

**Breakaway Resources Limited**  
**(ASX:BRW)**

**Speculative Buy**  
**Current Price \$0.031**  
**All Ords 4431**

*Equities Research*  
**Date: 6 August 2005**  
John Macdonald, Mining Consultant

**Market Statistics**

ASX Code	BRW
Sector	Metals & Mining
Shares on Issue	516m
Capitalisation	\$16m
Year High	\$0.046
Year Low	\$0.026
Notes:	3.5M redeemable converting notes convertible at \$0.025-\$0.045 by July 2008

VALUATION	\$M	CPS
Miranda Nickel	10	1.9
Eloise NPI	9	1.7
Eloise exploration	5	1.0
Kambalda West	3	0.6
Cash	5	1.0
Notes adjustment	(3)	(0.5)
<b>Share valuation</b>	<b>29</b>	<b>5.6</b>

**PRINCIPAL OFFICE**

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**DIRECTORS**

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

**SUBSTANTIAL SHAREHOLDERS**

Barmingo Pty Ltd	18%	
Lionore Australia Pty Ltd	13%	
<i>Post notes conversion:</i>		
	At \$0.045 conversion (592 Mshs):	At \$0.025 conversion: (654 Mshs):
Lionore Australia Pty Ltd	24%	31%
Barmingo Pty Ltd	16%	14%

**Investment Summary**

- Breakaway is likely to emerge from a period of restructuring as a self funded base metals explorer with three large scale tenement holdings in the midst of major production districts.
- The Miranda, Eloise and Kambalda West exploration projects all, to various degrees, have a recent history of scant base metals exploration, due either to funding shortages or a focus on gold exploration. In the meantime, base metals prices have rocketed, geophysical prospecting techniques have undergone quantum improvements, and activities on neighbouring tenements have highlighted new plays.
- At Miranda, Breakaway is along trend and four kilometres south of Jubilee Mines' Prospero nickel discovery. At late July 2005 prices, the ten kilometres of strike immediately north of Miranda's border is capitalised at over \$1 billion. Breakaway has interpreted from magnetic and sampling data that the Cosmos ultramafic extends for about five kilometres into the Miranda tenements. Drilling is planned at Miranda North in late 2005.
- Advances in EM detection of nickel sulphide conductors has significantly reduced the risk of nickel exploration, particularly in Cosmos-Miranda terrain.
- The trace of the Cosmos ultramafic is less evident further south in the Agnew belt, in which Breakaway is a major tenement holder.
- The Eloise and Kambalda West exploration projects are both high profile prospecting areas held in major companies that drifted in the 1990s under low metal prices. Breakaway plans to recommence adequately funded exploration programs and using the latest exploration techniques. The Altia prospect at Eloise is a potentially company making target due for drilling in early 2006.
- The Eloise net profit interest, the progress of which has been quietly kept within private company records for the last year, has the capacity to deliver more than \$5 million per year to Breakaway starting in 2005/06.
- Breakaway is a pure exploration company with most of its prospects at an early stage of investigation. The potential income from the Eloise royalty offsets some of the inherent short term risk.

