



8 February 2007

ELOISE MINE ROYALTY UPDATE

KEY POINTS

- **Comprehensive update received from Barmenco Investments Pty Ltd on operational & financial performance of the Eloise Copper Mine (BRW 30% net profit interest).**
- **Barmenco advises that no royalty will be paid for the December 2006 Quarter following a \$12.0 million unaudited loss due to substantial capital development costs that are expensed, increased operating costs and lower copper prices.**
- **Continued progress with new productivity initiatives initiated last year to secure the mine's long-term future.**
- **Breakaway remains in a strong cash position of circa \$20 million, underpinning its core business strategy as a leading nickel and base metal exploration company.**

Breakaway Resources Limited (ASX: **BRW**) advises that it has received a detailed update from the operator of the **Eloise Copper Mine** in Queensland, Barmenco Investments Pty Ltd, on the mine's operational and financial performance during the December 2006 Quarter, and on significant productivity and capital expenditure initiatives initiated last year to secure the mine's long-term future.

With the introduction by Barmenco of an aggressive capital development program at Eloise designed to establish the required infrastructure to enhance the longevity of the operation, it is unlikely that further earnings under Breakaway's 30% net profit entitlement will be received until 2007/08.

Breakaway is supportive of these productivity initiatives and is working with Barmenco to provide assistance and advice, where appropriate. Despite the short-term impact on royalty earnings, the productivity initiatives will deliver significant longer-term benefits which will ultimately flow through to Breakaway.

Eloise December Quarter Result

Following the preliminary advice foreshadowed in Breakaway's December Quarterly Report, Barmenco has now advised Breakaway that the Eloise Mine incurred an unaudited loss of approximately \$12.0 million for the December 2006 Quarter, after expensing all capital and development costs incurred during the Quarter.



The major contributing factors to this loss were:

- higher operating costs, primarily due to planned capital development (including a new \$13 million ventilation rise and associated infrastructure being developed as part of the productivity enhancement program, of which approximately \$3.6 million has been expended to date) and increased inventories of consumables to accommodate the northern wet season. All of these costs incurred to date have been expensed against profit rather than capitalised, under Barmenco's management accounting procedures; and
- recent negative movements in the copper spot price in world markets, resulting in a reduction in revenue and reduced values on stockpiles for the December 2006 Quarter.

In addition, concentrate production rates at Eloise were below the targeted level of 5,000 tonnes per month. This represents the optimum production level required to provide a buffer against volatility in the copper price by reducing unit operating costs.

2006/07 Royalty Payments

Breakaway earned a total of \$13.8 million from the Eloise royalty for the 2005/06 financial year, representing an outstanding result in an environment of record high copper prices. These earnings, combined with the \$13.5 million capital raising completed last year, contributed to the Company's current strong financial position with cash reserves at the end of January 2007 of more than \$20 million. It also enabled Breakaway to reduce the quantum of the capital raising, thereby minimising the level of shareholder dilution.

With the commencement of the aggressive capital development program and productivity enhancement initiatives at Eloise, further royalty entitlements may not be received until the 2007/08 financial year. The Company received a provisional payment of \$1.0 million for the September Quarter, as previously reported. The December Quarter loss does not represent a liability to Breakaway and will have no impact on the Company's cash position, with any losses incurred offset against future profits.

Eloise Mine Productivity Initiatives

During the second half of calendar 2006, Barmenco commenced implementation of a series of planned initiatives to establish a long-term production future for the Eloise Mine, increase its capacity to withstand volatility in the copper price and enhance the longevity of the mine. These include:

- the appointment of additional experienced personnel to enhance its management team;
- the continued delineation of depth extensions of the deposit in order to establish several years of reserves ahead of mining. A major in-mine drilling program has been completed and an updated reserve estimate is in preparation and expected to be announced during the March Quarter;



- the establishment of infrastructure to improve ventilation and enable mining to proceed to increasing depths. These additional services, which should be completed early in the June 2007 Quarter, will facilitate a further five years of production from the mine;
- improvements in the mining method to increase production efficiencies, reduce operating costs, improve safety and maximise the level of ore extraction; and
- an expanded exploration effort to identify new exploration opportunities on the Mining Lease with the potential to yield additional reserves and ore production centres to enhance production flexibility. Several targets have been identified and are currently being reviewed.

All of these initiatives are predicated on achieving a minimum concentrate production level of 5,000 tonnes per month to maintain an adequate operating margin. The benefits of these initiatives are expected to flow through during the current calendar year. Enhancements to the Eloise mining and processing infrastructure which increase the longevity of the operation represent a strategic advantage to Breakaway given its extensive 100%-owned exploration interests in the region. The strategically located Eloise plant has the potential to provide a centrally located treatment option for any future discoveries in this area.

Commenting on the announcement, Breakaway's Managing Director, Mr Peter Buck, said: "The Eloise royalty had delivered a significant financial benefit to the Company during 2005/06, materially strengthening its cash position and placing it in unique position in the Australian exploration sector".

"We are fully supportive of the initiatives being pursued by Barmenco at Eloise, which we believe will deliver important benefits to the operation from later this year and ultimately to Breakaway via our royalty interest," Mr Buck commented. "While there is a short-term impact on earnings from the royalty, the longer term outlook for the operation is very positive."

"In the meantime, our focus remains on delivering shareholder value through the exciting range of exploration activities we have underway across Australia, including at the Altia lead-zinc-silver deposit in Queensland and within our extensive nickel sulphide exploration portfolio in the Northeastern Goldfields," he added.

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