



Breakaway Resources

Exploration activated after a major restructuring

Buy up to 3.5 cents

[Fat Mining 2](#), 18 Jun, 2003
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SYMBOL DEFINITIONS			
 BASE METALS	 HIGH RISK	 CAP CASH DEBT	\$16.5 m \$5.5m
CLICK FOR ALL SYMBOL DEFINITIONS			

Early 2003, Amalg Resources took over Breakaway Resources and then renamed itself Breakaway Resources. The takeover included a \$4m capital raising, which helped restructure Amalg's previously stretched balance sheet and set the new company with an attractive portfolio of assets including the cash generating Eloise mine.



"Corporate restructuring provides a platform to develop growth opportunities"

With new, focussed management team, Breakaway is set for period of increased activity which could drive share price performance: In particular, it:

- has developed and is now producing from below the Ramsay Fault at the Eloise mine with ground conditions, reserve grades and widths initially appearing better than expected.
- is expecting a potential imminent go-ahead by Goldfields on the Vivien gold deposit.
- is drilling around the 5A nickel resource to establish both an oxide and sulphide resource capable of a quick production start up - oxide ore to Cawse and sulphide ore potentially to WMC's Kambalda nickel concentrator.
- has an ongoing exciting gold exploration program which, if successful, could provide a quick start up to the old Bannockburn mill.

Uncertainty over corporate restructuring and equity raising, major institutional selling and a short Eloise mine life has taken a toll on the performance of this company. All these issues are now largely resolved or being addressed and we expect the market will quickly take a fresh look at this company.

Background

The formation of the current Breakaway Resources has been derived by Arrow Resources Management (Rothschilds) and Barmenco (mining contractor) which has restructured debt-ridden

Almag, added new exploration assets while selling other non-core assets. This includes the sale of Loongana Lime project - the project which probably was the major contributing factor to Almag's downfall, given its main markets for lime were the nickel laterite projects.

The Board comprises:
Jon Young - Chairman
Mike Mulroney - MD (ex-Rothchilds)
John Hocking
Garry Connell

Capital Structure and Financial Position

The company has \$5.5m cash with no debt. Eloise generates around \$3-4m cash pa depending on commodity prices and exchange rates. With a loss on the sale of Loongana Lime, Breakaway is likely to report a loss in FY03, but remain cash positive.

While the market capitalisation is \$14m, it is below \$10m if the current cash on hand is backed out of the calculation.

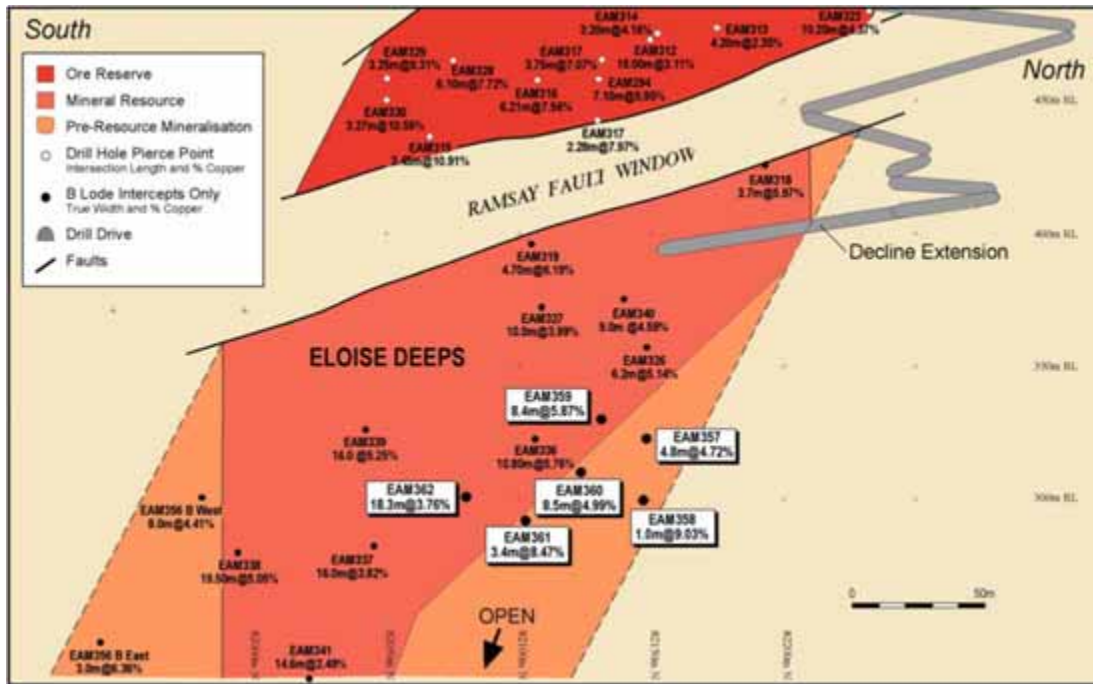
	Shares on issue	Price	Market Capitalisation
Market Capitalisation	378.1	\$0.037	\$13.99
Add debt			\$0.00
Less cash on hand			\$5.50
Enterprise Value			\$8.49

Major shareholders are Barmenco (24.7%), Arrow Resources (Rothchilds) (11.9%) and Gary Connell (9.9%).

