost, making entry difficult for new players. Also most existing players are vertically integrated.

Copper ores are in the main extracted from underground mines. However, open cut methods are being increasingly used to extract shallow copper-bearing ores. Some newer mines are also using solvent extraction (heap leaching) and electrowinning to produce copper cathode. These methods by-pass the production of copper concentrate to produce a semi-refined copper product.

The level of foreign ownership and Australian production by offshore establishments puts industry globalisation in the 'high' category. Also, companies operating in the industry are global in nature, have substantial offshore holdings in other mining and mineral processing ventures and are export oriented.

7.2.3 Demand Determinants

Copper has a wide variety of uses, many of them associated with infrastructure development. Copper is used in electrical cabling and for domestic and industrial piping. It is also used in the manufacture of motor vehicles in tubing and electrical wiring. In alloy form, it is used in the manufacture of coinage, and various copper compounds are used by the chemical and other industries. In recent years, copper has faced strong competition from alternative materials, such as optic fibres (communications), plastics (water tubing) and aluminium (motor vehicle radiators).

7.2.4 Current Performance

The performance of the Australian copper ore mining industry is heavily dependent upon:

- ◆ the world price for copper (denominated in USD);
- ◆ the level of copper production; and
- ◆ the value of the AUD.

Copper prices soared during 2003-04, due to surging industrial growth in China and a weaker USD. Low copper stocks also contributed to the price rises.

Production fell in Australia to 796,000 tonnes in 2003-04, due to lower ore grades at some mines (Ernest Henry) and production problems at other operations (Olympic Dam). A much stronger AUD eroded, but did not eliminate the benefit of higher USD prices for copper. The USD price rose nearly 46% in nominal terms in 2003-04, but AUD prices for copper only increased 19.5% in nominal terms.

Table 11 – Average Copper Prices since 1999

Year	\$US Per Tonne
1999-00	1,887
2000-01	1,885
2001-02	1,576
2002-03	1,632
2003-04	2,325

7.2.5 Market Outlook

Exceptional demand from China and the United States has helped create a massive shortage in the copper market. A deficit of 517,000 tonnes of primary copper is forecast, up from 117,000 tonnes. Stocks have fallen nearly 80% since the start of 2004 to critical levels of around 3 weeks worth of consumption.

With stocks remaining at historically low levels, it will remain susceptible to supply side shocks. China will continue to have an immense influence on copper demand as it accounts for 30% to 35% of the total increase in world consumption over the next three years. However, China's growth rate, at 9.3% in 2003, is expected to slow.

Low stocks should keep copper prices high. With stocks forecast to fall even further during 2005 (in terms of weeks of consumption), upward pressure on the price will remain. It is likely the high in this cycle has passed but the low stocks will probably cause the price to remain high for most of 2005.

The high copper prices of 2003 and 2004 are expected to produce a substantial supply response. Mines closed during the late 1990s / early 2000s (notably in the United States) are being reactivated and there are plans for new and expanded output at other operations, including in Australia. These additions to supply will cause prices to moderate, although probably not until 2005-06. The bulk of the new capacity is relatively low cost, so a modest copper price will not deter development and production.

Australia's output of copper is expected to continue increasing to around 1 million tonnes by 2008-09 - as new mines such as Telfer, Tritton and Whim Creek come on stream and as increases in output are made at large mines such as those operated by WMC (Olympic Dam) and Xstrata (Ernest Henry).

7.3 Gold

7.3.1 Market Size

During 2003-04 the Australian gold ore mining industry is estimated to have generated real revenue of \$4,654 million and value added of \$1,908 million, with the four largest gold ore producers accounting for around 49% of production.

In recent years, Australian gold exports have accounted for between 70% and 90% of industry revenue. Approximately 260 tonnes of gold ore was mined during 2003-04.

7.3.2 Industry Conditions

The barriers to entry into the gold ore mining industry include significant capital required for exploration programs and mine development, the acquisition of permits and leases, and the need to supply comprehensive environmental impact statements. Also the increased level of negotiation required by the Mabo legislation can be an additional barrier for smaller operators.

