Breakaway Resources Limited BRW ($0.06)

SPECULATIVE BUY

Attractive metals mix positioning for growth **Analyst: Andrew Driscoll**

Investment Highlights

- The operating performance of the Eloise copper mine in North Queensland is anticipated to improve with the development of the robust Deeps orebody. The mine produces about 22kt of copper in concentrate at a cost of about US$0.70/lb, generating some $3-5m free cash per annum. An increase in the ore reserve to 0.9Mt at 4% copper, and likely resource conversion underpins a minimum three year mine life.
- BRW has a 40% interest in the Vivien gold project in WA, where the resource recently increased to 0.6Mt at 9.2g/t for 191koz of gold. Patersons anticipate an ore reserve of about 110koz, with mine planning studies in the current half to detail the development plan. A tribute mining agreement through the Agnew plant to deliver production from a low capital draw down appears likely. A small gold resource was recently defined at Cams on the Miranda JV, which is subject to feasibility work.
- Near term nickel production is probable at the Kambalda West project in WA following successful resource development drilling at 5A. While the deposit is small, the development costs should be low and margins high. Additionally, the potential for depth extensions and further mineralisation within the tenement package is high.
- BRW is trading at a 20% discount to Patersons valuation of 8 cps. The stock offers leverage to the copper price with valuation increasing 20% to 10 cps for a 10% increase in our copper price assumptions.
- BRW offers exposure to copper, gold and nickel through a diversified asset base, and could be generating a cash flow from three sources within 12 months. Adequate funding and increasing cash flow positions the company to benefit from management's acquisition skills.

Paterson Ord Minnett acted as Lead Manager and Underwriter to raise $4.5m in March 2003. A fee was received for this service. At the date of this report an employee of Paterson Ord Minnett holds the position of Chairman in Breakaway Resources.

Company Statistics & Performance

Ordinary Shares	378.1m	**Daily Vol.**	680,000
Market Cap (fd)	$22.7m	**Debt**	$0.0m
52 Week Range	$0.03-0.08	**Cash**	$4.6m

Investment Summary

Directors	
Jon Young	Non Executive Chairman
Michael Mulroney	Managing Director
Garry Connell	Non Executive Director

Shareholdings	**Shares (m)**	**%**
Barminco	98.6	26.1
Rothschild	45.0	11.9
Top 20	**237.8**	**63.0**

Key Projects	**Interest**	**Loc'n**	**Metal**
Eloise Copper Mine	100%	Qld	Copper / Gold
Miranda & Vivien JV	diluting 40%	WA	Gold
Kambalda West	100%	WA	Nickel / Gold
Banncokburn (JV)	100% (30%)	WA	Gold (Nickel)

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Company Background

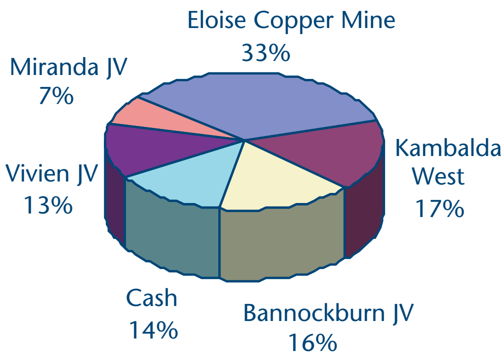
- Breakaway Resources Limited is a mining and exploration company. It operates the Eloise underground copper mine in Queensland with annual production of about 20,000t copper, 10,000oz gold and 175,000oz silver in concentrate. The company's exploration focus is extending the mine life at Eloise, as well as gold and nickel exploration in Western Australia.
- Following a merger in early 2003, a management and Balance Sheet restructure was effected to position the company for growth through organic and corporate opportunities. BRW is debt free, with cash reserves of about $4.6m.

Valuation Summary

- Patersons valuation of BRW is $30.5m or $0.08 per share. The group carries a tax loss position of more than $15m, which has been considered. The NPV of corporate expenses of $1.5m pa for 3 years are deducted from the net asset value.
- Our DCF valuation of $0.03 for the Eloise copper mine is based on a 3 year mine life with production of 22kt of copper at an average cost of US$0.74/lb copper equivalent. Simulation modeling demonstrates strong copper price leverage, with the valuation increasing 55% to $0.05 for a 10% increase in Patersons copper price assumptions (see Table 4).
- Patersons has valued the ore resource at the Viven JV based on a rule of thumb net cash margin of A$100/oz for the attributable reserve (assumed 40koz). The 5A ore resource at Kambalda West was valued assuming a 40% net cash margin on forecast revenue (assumed A$9.2m from 1,000t of nickel, 65% payable).
- The other exploration JV assets are valued using the JV methodology, where the value of the property is determined by the exploration expenditure required to earn equity. Addition for surplus assets, including the 1Mtpa mill at Banncokburn, has been included.