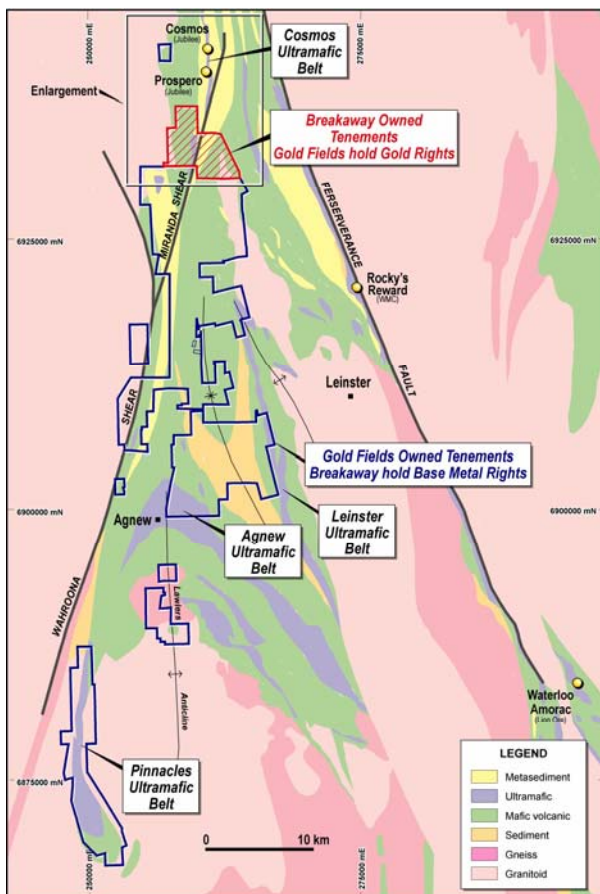
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## Company Background

Most of the present day assets and management of Breakaway Resources Limited were first combined in 2003 following the merger of Amalg Resources (owner of Eloise and Kambalda West) and the unlisted Breakaway (Miranda, Vivien and Bannockburn). The major shareholder of the unlisted Breakaway, mining contractor Barmingo Pty Ltd, became a 26% shareholder in the new company. In June 2004, Breakaway placed to LionOre Mining International \$3.0 million (14%) of Breakaway's shares as part of a pre-emptive right on future nickel ore treatment or concentrate offtake agreements covering Breakaway's existing tenements. By July 2005, asset sales had streamlined Breakaway's portfolio to four main interests; a 30% net profit interest in the Eloise copper mine, a block of exploration tenements at Eloise, the base metal rights at the Miranda project and the Kambalda West nickel project.

## Miranda Nickel

The Miranda project, which covers a majority of the greenstone belt between the Bellevue and Agnew gold mines in Western Australia, was assembled in large part by Asarco Australia in the late 1980s. A low nickel price and a string of gold discoveries along the western side of the belt subsequently kept the tenement package intact and under the control of companies interested almost exclusively in gold. Breakaway continued the gold focus after acquiring Miranda and joint ventured the Miranda project to Gold Fields of South Africa in 2001. Despite Jubilee Mines' discovery of high grade nickel at Cosmos, off the northern border of Miranda in 1998, Gold Fields maintained a gold only exploration program through to 2005. In May 2005, Breakaway released the Miranda gold rights to Gold Fields in return for 100% of the base metal (including nickel) rights, paving the way for the first dedicated nickel exploration at Miranda since the mid 1970's.