Compared with overseas producers of gold, Australia has a relatively large number of small, short-life mines. In Australia, gold mining differs from other metal industries in that production comes from a large number of mines, ranging in size from the very small – 2,000 troy oz - to large operations producing over 500,000 troy oz per annum.

The rapid growth in gold production during the 1980s and 1990s was based on the open cut mining of large low-grade deposits and the use of chemicals for gold extraction. The techniques enabled gold to be produced from previously uneconomic tailings and deposits, and mark a sharp change from the traditional method of underground mining.

The level of globalisation of the Australian gold ore mining industry has increased with the takeover of Australian operations by foreign-based firms and the major companies engaged in gold mining in Australia are global operators.

7.3.3 Demand Determinants

The demand for gold - either in ingot form or fabricated into jewellery and coins, rests on its traditional role as a store of wealth. Industrial uses for the metal are essentially limited to the electronics industry and dentistry.

7.3.4 Current Performance

Gold output in Australia rose strongly in the 1980s and 1990s but has fallen over recent years, largely due to the relatively weak price of gold in recent years. Gold prices rose in early 2003, leading up to military action against Iraq, and continued concern over terrorism and turmoil in the Middle East have kept gold prices high since then.

During 2002-03 the mine production of gold rose and at the same time the USD gold price rose strongly. Although the AUD firmed, it did not offset the entire price gain. However, production fell about 6% over 2003-04, and although the USD gold price rose 16% during the year, it was more than offset by the appreciation of the AUD, resulting in AUD gold prices falling 4.5% in nominal terms.

Table 12 – Average Gold Prices since 1999

Year	AUD Per troy oz
1999-00	512.3
2000-01	544.6
2001-02	584.0
2002-03	591.2
2003-04	545.6

7.3.5 Market Outlook

The gold price has been on an upward trend since hitting a year low of USD375 per oz in May 2004. Weakness in the USD was the key factor in driving up the price of gold to a 16 year high in late 2004.

Gold has also received a boost from the renewal of the Washington Agreement early in 2004, with the market more assured of a measured sell down on central bank reserves over the next few years. Further price rises are anticipated for 2004-05, in response to ongoing concern over terrorism, but are unlikely to be sustained beyond then. As economic conditions improve and the situation in the Middle East stabilises, gold prices are expected to edge down. In addition, higher world gold production, arising from the recent increase in gold prices, and increased gold sales by central banks, will cause downward pressure on prices.

New projects are underway and higher prices have also provided an incentive to re-examine techniques aimed at exploiting lower grade ore. Increasingly, Australia's gold production will come from larger mines as smaller, short-life mines become uneconomic and close. Taking these factors into account, Australia's gold output is expected to be around 345 tonnes in 2008-09.

7.4 Production Risks

The ability of Breakaway to become profitable is dependent on the ability to mine sufficient quantities of nickel, copper and gold which in turn is subject to the risks associated with mining production. Those risks are briefly summarised below:

Table 13

	Production Risk
Government Regulation	The mining industry is heavily regulated by Government. There is a risk of material adverse changes in government policies or legislation that may affect the level of mining activity.
Environmental	Mining projects are subject to laws and regulations regarding environmental matters and the discharge of hazardous waste and materials. Once mining proceeds there are likely to be environmental impacts that will need to be considered, some of which may compromise the ability to achieve projected production levels.
Weather	Poor weather conditions over a prolonged period may adversely affect mining activities and the timing of earning revenues.
Mining infrastructure	Unforeseen major failures, breakdowns or repairs required to key items of mining plant and equipment or mine structure may result in significant delays to the timing of the earning of revenue.
Industrial relations	Significant labour relations disputes have the ability to reduce mining activities or even close down mining operations for some time, hence reducing mine production and delaying revenue.
Technical difficulties	Unanticipated technical and operational difficulties may be encountered in the extraction and production process which would have the effect of delaying revenue.

8. VALUATION METHODOLOGIES

8.1 Methodologies commonly used for valuing assets and businesses are:

8.1.1 Capitalisation of future maintainable earnings ("FME")

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecast, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("**EBIT**") or earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

8.1.2 Discounted future cash flows ("DCF")

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

8.1.3 Net asset value

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- ◆ Orderly realisation of assets method
- ◆ Liquidation of assets method
- ◆ Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis is usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity's assets are liquid or for asset holding companies.