Table 2 & Chart 1: Valuation Summary

	A$m	$ps
Eloise Copper Mine	11.7	0.03
Vivien JV	4.4	0.01
Kambalda West	5.7	0.02
Miranda JV	2.3	0.01
Bannockburn JV	5.3	0.01
Cash	4.6	0.01
Debt	0.0	0.00
Corporate Costs	(3.7)	(0.0)
Total	**30.5**	**0.08**



Source: Paterson Ord Minnett

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Copper leverage at Eloise

- Eloise is located 65km south of Cloncurry in Queensland. Production in FY04 is anticipated to increase some 10% to about 22,000t of copper, as ore availability increases from multiple headings at Eloise Deeps. An increase in the Eloise ore reserve to 0.9Mt at 4% copper and likely conversion of the resource underpins a minimum three year mine life. The ore resource remains open at depth.

Table 3: Ore Reserves and Resources (June 2003)

Reserves	**Mt**	**Cu (%)**	**kt**
Eloise	0.9	4.0	37.0
Resources	**Mt**	**Cu (%)**	**kt**
Eloise	1.8	4.1	72.7

Source: Company

- On site operating costs are about $67/t, with mining costs representing the biggest proportion at 65%. Cash operating costs in FY03 were US$0.63/lb copper equivalent and total costs of US$0.70/lb copper equivalent. This represents a cash margin of 23% and total margin of 15% on spot copper of US$0.82/lb. The cost profile is anticipated to increase with additional haulage and ventilation requirements.
- The mining method is long hole open stoping, with 100% ore extraction. The haulage from the face to the portal is long, currently 7km. The ground conditions at the mine are generally good. The operation uses shotcrete for ground support, which expedites the development cycle but is more expensive than conventional bolt and mesh. The mine has a high temperature gradient (2.5° per 100m) and refrigerated ventilation will need to be considered in about 12 months.
- Eloise operates a 0.6Mtpa mill and conventional flotation circuit that produces a high grade copper concentrate (30%) with gold and silver credits. The concentrate is very clean and does not incur any penalties. It is trucked to Cloncurry and railed to Townsville and then exported overseas with off take partner Glencore.
- Regional exploration is inhibited by cover, which typically extends 50m to 60m. BRW is focussing on the Levuka shear corridor to the north and west of Eloise. An EM survey is planned to better define anomalous zones. An exploration budget of $1m is planned for FY04, which includes $0.5m for underground drilling. While we regard the area under explored, and certainly prospective, the high cost nature of regional exploration reduces the potential for success in the near term.

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Table 4: Eloise Production Parameters

Parameter		FY03A	FY04	FY05	FY06
Capital Expenditure	$m	2.5	2.9	2.0	0.5
Ore Milled	Mt	0.55	0.59	0.60	0.60
Copper Grade	%	3.9	3.8	3.9	3.9
Recovery	%	96	95	95	95
Contained Copper	kt	20.3	21.6	22.6	22.6
Operating Cost	US$/lb Cu eq	0.63	0.71	0.73	0.77
Copper Price	US$/lb	0.72	0.82	0.87	0.93
US$/A$		0.58	0.65	0.64	0.64
NPV @ 10% Real	**$11.7m**	**(3.1cps)**			

Source: Paterson Ord Minnett, Company

Near term development opportunity at Vivien

- The Vivien gold prospect consists of three Mining Leases that host the former gold operation northwest of Leonora in Western Australia. Under a JV agreement, Gold Fields Australiasia earn a 60% interest on decision to mine. Gold Fields are required to fund the first $6.7m of capital, with BRW's contribution recoverable from cash flow. The deposit could be rapidly brought back into production given its close proximity to Gold Field's Agnew gold operation.
- The recent resource upgrade to 0.6Mt at 9.2g/t for 190koz surprised on the upside. Assuming a 60% conversion to reserve would define about 110koz recoverable gold. A development decision and timing should become clear following mine design and scheduling studies in the current half. Patersons valuation is based on a rule of thumb value of $100/oz to the attributable forecast reserve.
- Gold Fields is also earning a 60% interest in the remaining tenements of the Miranda project by spending $3.5m within 4 years from commencing the JV. A small resource of 51koz was defined beneath the previously mined Cams pit in the June Q. The viability of mining this resource will be evaluated in the next Q. It is located 60km from Agnew, so a toll treatment option is possible. Patersons valuation for BRW's interest in the Miranda JV is $2.3m using the JV earn in methodology.

