# minelife

## WEEKLY RESOURCE REPORT by Gavin Wendt

**ISSUE 11** **23rd February, 2011**

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This week I've elected to take some profits on one of our best-performing stocks, plus I introduce what I regard as a superbly-credentialed explorer into our portfolio. We also review another two of our best-performing stocks. I hope you enjoy this week's report!

1. **Commodity Analysis – Silver: Prices Continue Surge to Record Highs**
   Investor support for silver, boosted by Middle East fears, has continued to surge, pushing the metal to its highest price ever of US$33/ounce and to its highest level versus gold in 13 years.

2. **Cobar Consolidated Resources – Hold (Initial Buy @ $0.62, Current Price $0.88)**
   Emerging silver producer that's generated a ~40% return since our initial recommendation under two months ago. With first production in Q4 2011 and record prices, there's more upside ahead.

3. **Poseidon Nickel – Hold (Initial Buy @ $0.22, Current Price $0.305)**
   Emerging nickel producer that's generated a ~40% return since our initial recommendation about two months ago. The company has just given the go-ahead for underground mining development.

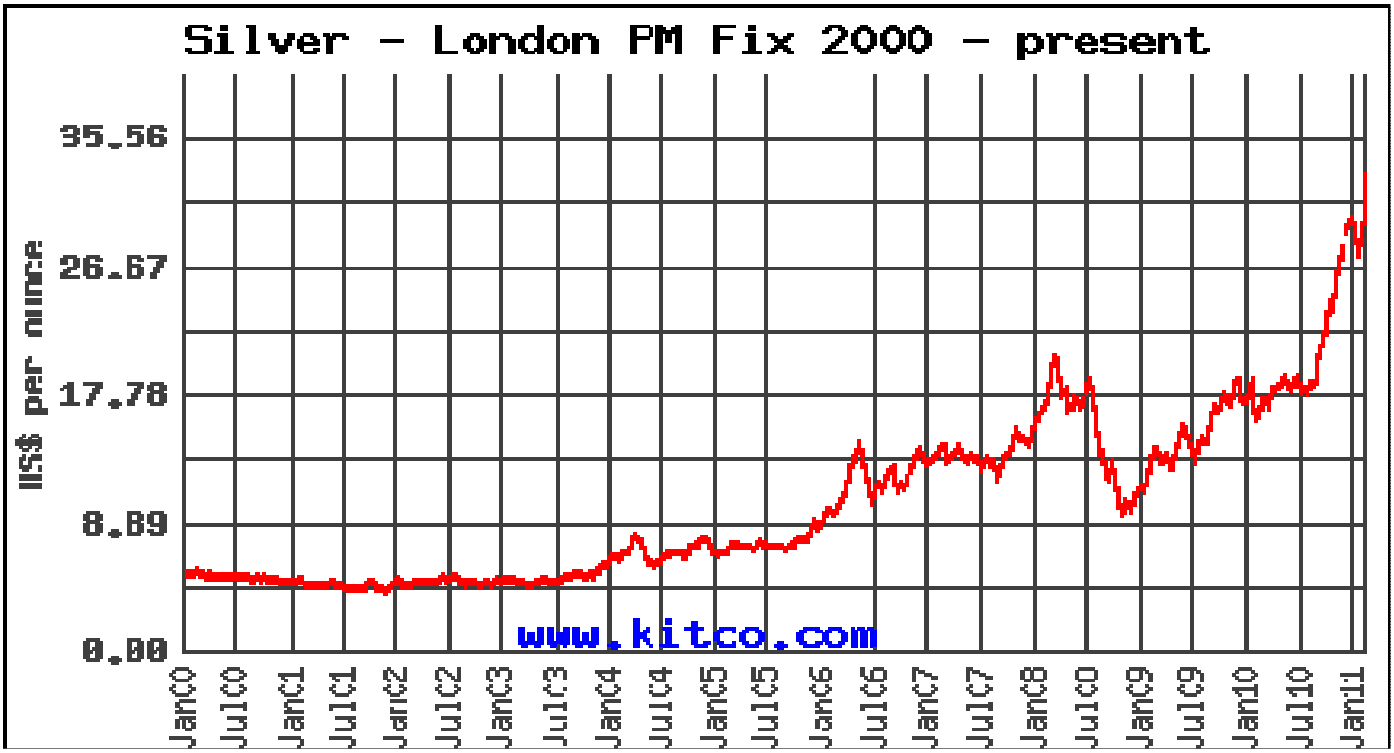
4. **Bathurst Resources – Sell Half around $1.06 (Initial Buy @ $0.65)**
   Emerging NZ coal producer has generated a ~60% return since our initial recommendation. Now is the right time to lock in some profits. Sell Half, retaining exposure to first coal production in Q4 2011.

