

## Breakaway Resources (BRW) – Buy @ \$0.074

Well credentialed exploration company with a two-pronged focus, looking for copper-gold in Queensland and nickel in Western Australia. The recommissioning of the Eloise copper mine is a bonus for investors.

### Corporate Details

Status: Grassroots Explorer  
 Size: Small Cap  
 Commodity Exposure: Nickel  
 Share Price: \$0.074  
 12-month Range: 3.9c – \$0.12  
 Shares: 291.1m, Options: 2.9m  
 Top 20: 45%  
 Net Cash: \$5m  
 Market Value: \$22m



	Rating (✓ out of 5)
Management Quality	✓✓✓✓✓
Financial Security	✓✓✓✓
Project Quality	✓✓✓✓
Exploration / Resource Potential	✓✓✓✓
Project Risk	✓✓✓✓✓

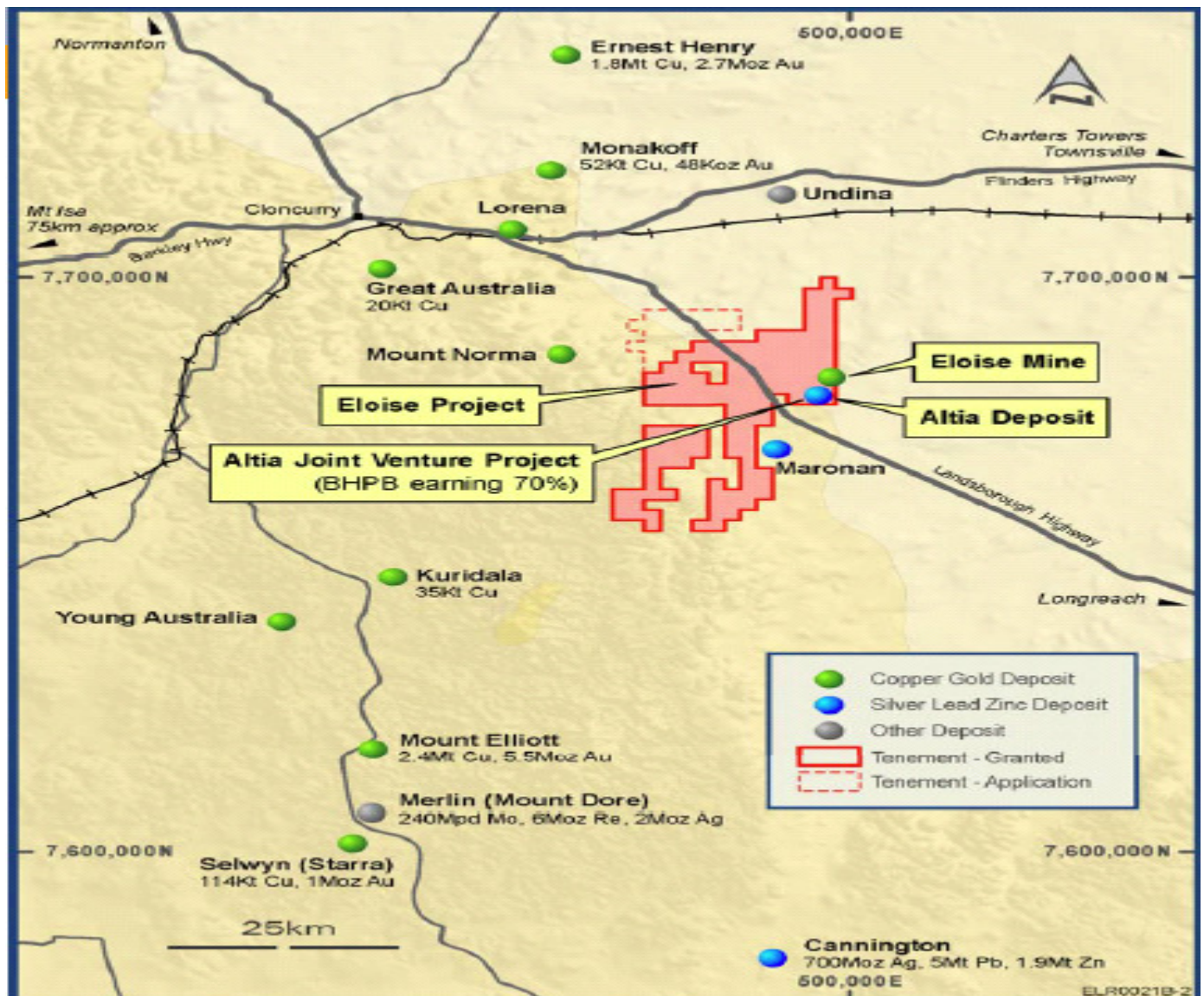
I regard Breakaway Resources as one of the country’s best and most persistent exploration companies, with a specific focus these days on two highly prospective areas targeting two different types of commodities. I also regard MD David Hutton as one of the country’s best explorationists, so it was logical in my view to include such a modestly-valued company like Breakaway in our portfolio, because of the large potential upside that the company could generate.