8.1.4 Historical Cost

This method is based on the determination of the expenditure on research and developing, licences or trials undertaken in establishing whether a venture is feasible. The historical cost is a legitimate method to use, although not theoretically valid, it is the more practical as it provides a measure representing the true cost of the venture. This true historical cost often undervalues the venture, but unlike other methods can provide an objective determined value.

8.1.5 Quoted Market Price Basis

Another alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

8.1.6 Past Expenditure

The Past Expenditure method is a method of valuing exploration assets in the resources industry. It is applicable for areas which are at too early a stage of prospectivity to justify the use of alternative valuation methods such as DCF. The Past Expenditure method is often referred to as the Multiple of Exploration Expenditure method.

Past expenditure, or the amount spent on exploration of a tenement, is commonly used as a guide in determining value. The assumption is that well directed exploration adds value to a property. This is not always the case and exploration can also downgrade a property. The Prospectivity Enhancement Multiplier ("**PEM**") which is applied to the effective expenditure therefore commonly ranges from 0.5 to 3.0. The PEM generally falls within the following ranges:

- 0.5 to 1.0 where work to date or historic data justifies the next stage of exploration;
- 1.0 to 2.0 where strong indications of potential for economic mineralisation have been identified; and
- 2.0 to 3.0 where ore grade intersections or exposures indicative of economic resources are present.

8.2 Valuation Approach Adopted to Value the Shares of Breakaway

If the shareholders approve the Transaction, LionOre will have the right to convert the Notes into fully paid ordinary shares in Breakaway with a conversion price range of 2.5 cents to 4.5 cents per share. To assess whether the conversion price is fair to the non-associated shareholders we need to value the issued shares of Breakaway.

For a mining and exploration company, it is most appropriate to adopt an asset based valuation approach. The asset based valuation approach that we consider to be most appropriate in valuing Breakaway is the Net Assets on a Going Concern valuation approach.

As Breakaway is an ASX listed company the Quoted Market Price Basis is also an applicable approach. Further, in December 2004 Breakaway issued 44,943,050 shares at 3.8 cents each which can also be taken into account in determining the market share price.

We therefore consider the Net Assets on a Going Concern Basis and the Quoted Market Price Basis to be the most appropriate valuation methodologies.

9. VALUATION OF THE SHARES OF BREAKAWAY AT THE DATE OF THIS REPORT

9.1 Net Assets on a Going Concern Basis of Breakaway

The realisable value of the net assets of Breakaway has been reflected in our valuation below. Breakaway has a high level of exploration assets which are at various stages of exploration, evaluation and development. All exploration, evaluation and development assets are included at historical cost.

It is expected the sale of the Bannockburn Gold project will be completed prior to 30 June 2005, however it is subject to the completion of the BNJV transaction (refer section 6.1), consequently we have not adjusted the assets and liabilities that will be affected by the sale.

Table 14

Item	Ref	Unaudited As at 31 March 2005 \$'000	Realisable value Low \$'000	Realisable value High \$'000
Assets				
Cash assets		168	168	168
Receivables	9.1.1	1,984	1,984	1,984
Plant and equipment	9.1.2	795	795	795
Exploration, evaluation and development expenditure	9.1.3	10,579	7,523	9,985
Other		69	69	69
Total assets		13,595	10,539	13,001
Liabilities				
Payables		1,449	1,449	1,449
Interest Bearing Liabilities		39	39	39
Provisions	9.1.4	2,720	583	583
Total liabilities		4,208	2,071	2,071
Net asset value of Breakaway		9,387	8,468	10,930

9.1.1 Receivables

This amount includes \$1.5 million for the environmental performance bond which will be released once the sale of the Bannockburn Gold project is completed. As indicated in section 9.1, we have not adjusted the assets and liabilities to reflect this sale.

9.1.2 Plant and Equipment

Breakaway does not own any property. We have assumed that on a going concern basis the written down value of this equipment is realisable and accordingly no adjustment has been made to our low or high valuation.