5. **Breakaway Resources – Buy around $0.074**
   Well-credentialed exploration company with a two-pronged focus, copper-gold in Queensland and nickel in Western Australia. The recommissioning of the Eloise copper mine is a bonus for investors.

## Commodity Analysis – Silver Price Continues to Surge

I highlighted the potential for silver to continue to outperform back in December, in Week 2 of our reports. After the early January sharp setbacks, which had many market-watchers suggesting that the precious metals story was over, gold and silver have made strong recoveries with the gold price again touching US$1,400 and silver hitting a new 31-year high. Other precious metals have been benefitting too, with palladium hitting a new 10-year high and platinum trading higher.

Pleasingly, investor support for the metal has continued to surge, pushing the price of silver to its highest price ever of US$33/ounce and to its highest level versus gold in 13 years. Increased tensions in the Middle East and rising inflation spurred on by the economic recovery have boosted investor demand for precious metals.




Investors always act with caution in a crisis and so have been buying up precious metals to protect their wealth against risks spurred by civil unrest in the Middle East and rising inflation. Asian states from China to Indonesia are striving to damp jumps in the cost of living after surging wheat, sugar and dairy prices sent the United Nations' World Food Price Index to a record last month.

The gold price advance has been helped by the unrest in Arab states in the Middle East and North Africa which is creating huge uncertainty in the region, as well as creating global nervousness. Certainly gold purchases have been on the increase in the Middle East, but it is continuing high Asian demand, particularly in India and China, which is the true driver of the market at the moment.

In China, the central bank ordered banks on 18 February to raise reserve requirements to counter price gains. China does not want to see the same sorts of protests by the disaffected and poor that we've seen in the Arab world.

The easiest way of measuring silver's performance relative to gold is through the use of the gold-silver ratio. An ounce of gold currently buys around 42 ounces of silver, which is the lowest level since February 1998. This reflects the relative price performance of both metals, with silver more than doubling over the past year, whilst spot gold has risen by just 25%, reducing the gold-silver ratio.


Silver is the second-best performer in the UBS Bloomberg CMCI commodity index over the past year, behind only cotton. At the same time however, silver is a more cyclical metal than gold, meaning its outperformance may be sustained in the short-term, but it may find it hard to sustain its outperformance.

Through its greater use in industrial applications, any turnaround in risk sentiment or deterioration in economic activity could mark a turning point. Industrial applications such as electrical switches and batteries account for just over 50% of silver demand, compared with 40% in 2003.

Whilst I've always been extremely positive on precious metals, including silver, it's still going to be a difficult task for the silver price to reach US$50/ounce as some bulls have been predicting. For this to happen, there'll have to be further substantial increases in the price of gold. I've previously stated that I believe gold will comfortably surpass US$1,500 this year, so silver could well see more upside under this scenario.

**For Australian investors this means exposure to an emerging silver producer that offers strong exposure to the underlying price of silver metal, like Cobar Consolidated Resources (ASX: CCU), which is already in our portfolio.**

# Cobar Consolidated Resources (CCU) – Hold (Original Buy @ 62c)

Emerging silver producer that's generated a ~40% return since our initial recommendation less than two months ago. With first production in Q4 2011 and silver prices at record highs, there's more upside to come.