BRW’s exploration programs are essentially focused on nickel sulphide targets within the Leinster district of Western Australia, as well as copper-gold targets within the Cloncurry district of northwestern Queensland. Following a recent \$3.8m capital raising (comprising a \$3.3m Share Purchase Plan and \$0.5m placement), the company is now in a position to advance its base metal interests on both fronts.

A major recent development was the recommencement of underground mining at the Eloise copper mine, 70km southeast of Cloncurry in northwestern Queensland. The mine has been on care-and-maintenance since December 2008, following an underground structural failure, which combined with low copper prices (as low as US\$2,815/tonne on the LME compared to US\$9,650/tonne currently), saw the mine close in order to maximise the mine’s future value.

The mine is 100%-owned and operated by FMR Investment, although BRW is entitled to a 30% net profit interest from the mine and holds the adjoining ground in its own right. This is where the opportunity lies, as BRW has not factored in any payments from the operation for the 2011 calendar year.

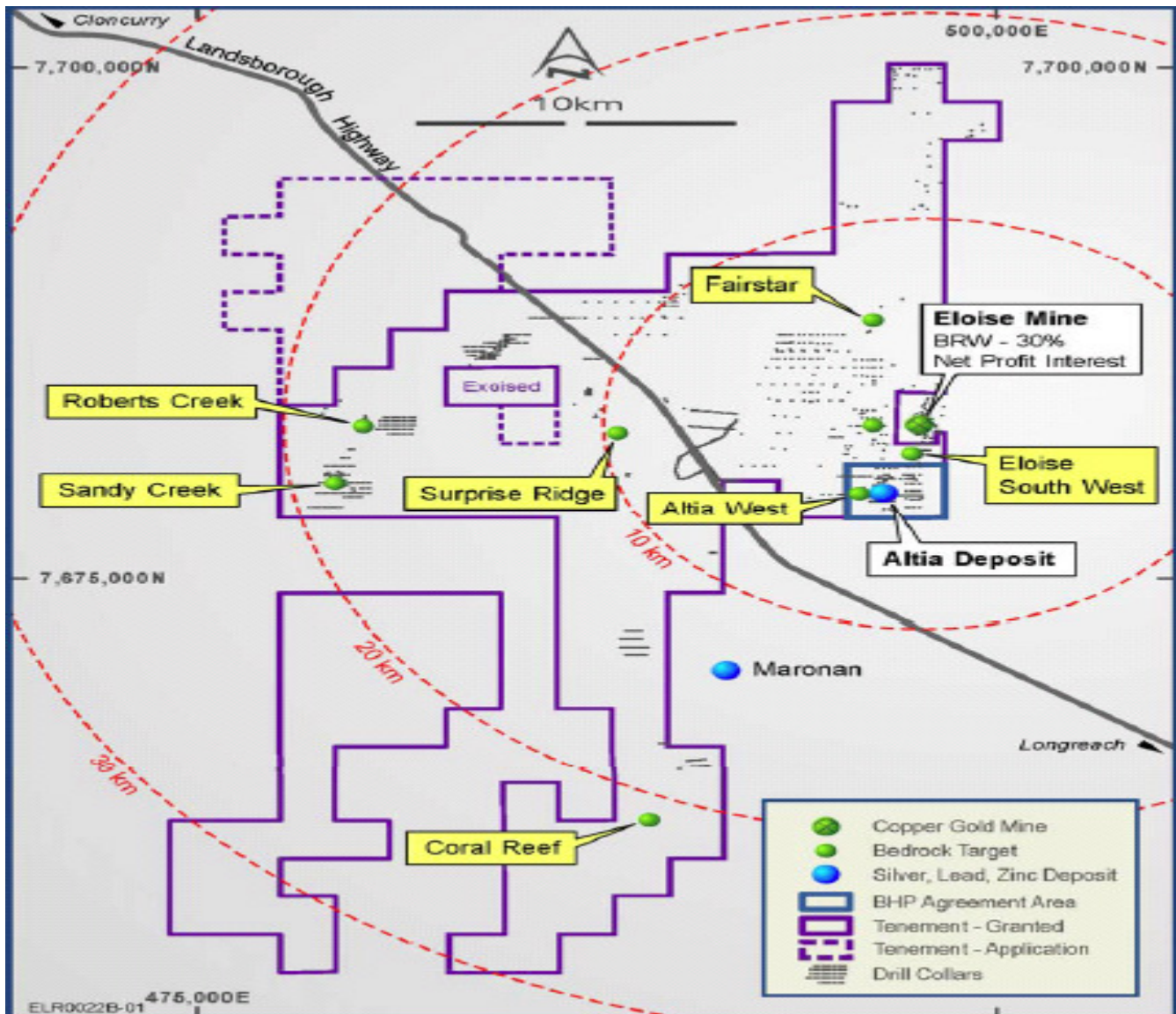
The re-opening of the mine coupled with stronger copper prices outlook for the copper market has provided the company with added confidence to launch copper exploration programs targeting multiple, high-grade copper targets within a 20km radius of the mine.