9.1.3 Exploration, Evaluation and Development Assets

As at 31 March 2005 Breakaway had recognised exploration, evaluation and development assets of \$10,579,365 in relation to a number of areas of interest. As there will be no change to the exploration, evaluation and development assets

arising from the Transaction (i.e. no areas are being acquired or disposed) we have not instructed an independent geologist to provide us with a value of these areas.

On 23rd May 2005 Breakaway announced that it had executed heads of Agreement to sell one of its projects, the Bannockburn Gold Project, to LionOre. This sale provides us with a value for use in our valuation assessment. Under the Heads of Agreement Breakaway will receive \$0.5 million in cash and all environmental liabilities amounting to \$2.1 million will be cancelled. The carrying book value of the Bannockburn Gold Project in the books of Breakaway is approximately \$5.658 million. The effect of this sale on the net asset value of Breakaway is a reduction of \$3.058 million.

Breakaway's projects at Miranda and Kambalda West are in a variety of stages of exploration however none are at such a stage that a valuation method other than cost would be appropriate. Accordingly we have valued these areas at cost and in doing so have adopted a PEM range of 1.0 to 1.5 to arrive at a value range of \$3.95 million to \$5.925 million for Miranda and \$0.973 million to \$1.46 million for Kambalda West. The values we have attributed to the Company's exploration assets are summarised in table 15 below.

Table 15

Area	Carrying Book Value \$'000	Low Value \$'000	High Value \$'000
Bannockburn	5,656	2,600	2,600
Miranda	3,950	3,950	5,925
Kambalda West	973	973	1,460
	10,579	7,523	9,985

Breakaway also has an interest in the Eloise regional exploration tenements. There has been limited recent exploration activity in these areas and little exploration expenditure has been incurred. As such it is reasonable not to assign any value to these tenements in our valuation.

On 30th June 2004 Breakaway sold the Eloise copper mine to Barmenco Ltd. Under the terms of the sale Breakaway retained a 30% Net profit Interest in the Eloise Copper Mine commencing from the date that the net profit from mining operations and/or the sale of the Eloise Copper Mine equals the total sale consideration. We have not assigned any value to the 30% Net Profit Interest in the Eloise Copper Mine as the receipt of any payment by Breakaway is dependent upon the mine's profits exceeding \$15.6 million. No data is available to indicate when the net profits from the mine might exceed this figure and as a consequence when Breakaway will start to receive payments from the profits arising from the Eloise Copper Mine.

9.1.4 Provisions

An amount of \$2,137,000 included as a provision by Breakaway relates to the environmental performance bonds issued by the Company in relation to the Bannockburn Project. Upon the sale of this project to LionOre these environmental bonds will be cancelled and will therefore no longer be a liability to the Company. Accordingly we have removed the environmental provisions in arriving at our valuations.

9.1.5 Net Assets on a Going Concern Basis Valuation Summary

Our asset based valuation model results in a valuation of Breakaway of between \$8,468,000 and \$10,930,000. Breakaway has 513,622,438 ordinary shares on issue, prior to the Transaction.

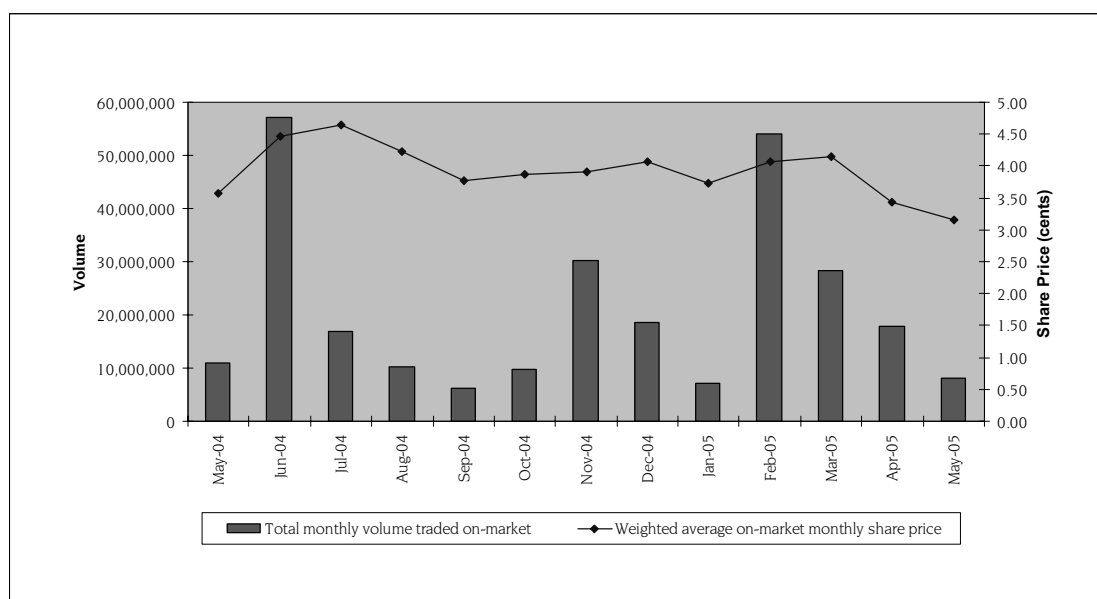
The result is a value per share range of 1.65 cents to 2.13 cents.