**Corporate Details**

Status: Emerging Producer

Size: Small Cap

Commodity Exposure: Silver

Share Price: 88c

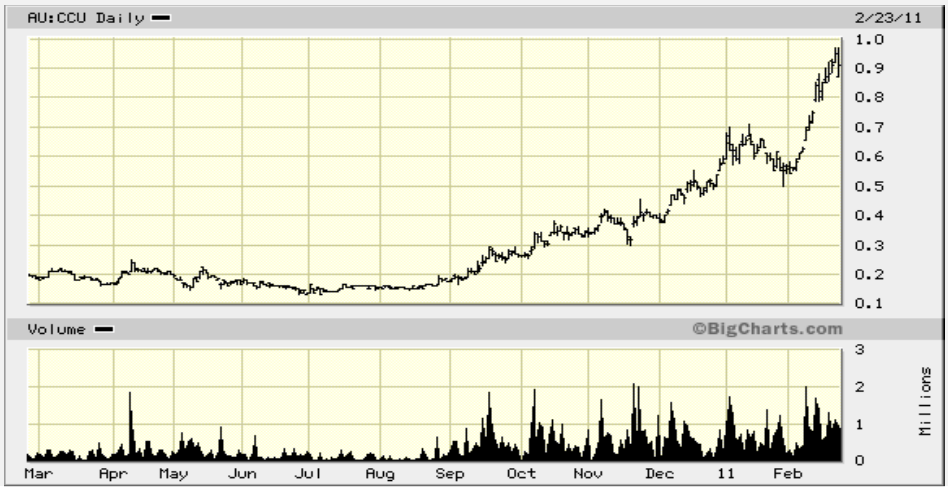
12-month Range: 13c – 97c

Shares: 146.9m, Options: 9.4m

Top 20: 51%

Net Cash: $7.9m

Market Value: $129m




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

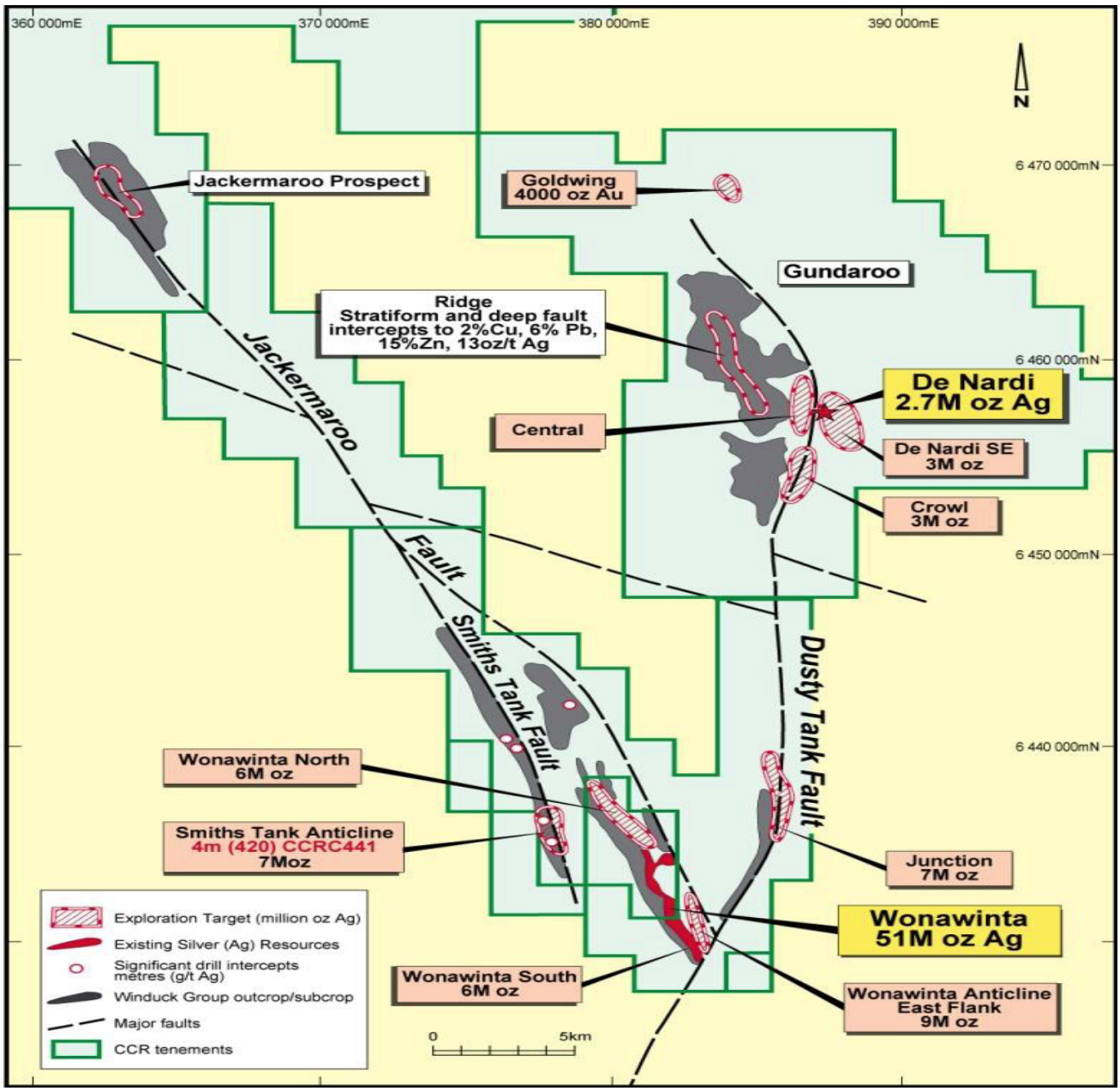
I've believed right from the outset that the best silver play in Australia has to be Cobar Consolidated Resources. The company is a stand-out because it is one of the few ASX silver plays that can relatively quickly take advantage of the strong silver price environment through the development of its Wonawinta silver project near Cobar in Western NSW. The company aims to be in production by the end of 2011, providing investors with a highly leveraged silver play.

Wonawinta is a deposit that most investors will not have heard much about, but it currently hosts Australia's largest undeveloped silver resource, comprising more than 50 million ounces. The beauty of the project is that it is quite advanced, with CCU putting all of its eggs into one basket over recent years as it focused entirely on project evaluation and enhancement. So with feasibility work already completed, Wonawinta has the potential to become a globally significant, low-cost silver producer by the end of 2011.

The Wonawinta silver project initially comprised a joint venture with CBH Resources, where CCU was required to spend $0.7m on exploration to earn a 70% stake in the project. In March 2009 CCU had comfortably met this milestone and subsequently purchased CBH's claw-back right, leaving CBH with only a 2% royalty interest and CCU owning 100% of the Wonawinta project.

The Wonawinta project comprises JORC-compliant reserves, resources and exploration assets within a 1,370 sq km tenement package situated on the western margin of the Cobar basin, as clearly shown in the map below.

The Cobar mineral field is a historic one and still an attractive location for mineral investment. The area is characterised by high-grade, long-life, multi-metal deposits, along with good infrastructure, an experienced work force and a long-standing mining tradition. Community support is a huge factor in any planned mining development and its importance cannot be overestimated.




Apart from the Wonawinta silver project in the southern portion of the map, note the presence of the De Nardi project in the northeastern section of the tenement package. This is a potentially very significant project area that will soon see a renewed exploration focus. I we will discuss De Nardi in more detail later.