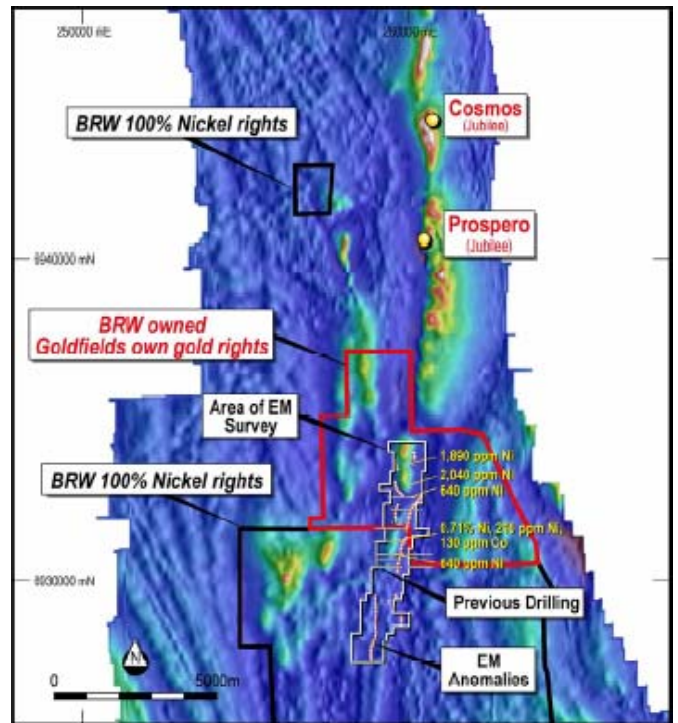


## Miranda dominates the south western sector of one of the most productive nickel belts in the world.

Attitudes to the nickel exploration at Miranda have been shaped in turn by the two nickel mines operating in the area. The Leinster Nickel Operations (LNO) of WMC Resources are 10 kilometres east of the Miranda block on the Perseverance Fault, in the Perseverance ultramafic complex. The Perseverance deposit, upon which LNO (formerly the Agnew nickel mine) has been based since 1970, is the largest known komatiite hosted nickel deposit in the world. Prior to 1998, exploration was concentrated along this eastern edge of the Agnew-Wiluna belt in the belief that future discoveries were most likely to be made in similar settings to Perseverance. The Rocky's Reward, Harmony and Eleven Mile Well discoveries have resulted.

The 1998 discovery of Cosmos, in a distinct ultramafic unit to the west of the Perseverance line has shifted regional priorities. By mid 2005, Cosmos had produced about 60,000 tonnes of nickel from ore grading 8% nickel, making it one of the highest grade (and lowest cost) nickel mines in the world. Jubilee has discovered four high grade deposits, all at the basal contact of the Cosmos ultramafic unit, within a five kilometre north-south strike length. From an exploration company starting point in 1997, Jubilee Mines is capitalised at \$1.02 billion in late July 2005 at a price of \$8.03 per share.

The southernmost of Jubilee's discoveries, Prospero, is four strike kilometres north of Miranda's border. Jubilee has inferred a resource at Prospero of 1.06 million tonnes at 5.7% nickel with extension drilling continuing.



## Breakaway interprets the Cosmos ultramafic extends into Miranda for about five kilometres.

Breakaway has assembled the available data for Miranda, which includes project wide geological reconnaissance work completed in the 1970s, base metals assays collected in the course of drilling for gold since the 1980s, an electromagnetic (EM) survey completed in 1997, and a recently flown, close spaced magnetic survey. From the airborne magnetic data, Breakaway has interpreted the continuation of the Cosmos ultramafic unit on the Miranda tenements for about five kilometres. The 1997 EM survey covered part of the

interpreted ultramafic and indicated a series of associated conductors. Drill logs and assays from the same area show anomalous nickel and copper values from gossanous, ultramafic material.

***New geophysical techniques can detect conductors where previous surveys have failed.***

Breakaway's first commitment at Miranda is to a new EM survey of the interpreted extension of the Cosmos ultramafic unit. EM has become a crucial tool for massive nickel sulphides exploration as a result of recent technical advances. Prior to 2003, massive sulphide nickel deposits were often too conductive for EM detection, because the induced EM field decayed too slowly. Since 2003, EM surveys have been able measure the EM field directly rather than its rate of decay. The consequent increase in EM range and sensitivity represents a quantum improvement in the effectiveness of EM surveys over massive nickel sulphides, particularly in the presence of competing conductors such as salt lake sediments. Jubilee noted in March 2004, that new EM collection techniques had defined a series of conductors at Prospero where previous systems had not detected any conductive bodies at all.

***Breakaway expects to commence the north Miranda EM survey in mid August 2005, finish processing the results by October, and start drilling by December 2005.***

A proportion of the interpreted ultramafics south of Prospero is overlain by salt lake sediments. Breakaway is required to submit a management plan and consult with traditional owners before drilling.

***Nickel prospects south of the Miranda Fault require review in light of the Cosmos discoveries.***

The interpreted trace of the Cosmos ultramafic unit is interrupted by a regional scale fault about seven kilometres into the Miranda tenements. Breakaway's contiguous nickel rights extend a further 30 kilometres to the south, covering ultramafic sequences (presumably including an extension of the Cosmos ultramafic) still to be mapped and correlated. Breakaway is compiling and analysing the previous work database preparatory to further EM surveys.