9.2 Quoted Market Prices for Breakaway Securities

As discussed in section 8.2, Breakaway is a listed company and we therefore consider the Quoted Market Price Basis and recent share issues to be an appropriate valuation methodology for valuing the Breakaway shares as at the date of this report.

9.2.1 Average Share Price and Trading Volume

The following chart provides a summary of the monthly average trading share prices and volumes in Breakaway shares over the past year.



Source: ASX

The daily price of Breakaway shares from 21 May 2004 to 20 May 2005 (last trading day prior to the announcement of the Transaction) has ranged from a high of 5.2 cents on 23 June 2004 to a low of 2.9 cents on 19 May 2005.

The highest monthly volume of shares traded was June 2004 with 57,059,528 shares being traded for that month. This was following the announcement of a share placement and new strategic alliance with LionOre. The highest volume trading day was on 23 June 2004 when 23,615,269 shares were traded.

9.2.2 Weighted Average Market Price

To provide further analysis of the market prices for Breakaway shares, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 20 May 2005:

Table 15

Breakaway Price Per Share	20 May 2005 (cents)	10 Days (cents)	30 Days (cents)	60 Days (cents)	90 Days (cents)
Closing Price	3.0				
Weighted Average		3.2	3.2	3.9	3.9

Source: ASX

The weighted average prices in Table 15 are prior to the date of the announcement of the Transaction, to avoid the influence of any increase or decrease in price of Breakaway shares that has occurred since the Transaction was announced.

9.2.3 Quoted Market Price Basis Valuation Summary

Our assessment is that based on the weighted average price of shares prior to the announcement of the Transaction, the range of values for Breakaway shares is between 3.0 cents and 3.9 cents.

9.3 Recent Transactions

In December 2004 Breakaway offered via a prospectus dated 9 December 2004 52,631,578 shares. The offer closed on 16 December 2004 and 44,943,050 shares were issued at 3.8 cents each. This is an indicator of the value of the Company's shares.

9.4 Assessment of the value of Breakaway's shares

The results of the valuations performed are summarised in Table 16:

Table 16

Valuation	Value	
	Low	High
Net Asset Backing Per Share (section 9.1.5)	1.65 cents	2.13 cents
Quoted Market Price Per Share (section 9.2.3)	3.0 cents	3.9 cents
Recent Transactions (Section 9.3)	3.8 cents	3.8 cents

Based on the results summarised in Table 16, in our opinion, the value of a Breakaway share at the date of this report is between 3.0 and 3.9 cents per share.

10. CONVERTING NOTES

On 20 May 2005 LionOre subscribed to Breakaway for the Notes. There will be 70 Notes and each Note will have a face value of \$50,000. The Notes will not be interest bearing and will mature on 20 May 2008.

10.1 The Conversion Terms of the Notes

During the Life of the Notes

1. **LionOre** has the option to convert the Notes at any time up to 20 April 2008, into fully paid ordinary shares in Breakaway at a conversion price of 4.5 cents per share. If exercised, LionOre would be issued with up to 77,777,777 ordinary shares:

$$\$3.5 \text{ million} / 4.5 \text{ cents} = 77,777,777$$

LionOre's shareholding would increase from 12.69% to 24.18% if it converted all of the Notes at 4.5 cents per share.