Wonawinta boasts a robust silver deposit comprising an estimated Inferred and Indicated Resource of 51 million ounces of silver, based on a cut-off grade of 22g/t, including a Probable Reserve of 14 million ounces of silver. Testing has demonstrated the Wonawinta ore to be free-digging, which when combined with a low haulage distance to a centrally-located plant, should lead to ultra-competitive mining costs.

Processing of the silver oxides will be by way of a standard cyanide leach, with the added benefit of the recovery of a lead concentrate using gravity processing methods. Final silver recovery is by way of a Merrill Crowe circuit. The optimised mine schedule would see the operation producing between 2.3 Moz and 2.7 Moz of silver annually over an initial five-year mine life, from four shallow open-pits (<50m depth) with a low strip ratio of 6.2:1.

A feasibility study was completed in June 2010 that confirmed the sound economics of the project. Capital costs are estimated at $29.5 million, with average life-of-mine operating costs of $10.20/oz (even lower at $6.50/oz if lead by-product credits are included). This would mean a capital pay-back of just two years, based on total silver production of 12.8Moz.

And production is not far off, with pre-strip to begin in April and first ore production scheduled for September, with full production likely during Q4 2011. This means CCU will be able to benefit from current strong silver prices. Importantly too, CCU has access to abundant local water and gas-fired power on-site.

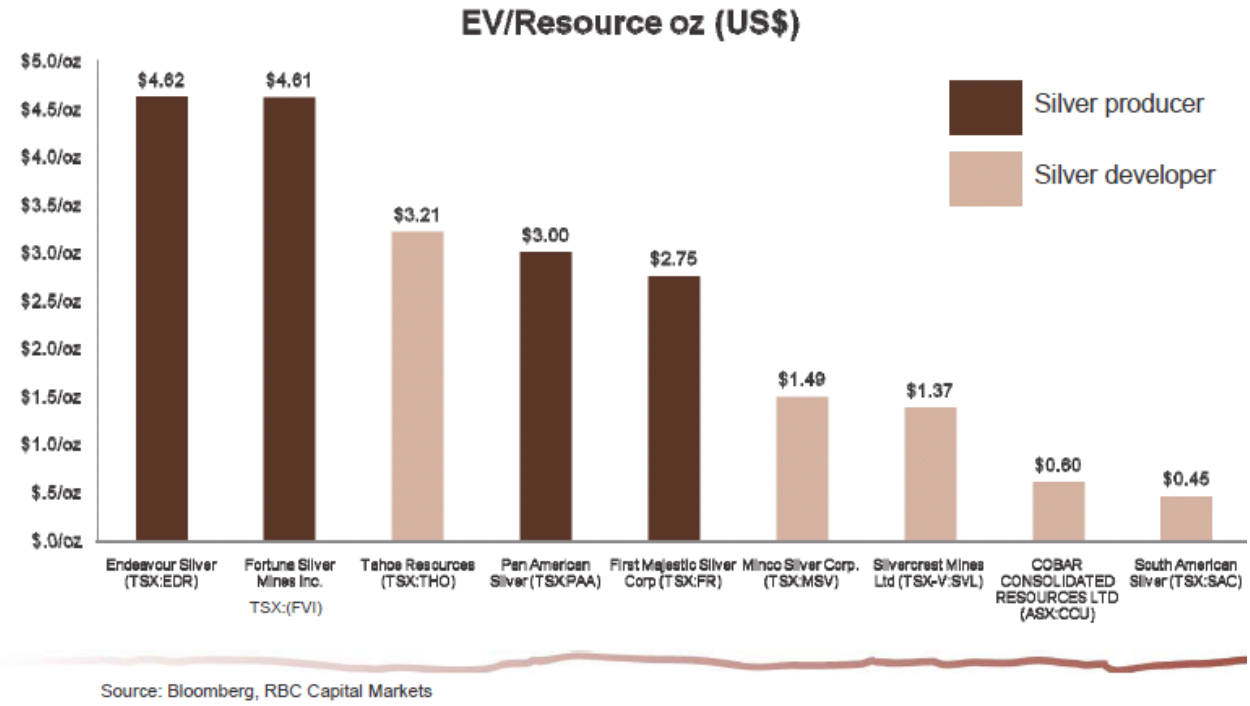
Bear in mind too that current silver prices are around US$33/oz, so operating costs of around US$10.20/oz will generate a potentially outstanding operating margin and would enable an even faster payback, even allowing for an increase in overall capital costs due to cost and wage inflation.