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Nickel production from Kambalda West

- Kambalda West is located about 20km west of Kambalda in the Eastern Goldifelds and includes the wholly owned Spargoville and Spargos Reward nickel and gold projects.
- Spargoville hosts about 10 strike kilometres of prospective ultramafic stratigraphy on two Minnig Leases, which include a number of small resources. The completion of resource development drilling at 5A should lead to a resource of about 35,000t at 3% for 1,000t of nickel. There are other advanced targets for ore sources including depth extensions at 5A and small resource at 5B.
- Patersons see opportunity to rapidly develop a prospect at Kambalda West for low capital through an off take or toll treatment agreement with a third party. The tenor and width of mineralisation at Spargoville (4m at 6% Ni, 3m at 5% Ni) is typical of deposits in the region, which are proven cash generators.
- Patersons valuation of the Kambalda West project is $5.7m. This includes $3.7m for nickel resources at 5A (40% cash margin on projected revenue), as well as $2m attributed to the exploration potential.

Bannockburn JV and 1Mtpa mill present opportunity

- Bannockburn consists of ten Mining Leases north west of Leonora. BRW has a 100% interest in the gold rights over these tenements, and is diluting to a 30% interest in the nickel and base metal rights with JV partner Jubilee Mines. The project contains a 1Mtpa CIP plant and associated infrastructure, which significantly reduces potential development capital requirements.
- Jubilee Mines has earnt its 70% interest through exploration expenditure of $4.3m. Drilling has intersected high grade nickel mineralisation on a number of prospects, but all of narrow widths and poor continuity. Further drilling is planned from September and we understand that BRW regards the project highly, and plans to maintain its interest.
- Patersons valuation of BRW's interest in the Banockburn tenements and infrastructure is $5.3m.

Research

Rob Brierley
Phone: (+61 8) 9263 1239
Email: rb@patersonord.com.au

Kim Christie
Phone: (+61 8) 9263 1263
Email: kchristie@patersonord.com.au

Andrew Driscoll
Phone: (+61 8) 9263 1151
Email: ad@patersonord.com.au

Joel Fleming
Phone: (+61 8) 9263 1646
Email: jgf@patersonord.com.au

Robert Gee
Phone: (+61 8) 9263 1637
Email: rg@patersonord.com.au

Simon Oaten
Phone: (+61 3) 8803 0144
Email: simon.oaten@patersonord.com.au

Institutional Dealing

Paul Carter
Phone: (+61 8) 9263 1612
Email: pcarter@patersonord.com.au

Paul Doherty
Phone: (+61 3) 8803 0108
Email: pdoherty@patersonord.com.au

James Pearson
Phone: (+61 8) 9263 1266
Email: jfp@patersonord.com.au

Trevor Pike
Phone: (+61 3) 8803 0110
Email: tpike@patersonord.com.au

Ric Klusman
Phone: (+61 2) 8249 0109
Email: ric.klusman@patersonord.com.au

Paterson Ord Minnett Limited ABN 69 008 896 311
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Principal Member Financial Planning Association of Australia

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Western Australia

Perth Office - Head Office
Level 23, Exchange Plaza
2 The Esplanade
Perth Western Australia 6000
Ph: (+61 8) 9263 1111
Fax: (+61 8) 9325 6452
Email: paterson@patersonord.com.au

Albany Office
Level 2, Middleton Centre
184 Aberdeen Street
Albany Western Australia 6330
Ph: (+61 8) 9842 4700
Fax: (+61 8) 9841 4211
Email: albany@patersonord.com.au

Bunbury Office
Arrio Building
7 Stirling Street
Bunbury Western Australia 6230
Ph: (+61 8) 9791 7133
Fax: (+61 8) 9721 2599
Email: bunbury@patersonord.com.au

Busselton Office
Suite 1
72 Duchess Street
Busselton Western Australia 6280
Ph: (+61 8) 9754 0700
Fax: (+61 8) 9754 4333
Email: busselton@patersonord.com.au

Kalgoorlie Office
63 Hannan Street
Kalgoorlie Western Australia 6430
Ph: (+61 8) 9021 1422
Fax: (+61 8) 9021 8133
Email: kalgoorlie@patersonord.com.au

New South Wales

Sydney Office
Level 37
264 George Street
Sydney New South Wales 2000
Ph: (+61 2) 8249 0111
Fax: (+61 2) 8238 6266
Email: sydney@patersonord.com.au

Victoria

Melbourne Office
Level 1
500 Collins Street
Melbourne Victoria 3000
Ph: (+61 3) 8803 0100
Fax: (+61 3) 8803 0199
Email: melbourne@patersonord.com.au

PATERSON ORD MINNETT
INSTITUTIONAL RESEARCH