2. **Breakaway** has the option to redeem all of the Notes outstanding at any time after 12 months from the issue date of the Notes, that is, after 20 May 2006, and prior to 20 May 2008 ('**Early Redemption**'). Early Redemption can be satisfied either by payment of the outstanding amount of the Notes in cash to LionOre, or by converting the outstanding amount of the Notes into shares at a conversion price between 4.5 cents and 2.5 cents. The conversion price is determined using the same method that applies if the Notes are redeemed at maturity.

The number of shares LionOre would be issued if the conversion price applied was 2.5 cents is 140 million.

$$\$3.5 \text{ million} / 2.5 \text{ cents} = 140,000,000$$

LionOre's shareholding would increase from 12.69% to 31.4% if it converted all of the Notes at 2.5 cents per share.

If Breakaway chooses to exercise the option of Early Redemption, LionOre has 30 days in which to exercise its right to convert the Notes in whole or in part at 4.5 cents per share. For example, if Breakaway's shares were trading at greater than 4.5 cents per share it may choose to offer LionOre cash instead of shares to redeem the Notes, but LionOre has 30 days in which to exercise its right to convert the Notes at 4.5 cents per share rather than accepting the cash.

At Maturity of the Notes

The outstanding amount of the Notes (if any) not converted prior to 20 May 2008 (the maturity date) will be redeemed by Breakaway either by (the choice is Breakaway's):

- ◆ Paying LionOre the outstanding amount of the Notes in cash; or
- ◆ Converting the outstanding amount of the Notes into shares at a conversion price between 4.5 cents and 2.5 cents depending on the volume weighted average price ("**VWAP**") of Breakaway's shares during the 20 business days immediately prior to redemption of the Notes, as follows:
 - If the VWAP is equal to or greater than the conversion price of 4.5 cents, the outstanding Notes will be converted at 4.5 cents per share;

- If the VWAP is equal to or below 2.5 cents per share, the outstanding Notes will be converted at 2.5 cents per share; and
- If the VWAP is less than 4.5 cents and greater than 2.5 cents per share, the outstanding Notes will be converted at a price equal to the VWAP per share.

The following table summarises the likely outcomes for each of the conversion options available to Breakaway and LionOre:

Table 17

Conversion Options	LionOre Outcomes	Breakaway Outcomes
Converted during the Life of the Notes		
VWAP is greater than 4.5 cents	Option to convert all or part of the Notes at 4.5 cents per share.	Issued shares increased by up to 77,777,777 and liability to LionOre is reduced by the shares issued x 4.5 cents. LionOre's shareholding in Breakaway increases from 12.69% up to 24.18%
VWAP is less than 4.5 cents	Option to convert all or part of the Notes at 4.5 cents per share but unlikely to convert if the VWAP is less than 4.5 cents	No change to issued shares and liability to LionOre remains outstanding
Early Redemption		
VWAP is greater than 4.5 cents	Choose to convert all or part of the Notes at 4.5 cents per share instead of accepting the cash because shares are worth more than the cash	Offer to redeem outstanding Notes with cash (up to \$3.5 million) instead of shares (up to 77,777,777) because shares are worth more than the conversion price
VWAP is between 4.5 and 2.5 cents	Accept offer to convert outstanding Notes at VWAP price per share instead of 4.5 cents per share	Offer to redeem outstanding Notes at VWAP price per share, unlikely if share price is expected to rise before the Notes reach maturity.
VWAP is equal to or less than 2.5 cents	Has to accept offer to convert at 2.5 cents per share even though shares are worth less.	Offer to redeem outstanding Notes at 2.5 cents per share being higher than the market price of the shares.
Redeemed at Maturity		
VWAP is greater than 4.5 cents	Choose to convert all or part of the Notes at 4.5 cents per share instead of accepting the cash because shares are worth more than the cash	Redeem all outstanding Notes for cash as the shares are worth more than the conversion price.
VWAP is between 4.5 and 2.5 cents	Accept offer to convert outstanding Notes at VWAP price per share instead of 4.5 cents per share	Redeem all outstanding Notes at the VWAP per share
VWAP is equal to or less than 2.5 cents	Has to accept offer to convert at 2.5 cents per share even though shares are worth less.	Redeem all outstanding Notes at 2.5 cents per share. Issued shares increased by up to 140 million. LionOre's shareholding in Breakaway increases from 12.69% up to 31.4%.