The Miranda project area includes the Pinnacles block, which covers 20 strike kilometres of the Agnew greenstone belt at its south western extremity. Previous EM (1999) and geochemistry work done over an ultramafic unit show immediate targets that Breakaway will refine with further EM in the September 2005 quarter.

***The Eloise Copper Mine – Breakaway's net profit interest***

Breakaway sold the Eloise copper mine to Barmenco in July 2004. While Barmenco assumed liabilities of \$14.8 million as consideration, Breakaway retained the exploration tenements covering 245 square kilometres around the mine and a net profit interest. Under the terms of the net profit interest, Breakaway is entitled to 30% of net profit after the first \$14.8 million in profit from operations or the sale of the Eloise mine after July 1st 2004.

Copper ore has been mined underground and concentrated on site at Eloise since 1996. The last public reports on Eloise's operation date from early to mid 2004. At that time, the mine was adversely affected by ore access, dilution and equipment availability issues, as well as the uncertainty associated with negotiations to sell the mine. Total costs averaged \$US1.15/lb Cu equivalent for the nine months to March 2004, compared to average copper price for the period of \$US1.05/lb.



The last published reserves for Eloise were 931,000 tonnes at 3.97% Cu, or two years of production as at June 2003. Resources of 1.8 million tonnes at 4.10% Cu were estimated to 1,000 metres vertical depth below which the deposit was open. When Barmenco took control in July 2004 mining (and decline haulage) had progressed to 900 metres below surface, leaving about one year of ore reserves. Mine development had been kept well ahead of production but a new vent shaft, costing about \$5 million, was potentially required. An exploration program was planned to test the deposit to 1,500 metres vertical depth. Barmenco obviously intended to improve operating performance, and as the mining contractor at Eloise, was well positioned assess the task.

***Under conservative assumptions Breakaway should be receiving royalties from Eloise in 2005.***

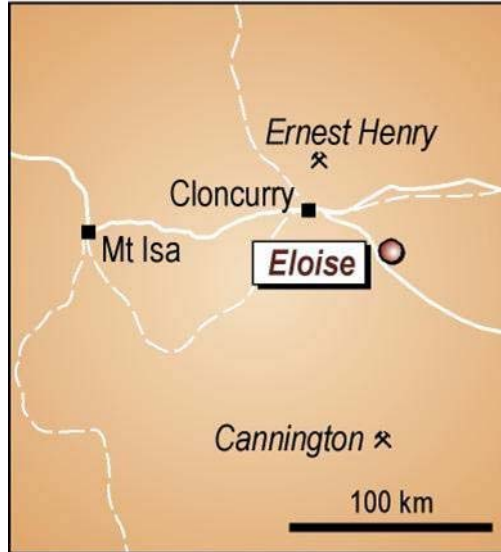
In July 2005, Eloise is still operating. Informal reports received by Breakaway suggest the \$14.8 million profit threshold is approaching and the mine's life remains indefinite. One obvious change to the operating conditions at Eloise is the copper price. Since July 2003, the copper price has steadily climbed from \$US75c/lb to \$US1.64/lb in July 2005. Even if Barmenco made no headway on the operational problems of early 2004 and maintained total costs of \$US1.20/lb, then at the average copper price in FY2005 of \$US1.40/lb, the total profit would have been about \$A9 million. At the same costs and at \$US1.60/lb the profit would be about \$A1.5 million per month. Accordingly, if Eloise has failed to improve and the copper price holds its ground the threshold for payments to Breakaway would be passed in October 2005.

The net profits interest is payable quarterly and losses can not be carried forward after the royalty is triggered. Barmenco's mining contract is set at costs plus 10% and mine management costs are fixed by agreement. Barmenco and Breakaway have pre-emptive rights on each other's interests in the Eloise mine and exploration tenements.

The Eloise net profits interest has the potential to fund all of Breakaway's near term exploration activities. The project would need only to perform in line with its most recent public record to start contributing cash to Breakaway at a rate of \$1.3 million per quarter later this year.