These targets are typically characterised by +1% copper intercepts (up to 4% copper), highly anomalous gold results and limited deep drilling with excellent potential to extend known mineralisation, both along strike and down-dip. In addition, there are several significant surface geophysical and geochemical anomalies in close proximity to the bedrock targets that also represent attractive targets for follow-up.

I understand that BRW is now preparing to commence ground-based follow-up of the targets in early 2011 following the conclusion of the northern wet season, ahead of likely geophysics and drill-testing in the June and September quarters of 2011.

Interestingly, while a number of these copper-gold targets have been known for some time, they have received minimal exploration over the past 10 to 15 years due to the company's previous focus on its Western Australia nickel assets and the Altia silver-lead-zinc deposit near Eloise, under which BHP has commenced a farm-in.



Specifically BRW's primary targets in the Eloise region are outlined on the map above, whilst I have highlighted what I regard as the most promising ones below.

**Roberts Creek:** where copper-gold mineralisation has been drilled on 25-metre sections over a 200 metre strike length and to 50 metres vertical and remains open in all directions. Better intercepts so far include 5 metres @ 3.42% Cu and 3.05 g/t Au from 39 metres depth, including 2 metres @ 4.72% Cu and 4.13 g/t Au from 39 metres.

**Sandy Creek:** where limited drilling on 100 to 200-metre sections over a 500 metre strike length and to a vertical depth of 150 metres has returned broad zones of strong copper-gold mineralisation, including 8 metres @ 1.67% Cu and 0.44 g/t Au from 113 metres depth.

**Altia West:** where copper mineralisation is present over several hundred metres within a sulphide-bearing silicified shear zone on the western margin of the Altia Deposit. Better intercepts so far include 14 metres @ 1.04% Cu and 0.55 g/t Au from 145 metres depth, including 1 metre @ 4.07% Cu and 0.46 g/t Au from 153 metres.

**Eloise South West:** where numerous EM conductors and anomalous bedrock geochemistry occur within the southern extension of the sequence that hosts the Eloise Copper Mine. Best intersections so far include 1 metre @ 1.61% Cu and 0.38 g/t Au from 97 metres, and 0.7 metres @ 4.63% Cu and 1.97g/t Au from 100 metres.

Apart from the four targets that I have highlighted, single drill holes were also completed by previous explorers to test gossanous quartz veining and geophysical anomalies on the Coral Reef, Surprise Ridge, and Fairstar prospects (also featured on the above map). Interestingly too, all of these holes returned significant mineralised intersections that remain open in all directions.

The company also has a major regional joint venture with BHP over one of its best targets. Late last year met its first-year minimum joint venture expenditure commitment of \$1 million on the Altia silver-lead-zinc deposit, which lies situated 5km southwest of the Eloise mine. Under the terms of the agreement, BHP can earn a 70% stake in the project by completing total expenditure of \$10 million over a five-year period.