From the above information we have assessed whether the conversion terms are to Breakaway's benefit:

Table 18

Conversion Option	Impact on Breakaway and its Shareholders
VWAP is greater than 4.5 cents during life of Notes	LionOre is likely to realise this benefit by converting at 4.5 cents and increasing its shareholding in Breakaway. It would be preferable for Breakaway to redeem the Notes with cash when the VWAP is higher than 4.5 cents. This benefits LionOre more than Breakaway.
VWAP is greater than 4.5 cents at Maturity	Breakaway can redeem the Notes outstanding with cash in preference to issuing shares at a conversion price which is less than the VWAP. This benefits Breakaway more than LionOre.
VWAP is between 4.5 and 2.5 cents during life of Notes	Breakaway can redeem the Notes at the VWAP per share, however this is a benefit to LionOre not Breakaway, as such Breakaway is unlikely to exercise this option.
VWAP is equal to or less than 2.5 cents during life of the Notes	Breakaway can redeem the Notes outstanding at 2.5 cents per share. However this is unlikely to be in the interest of either Breakaway or LionOre and as such is unlikely to be exercised by Breakaway.
VWAP is between 4.5 and 2.5 cents at maturity	Breakaway can redeem outstanding Notes for cash or require LionOre to convert at VWAP per share. This is neutral as the conversion price is consistent with market prices.
VWAP is less than 2.5 cents at maturity	Breakaway can redeem outstanding Notes for cash or require LionOre to convert at 2.5 cents per share even though shares are worth less. This benefits Breakaway more than LionOre

11. IS THE TRANSACTION FAIR?

Based on the results summarised in Table 16 our assessment of the value of Breakaway's shares at the date of this report is less than the conversion price of the Notes to be issued to LionOre on approval of the Transaction.

Based on this assessment, in our opinion the Transaction is fair to Shareholders.

12. OTHER CONSIDERATIONS

12.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the non-associated shareholders of Breakaway a premium over the value ascribed to that resulting from the Transaction.

12.2 Premium For Control

ASIC Policy Statement 74 requires that the expert give an opinion as to whether the proposed issue of shares will result in the Company receiving any premium for control. We have estimated the amount of any premium for control as being the amount by which the value of Breakaway's shares at the date of this report is exceeded by the conversion price of 4.5 cents per share payable by LionOre.

We have estimated the value of Breakaway shares to be between 3.0 cents and 3.9 cents each. On this basis we have concluded the premium for control being received by Breakaway if LionOre converts the Notes during their life to be between 0.6 cents and 1.5 cents per share.

13. IS THE TRANSACTION REASONABLE?

We have considered the position of Shareholders if the Transaction is approved and have taken into account the following advantages and disadvantages in this assessment.

We have assessed that in all cases the advantages and disadvantages of rejecting the Transaction are the inverse of accepting the Transaction. Thus for simplicity of evaluation of the Transaction we have set out the significant factors only in the context of accepting the Transaction.

13.1 Advantages of Accepting the Transaction

13.1.1 The Transaction is Fair

As shown in Section 11 we have assessed the Proposed Transaction to be fair to Shareholders. ASIC Policy Statement 75 states that "an offer is reasonable if it is fair".

13.1.2 Availability of Working Capital

If the Transaction is approved LionOre will pay \$3.5 million in cash to Breakaway for the Converting Notes. The Transaction forms part of a larger restructuring by the Company whereby Breakaway will sell its interest in the Bannockburn Gold Project. Following the restructure Breakaway will have cash reserves of approximately \$4.5 million and greatly reduced exploration commitments.

The Directors anticipate that this level of cash will be sufficient to permit the Company to fulfil its exploration and operating commitments for over two years. This would therefore eliminate the need for the Company to raise further capital to meet existing needs during that period.

