

New name, new beginning

The merger of the unlisted Breakaway Resources Limited into ASX listed Amalg Resources NL has created a significant new player in Australian mining.

By James Hamilton

The story of freshly created public miner Breakaway Resources Limited (formerly Amalg) is very much a tale about the joining of two halves to form a whole.

Like many mining stories, this joining together was born from necessity. Yet on paper the final deal looks to be a tremendously good one. The new Breakaway is exactly as its name suggests — a break from the too often flawed small-end mining model that regularly peters out of money and steam.

Not only will Breakaway Resources mine copper-gold in Queensland together with nickel and gold in Western Australia, yielding solid cash flows, but it also holds a trump in some of the most prospective nickel, copper and gold exploration properties in Australia. Just maybe at long last we have a junior with both the horsepower and the ground to genuinely be in the hunt to bag an elephant.

But back to the halves. To appreciate their significance readers need to wind back the clock a few years to appreciate a) the formation of Breakaway (the private company) and b) the unravelling of Australian Stock Exchange-listed Amalg Resources.

Long-time readers of **RESOURCESTOCKS** would be familiar with Amalg. A proud Kalgoorlie-based company, Amalg started life roughly nine years ago and cut its niche as a medium-level copper miner courtesy of its Eloise underground mine in Queensland. In the years to follow it also established a quicklime business based at Parkeston near Kalgoorlie in WA.

Amalg used much of the profits generated from Eloise to develop the Loongana Lime business. In fact more than \$25 million was sunk into this business that was planned to become the predominant supplier of quicklime to Australia's gold and then booming nickel laterite industry.

But unfortunately for Amalg, Cawse, Bulong and Murrin Murrin stumbled, as did the Australian laterite dream. This hiatus impacted on Loongana's expected returns. Adding to the trouble was a raft of technical problems, particularly with the performance of the new kilns installed at the Parkeston complex.

While Eloise, located 78km south-east of Cloncurry, performed admirably producing about 60,000 tonnes of copper concentrate per annum, it's margins suffered too at the hands of a weak



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copper price. This wasn't helped by limited working capital, the need for further underground capital development and minimal ore stockpiles.

Finally push came to shove in March 2002 when long-serving managing director Graham McGarry was dumped by the board. One month later the Loongana Lime operation was temporarily shut with fuel and emissions problems. Amalg then issued a \$2.1 million convertible note to its newly installed Eloise mining contractor Barminco. While the con note kept the wolf from the door, Amalg was white. Its balance sheet was weak and its debts were mounting. The combination was noticed.

Six hundred kilometres west in Perth and Breakaway Resources was officially incorporated in May 2001. Breakaway was created by Arrow Resources Management Pty Ltd (a wholly owned subsidiary of NM Rothschild & Sons (Australia) Limited) as the joint venture company in partnership with Barminco to hold all the eastern goldfields projects Arrow had inherited after the collapse of Australian Gold Fields in 1998.

Arrow had tried to sell the properties but in the years before the formation of Breakaway, the gold market was dead and Arrow didn't want to entertain asset "cherry pickers". The solution was to vend the projects into a vehicle.

The man charged with heading this company was former Rothschild director, Michael Mulroney. An ex-geologist, what Mulroney inherited was a cash-poor, asset rich vehicle which used the resources of Barminco to incubate its asset portfolio through to the next phase of its evolution.

The Breakaway portfolio which sits in the north-eastern goldfields of WA can be roughly divided into two blocks: the Bannockburn project which covers about 350 square kilometres and includes some residual gold resources and the 1 million tonne per annum Bannockburn gold



The Eloise plant. Diamond drilling at depth has been positive and extended the mine's life.

plant. The second block — called the Miranda project — lies to the north-east of Bannockburn and is about 350sq.km in size. Miranda includes the high-grade Vivien gold deposit (289,000t at 10.7gpt for 100,000oz in three shoots) and numerous gold and nickel targets around the old mining centres of Pinnacles, Agnew and Bellevue.