Eloise - Core Operation

This is small underground copper-gold mine south of Cloncurry in northwest Queensland. It produces 600,000 tpa of ore which is milled on-site to produce a concentrate containing 20,000 - 21,000 tpa of copper (grading 29% Cu), 10,000 oz gold and 230,000 oz silver. The concentrate is railed to Townsville and shipped overseas by Glencore at Breakaway's expense. Xstrata's recent takeover of MIM may benefit Eloise by freighting the concentrate to Mt Isa instead and lowering overall freight costs and royalties (Glencore is a major shareholder of Xstrata). Total cash costs are around US 68c/lb. This figure includes all costs (eg. underground exploration, all capex) spent during a quarter and therefore indicate a margin with to the copper price, although the costs are not directly comparable with C1 costs often quoted by other companies.

Production sources from Eloise are now derived from the Eloise Deeps, the continuation of the orebody below a structure called the Ramsay Fault. There has been some uncertainty as to the ground conditions below this fault and the characteristics of the orebody which had previously only been defined by drilling. However, last weekend management fired the first stope below the Ramsay Fault for production. Encouragingly, it has found better ground conditions (less faulting), higher development grades than forecast (eg. 7% Cu instead of 5% Cu) and the orebody is slightly wider (1.5m) than expected in this particular area.



In the short term, mining will focus on the 150m vertical section below the Ramsay Fault. Drilling the deeper parts of the orebody will occur in October/November 2003 when underground drilling access becomes available. We envisage Eloise has a 3-5 year life, but if the orebody continues at depth (which is expected) in the longer term Breakaway will have to address issues such as the development of shaft hoisting and cooling, given the high geothermal gradient in this area. The company is also actively exploring the prospective area around the mine to find supplementing mill feed.

Spargoville - Nickel (near Kambalda, Western Australia)

Breakaway has a number of leases and prospective exploration tenements in this area. Historical production from the Andrews shaft (5D deposit) and 1A shaft produced a combined 15,000t of nickel. The area typically hosts deposits that are around 300,000 - 350,000 t in size with grades around 2.5% Ni. Many are open at depth.

Breakaway has been selling stockpiled nickel oxide ore (23,000t at <3% Ni) to the Cawse nickel laterite operation to help sweeten Cawse's feed grade. This activity will be completed by the end of June. Current drilling around the 5A deposit, for oxide extensions along strike and nickel sulphide extensions at depth, provides an opportunity to widen the pit and produce oxide ore for Cawse and potentially sulphide ore for toll treating at WMC's Kambalda concentrator. Another deposit called the 1D deposit also looks attractive for increasing resources.

Overall, we envisage Breakaway could re-start mining in this area within 6 months if current drill results are encouraging.

Bannockburn - Mill on Care and Maintenance

Breakaway has a 1.0Mtpa CIL processing plant, camp and infrastructure at Bannockburn with exploration tenements that cover part of the Bannockburn Shear zone. While some resources remain at Bannockburn, restarting the mill requires the discovery of a new 'core resource' that can provide a minimum mine the life of 3 years to justify the \$2m cost to restart the mill.

The company has a few prospects including Jungle Well and Mt Fouracre which have interesting geological structure and modest gold intersections. We need to wait and see how these prospects unfold with further exploration.

Vivien Gold Deposit

Breakaway has an agreement with Gold Fields over potentially developing the Vivien deposit. This is a small high grade gold resource (100,000oz @ 10.7g/t) which has the potential to fill a production gap in the Agnew milling plan in the March quarter of 2004.

To meet this production gap, Gold Fields needs to make an imminent development decision. The terms of the joint venture involve Gold Fields spending \$6.7m on developing the project, with the capital to be repaid out of cash flow. The project then reverts to 60% Gold Fields, 40% Breakaway ownership.

Other Joint Ventures

Other joint ventures involve outside parties spending exploration funds and include the Miranda Exploration JV whereby Gold Fields can earn 60% and the Bannockburn Nickel and Base Metal JV whereby Jubilee can earn 70% of nickel and base metal projects discovered in this area.

Breakaway Resources Daily Share Price



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