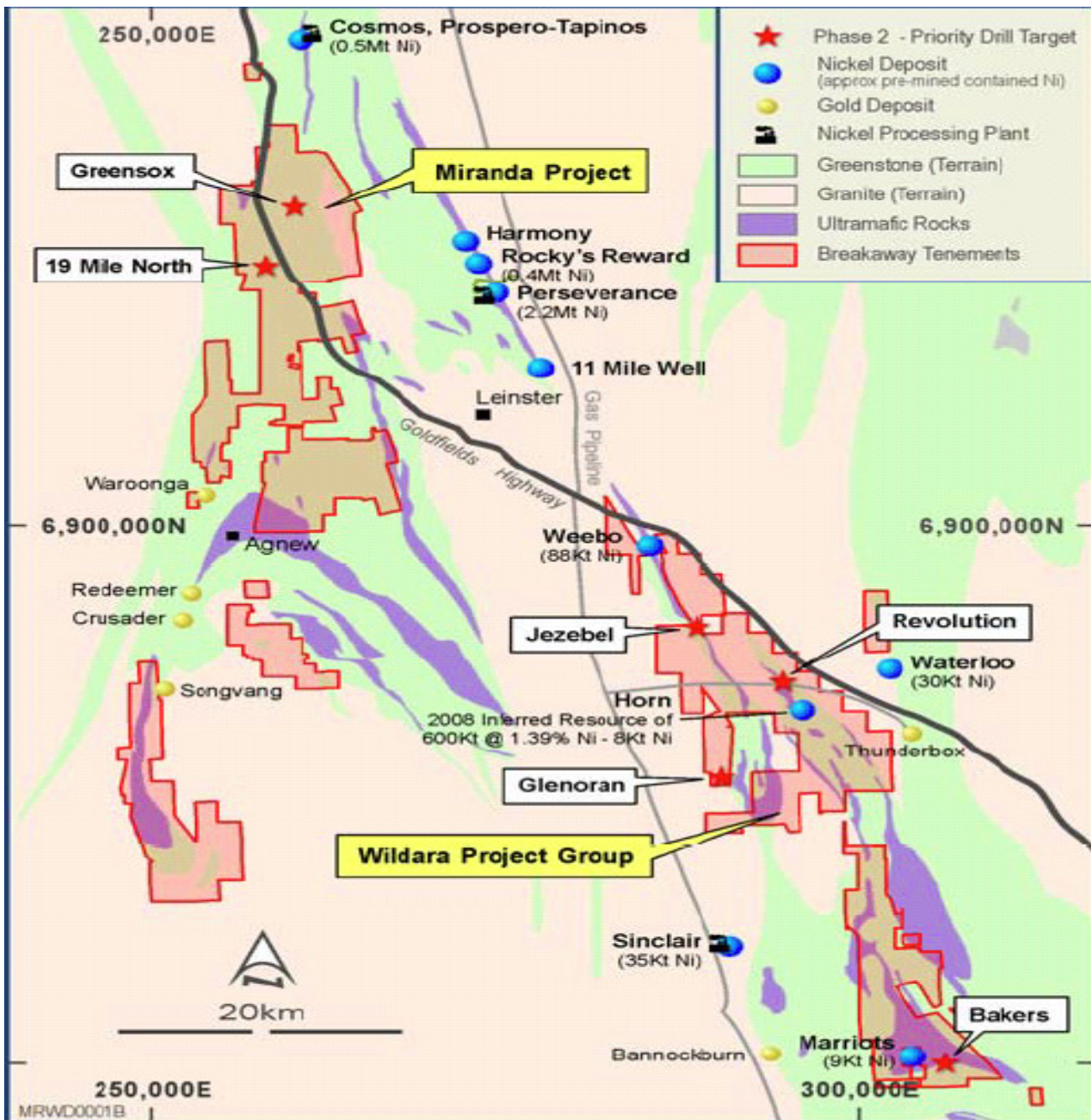
As a key component of this initial expenditure, six diamond drill-holes (totalling 4,480 metres) were completed as an initial test of the Altia deposit's broader potential. The focus of the program is based on the strong geological similarities between the Altia mineralisation and the world-class Cannington silver-lead-zinc mine, 100km to the south along the same geological corridor.

From previous drilling, BRW has delineated an initial JORC-compliant Inferred Resource comprising 5.78 million tonnes averaging 40.3 g/t silver, 3.96% lead and 0.49% zinc. The results of the recent drilling are being assessed prior to a decision on further drilling.

Meanwhile on the nickel exploration front, BRW's Phase 2 exploration program on its 100%-owned Wildara and Miranda projects in the Leinster nickel district of Western Australia will comprise up to 1,500 metres of reverse circulation and 1,300 metres of diamond drilling, as well as fixed-loop electromagnetic surveying to refine a key target area at the Wildara project.

BRW's Wildara project is located 30km south along strike from BHP Nickel West's Leinster nickel deposit (+2.5Mt nickel metal). The four key targets to be drilled comprise the Revolution, Bakers, Glenoran and Jezebel prospects.

Meanwhile at BRW's Miranda projects, which covers the interpreted southern extension of the Mt Goode Ultramafic Belt which hosts Xstrata's Cosmos Nickel Deposits, the company's recently completed ground-based Moving Loop TEM (MLTEM) survey has led to the selection of two priority targets for initial follow-up, comprising 19 Mile North and Greensox.



During the December 2010 quarter, the company spent \$0.272m on exploration and development, representing 47% of total expenditure for the period.

Breakaway is a diversified exploration company, but with a strong focus on two commodities – copper and nickel, in prime exploration addresses in WA and Queensland. The quality of the company’s neighbours, in BHP and Xstrata for example, is testament to the quality of their acreage. The fact that production will resume at Eloise is a bonus, as it will generate a cashflow that can help finance the company’s exploration activities. And with a current market value of just \$22m, investors in BRW are effectively getting any future income stream from Eloise for virtually nothing

**I recommend Breakaway Resources as a Buy @ \$0.074.**