## Eloise Exploration

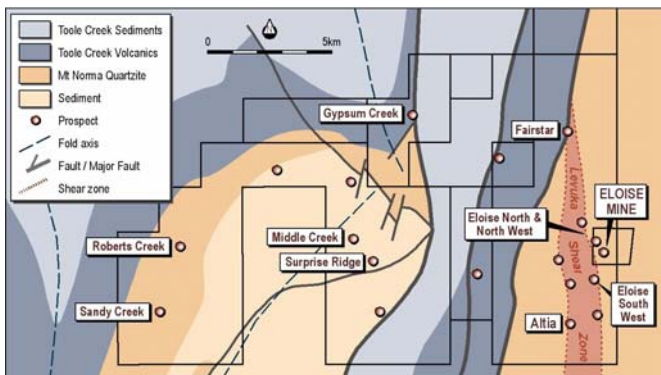
Eloise is one of three major deposits found along the western margin of the Cloncurry Fault, the others being BHP Billiton's Cannington lead-zinc-silver mine and Xstrata's Ernest Henry copper-gold mine. Along with the mine purchase in 1994, Amalg acquired 15 strike kilometres of Cloncurry Fault length within 275 square kilometres of Eastern Succession tenements. Breakaway has retained these tenements with the exception of a 1.5 by 1.5 kilometre excision around the Eloise mine.



Since 1994, exploration outside the mine lease has been constrained by a necessarily tight focus on mine development. Geophysical techniques and data processing have improved substantially since the last pass on all prospects and Breakaway's first task has been to re-fly detailed regional magnetics and reprocess the available surface and down hole electromagnetic data.

Eloise lies beneath 70 metres of sediment cover and is associated with a prominent electromagnetic anomaly on the Levuka Shear, a splay off the Cloncurry Fault. Prospects north and south of Eloise in the Levuka Shear zone have been subjected to limited drilling, partly because the extensive sediment cover requires heavy use of geophysics to guide drilling. The new, and reprocessed, data will reduce the exploration risk and Breakaway is hopeful that strike repetitions of Eloise will be found.

**Altia is large, intense and sparsely drilled magnetic anomaly, with recorded high grades and similarities to Cannington.**