Given the big holding costs of the portfolio, Breakaway sought to add to the value of the assets by cutting a number of deals. Firstly, at Bannockburn it joint ventured out all the base metal rights to Jubilee Mines which now has the right to earn 70% by spending \$4.3 million on exploration. Already Jubilee has spent over \$3.7 million of that requirement and identified thin zones of massive and disseminated nickel sulphides in six locations.

At Vivien, it struck a deal with Gold Fields Limited where Gold Fields must spend a minimum of \$700,000 and make a positive decision to mine to earn 60%. Gold Fields will then be required to kick-in up to a further \$6 million towards project capital development which will be recovered from project cash flow. Gold Fields is due to give its decision soon but the indications are positive given that it has already exceeded its basic drilling requirement with positive results.

On a regional basis, Gold Fields can also earn 60% of the surrounding Miranda ground by spending \$3.5 million on exploration. Given the regional setting this area is considered highly prospective for both gold and nickel. Gold Fields planned to put down 22,000m of RAB and 6,800m of RC drilling in its first campaign.

According to Mulroney, Breakaway at this point had looked at a number of

opportunities to bring the assets to the public arena but these deals never got up. The solution was for Breakaway and Barmenco to approach the then struggling Amalg which led to a Memorandum Of Understanding being signed on August 2, 2002. An extensive due diligence then followed culminating in the finalisation of a Sale Agreement on 30 December 2002.

The immediate challenge for Mulroney and directors was money. Amalg had about \$12 million in creditors debt that needed to be tackled immediately.

The first step was to put the loss making Loongana Lime business up for sale. This was ultimately sold to interests associated with private outfit Meta Holdings for \$3.05 million earlier this year. Concurrently, the company issued a prospectus to raise \$4.0 million by issuing 100 million shares at 4c each underwritten by Paterson Ord Minnett. This and the \$500,000 oversubscription provision were successfully completed in March. Finally, the company entered into an agreement with OMG Cause Pty Ltd to sell 23,000t of stockpiled oxide nickel ore from its Spargoville deposit in WA. Depending on grades and the prevailing nickel price this could add up to another \$850,000 to the kitty.

"Much of what we did was about getting Amalg back into shape financially to protect both shareholders and creditors but we were also keen to explore the real scope of Eloise," Mulroney said.

"Although it is a mature mine, there is an upside in that most of its cost operating structures have scope for improvement. Better than that, it's a relatively high-grade mine running 4% copper with gold credits which matched

the positive view we took on the copper price."

With the strong support Barmenco provided in the mine's management, Mulroney said there have been major capital improvements to water pumping and underground systems. He said the issue of an expansion and modernisation of the power station was also being examined.

Most importantly, diamond drilling at depth has been positive and extended the mine's life. Drilling into the new Eloise Deeps area below the Ramsay Fault structure significantly extended initial widths and grades. Some significant drill hole hits included 24m at 6.71% Cu and 19.6m at 5.83% Cu.

Mulroney said on current resources and reserves Eloise has about three years life left in front of it but this could grow as drilling continues. At the current milling rate of 600,000tpa the mine generates between \$4-5 million per annum in free cash in full development mode.

It's this cash the company desperately wants to go elephant hunting around Eloise and in the north-eastern goldfields. If it gets lucky the impact on shares could be significant. With just over 378 million shares on issue trading at about 4c, Breakaway has great liquidity — something Mulroney won't be changing.

"I like a stock with liquidity," he said. "It means people can get in and out which is half the battle."

breakaway resources
... at a glance



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DIRECTORS
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MARKET CAPITALISATION
\$15.1 million (at press time)

MAJOR SHAREHOLDERS
Barmenco (25%)
Arrow Resource Management (11.9%)
Garry Connell (9.9%)

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The merger of Amalg Resources and Breakaway Resources has created an enticing nickel, copper and gold asset base on which to build.