13.1.3 Cap on the Number of Shares that may be Issued

Under the terms of the Notes they may be converted at 4.5 cents per share by LionOre. Upon maturity the Notes may be converted at a conversion price between 4.5 cents and 2.5 cents depending on the VWAP of Breakaway's shares during the 20 business days immediately prior to redemption of the Notes.

These conversion terms protect Shareholders in the event that the market price of Breakaway's shares falls below 2.5 cents at the time the Notes mature as the number of Breakaway shares that would be issued to LionOre would be limited to 140 million.

13.1.4 The Notes are Interest Free

The Notes carry no interest. The lack of an obligation on Breakaway's part to pay interest to LionOre during the life of the Notes will assist Breakaway to preserve its cash during that period so that it can be applied to the development of its exploration areas.

13.2 Disadvantages of Accepting the Transaction

13.2.1 Dilution of Existing Shareholders' Interests

The interests of existing non-associated shareholders in the shares of Breakaway will be diluted if the Transaction is approved as between 77,777,777 shares may be issued to LionOre on conversion of the Notes, which would increase the LionOre's current shareholding in Breakaway from approximately 12.69% to 24.18%. If LionOre was also to exercise the options that it holds, it could further increase its interest in Breakaway to 28.2%.

14. CONCLUSION

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is **fair and reasonable** to the non-associated shareholders.

15. SOURCES OF INFORMATION

This report has been based on the following information:

- ◆ Draft Notice of General Meeting and Explanatory Memorandum on or about the date of this report;
- ◆ Audited financial statements of Breakaway for the year ended 30 June 2004;
- ◆ Reviewed financial statements of Breakaway for the half-year ended 31 December 2004;
- ◆ Unaudited management accounts of Breakaway for the period ended 31 March 2005;
- ◆ Industry reports prepared by IBIS World Pty Ltd;
- ◆ Information in the public domain; and
- ◆ Discussions with Management of Breakaway and other information provided by them.

16. DISCLOSURE OF INTERESTS

BDO Consultants (WA) Pty Ltd is entitled to receive a fee of approximately \$15,000 for the preparation of this report. Except for this fee, BDO Consultants (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

In addition, BDO Consultants (WA) Pty Ltd has been indemnified by Breakaway in respect of any claim arising from BDO Consultants (WA) Pty Ltd's reliance on information provided by the Breakaway, including the non provision of material information, in relation to the preparation of this report.

Neither the two signatories to this report nor BDO Consultants (WA) Pty Ltd have had within the past two years any professional relationship with Breakaway, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Breakaway and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

17. QUALIFICATIONS

BDO Consultants (WA) Pty Ltd is wholly owned by BDO, a member of BDO International, which has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Consultants (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes, Matt Giles and Kerryn Hands of BDO Consultants (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports within Australia.

18. DISCLAIMERS AND CONSENTS

This report has been prepared at the request of Breakaway for inclusion in the Explanatory Memorandum which will be sent to all Breakaway Shareholders.

BDO Consultants (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Consultants (WA) Pty Ltd.

BDO Consultants (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

BDO Consultants (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of Breakaway. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Consultants (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CONSULTANTS (WA) PTY LTD



Sherif Andrawes
Director



Matt Giles
Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AUD	Australian Dollars
BDO	BDO Consultants (WA) Pty Ltd
BNJV	Bannockburn Nickel and Base Metal Joint Venture
The Company	Breakaway Resources Limited
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FMD	Future Maintainable Dividends
FME	Future Maintainable Earnings
LionOre	LionOre Australia Pty Ltd
Maturity Date	The date three years from the date of issue of the Notes
NTA	Net Tangible Assets
The Notes	70 unsecured redeemable converting notes with an aggregate face value of \$3.5 million and with a conversion price range of 2.5 cents to 4.5 cents per fully paid ordinary share
Our Report	This Independent Expert's Report prepared by BDO
PEM	Prospectivity Enhancement Multiplier
Shareholders	Shareholders of Breakaway not associated with LionOre
The Transaction	The issue by Breakaway of 70 unsecured redeemable converting notes with an aggregate face value of \$3.5 million and with a conversion price range of 2.5 cents to 4.5 cents per fully paid ordinary share
USD	United States Dollar
VWAP	Volume Weighted Average Price