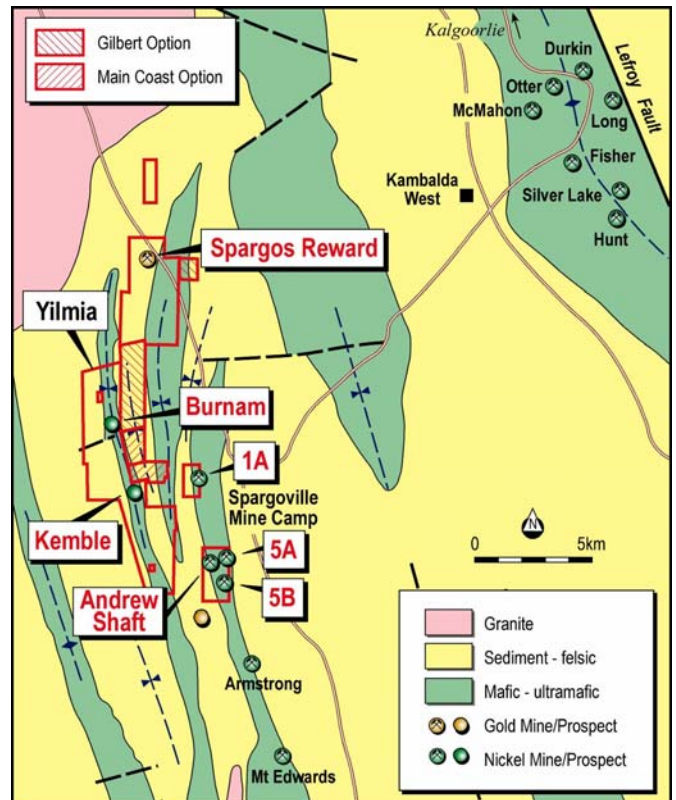


On the western edge of the Levuka Shear, 3 km south west of Eloise, 15 holes have been drilled into an intense, 1,500 metre long magnetic anomaly called Altia. Lead-silver and copper-gold mineralisation is present along the length of Altia, with local high grades (a best intercept of 40 metres at 8.2% Pb and 31g/t Ag). Breakaway is encouraged by the similarities to Cannington and the potential for high grade shoots within the broad anomalism at Altia. Reprocessing of the down hole EM data from all 15 holes at Altia in mid 2005 will guide a drilling program in the first half of 2006.

West of the Cloncurry Fault, improved outcrop makes for easier exploration, although the rocks are generally less altered. Several prospects host small gold and copper resources or ore grade intersections. Breakaway's much improved targeting from the high resolution airborne magnetic survey will direct initial exploration with the first target already defined at Middle Creek.

## Kambalda West

The line of greenstone belt running north from the Widgiemooltha Dome nickel mines (Miitel, Redross, Mt Edwards) was extensively explored and developed by Selcast and BP Minerals in the 1970s and later by Amalg Resources in the 1990s. A total of 12,800 tonnes of nickel in concentrate was produced from the Andrews and Spargoville 1A nickel deposits, which are 5 kilometres apart on the same basal ultramafic contact. Nickel sulphide deposits near the Andrews mine at 5A and 5B remain unmined, except for their respective oxide and gold associations.



Breakaway owns the two tenements covering the Spargoville 1A, 5A, 5B and Andrews projects, together with larger blocks over a less explored succession of ultramafics to the north and west.

Breakaway has defined combined resources at 5A and 5B of 302,000 tonnes grading 1.96% nickel. Each deposit is open at depth, as is the Andrews deposit beneath the maximum mining depth of 330 metres from surface. Most of the defined resources are classified as transition ore, in which alteration of the sulphides affect the flotation recovery of the nickel ore. The deeper sulphides are metallurgically simpler but may also be associated with shears bearing arsenopyrite, requiring selective mining and ore blending to avoid incurring penalties for the arsenic content of the concentrate.

The 5A and 5B resources at Spargoville are near surface mining targets that have been closely considered by Breakaway for development. Improved returns are sought by either varying the processing route or finding more unaltered sulphide ore. LionOre Mining's equity and offtake arrangements with Breakaway stem from Kambalda West's potential to provide ore to LionOre's nickel processing plans. LionOre is studying the conversion of the Avalon plant (formerly Bulong) to a low temperature and pressure process producing nickel metal. Success by LionOre at Avalon would create an ideal process option for Kambalda West ores and accelerate exploration of the Spargoville deposits.

The Kambalda West project extends over 65 square kilometres of tenure and several ultramafic contacts distinct from the Spargoville contact. Breakaway has matured a series of coincident nickel anomalies and EM conductors at Spargos South for drilling in the second half of 2005. The prospectivity of the interpreted basal ultramafic contact at Spargos South has been raised by the report of nickel sulphides encountered in drilling on an adjoining property.

## Finance/Corporate

At the end of June 2005 Breakaway had \$2.2 million in cash and no debt. In July 2005 shareholders approved the issue of \$3.5 million in redeemable, converting notes to LionOre Mining International. The issue added \$3.5 million to Breakaway's cash balance. The rate of conversion of the notes into shares is linked to the price of the share at the time of conversion (before July 2008) within the range of 2.5 to 4.5 cents. Conversion of the notes would result in the issue of between 77.8 million and 140 million shares to LionOre, increasing LionOre's stake in Breakaway to between 24% and 31%.

### **Disclosure & Disclaimer:**

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*John MacDonald BSc (Geology) has 15 years experience as a mining analyst working for share broking firms. John was appointed Head of Equities Research for CIBC World Markets in November 2000 and subsequently established Independent Mining Research in 2002.*

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