The positive results from the optimisation study have led CCU to undertake an independent technical assessment of the project. This study is currently underway, with the results expected to be completed early in 2011. Encouragingly, we understand that the preliminary findings have enhanced the project's already robust economics.

Based on what we currently know, I would anticipate Earnings per Share of around 5c in 2012, increasing to 15c in 2013. I have based these estimates on a silver price of around US$28/ounce (a 15% discount to current prices around US$33/ounce). This puts CCU on a Price/Earnings multiple of 18x 2012 earnings, declining to just 6x 2013 earnings. This is in my view cheap, but at the same time reflects the current modest mine life at Wonawinta.

Not surprisingly, CCU is working on strategies to enhance its reserve position and extend mine life beyond the current five-year horizon. Its options included upgrading the existing oxide Resource to Reserve status (20Moz target), implementing a flow-sheet to treat sulphide resources (17Moz target), as well as potentially treat other resources, such as the De Nardi prospect (2.7Moz resource). Encouragingly, if you add it all together, there is vast reserve upside potential of around 40Moz.

From a value perspective, I believe CCU is an outstanding investment proposition. The chart below is a little out of date, but the essential fact remains that the company continues to trade at a substantial discount to the value of its international silver sector peers. When we factor in the likelihood of further resource upside, the undervalued nature of CCU is even more apparent.




Source: Bloomberg, RBC Capital Markets

One of the most prospective areas surrounds the company's De Nardi silver deposit (refer to previous regional map), known as the Gundaroo prospect. CCU had early exploration success at Gundaroo, with multiple shallow intercepts of copper, zinc, lead and silver, including the identification of the 2.7M oz silver resource at De Nardi. However, given the company's funding position at the time, priority was given to more advanced prospects like Wonawinta, which potentially had a shorter lead-time to development.

Notwithstanding the continuing focus on Wonawinta, recent gravity work by CCU data has re-emphasised the prospectivity of Gundaroo. CCU plans to conduct a 2,000 line km geophysical survey (VTEM) that includes both the Gundaroo and Wonawinta areas, which will detect conductive bodies to a depth of 200m and also provide detailed structural information. This will assist in locating prospective sites for high-grade mineralisation, including Mississippi Valley Type (MVT) lead-zinc-silver deposits in the Wonawinta area. The VTEM survey results will be available in April.

Pleasingly, the company is wasting no time with respect to accelerating Wonawinta project development and is concurrently progressing permitting and licensing for the project, whilst also assessing infrastructure requirements, engineering design, metallurgical test-work (focusing on boosting lead recoveries) and drill-target definition for further resource drilling.

**I maintain a Hold recommendation on Cobar Consolidated Resources.**

## Poseidon Nickel (POS) – Hold (Original Buy @ 22c)

Emerging nickel producer that's generated a ~40% return since our initial recommendation about two months ago. The company has just given the go-ahead for underground mining development to begin.

**Corporate Details**

Status: Emerging Producer

Size: Small Cap

Commodity Exposure: Nickel

Share Price: 30.5c

12-month Range: 14.5c – 40c

Shares: 194.9m, Options: 160m

Top 20: 40%

Net Cash: $0.7m

Market Value: $60m


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

Managing Director David Singleton has been conducting a promotional road-show over the past fortnight, emphasizing the company's production credentials in the light of the recent announcement that the company had appointed a group to commence operations at its historic Windarra underground nickel mine in Western Australia. The road-show, combined with the commissioning of additional underground work, has sent the right signals to the market that Poseidon is serious about mining at Windarra, with the share price firming nicely.

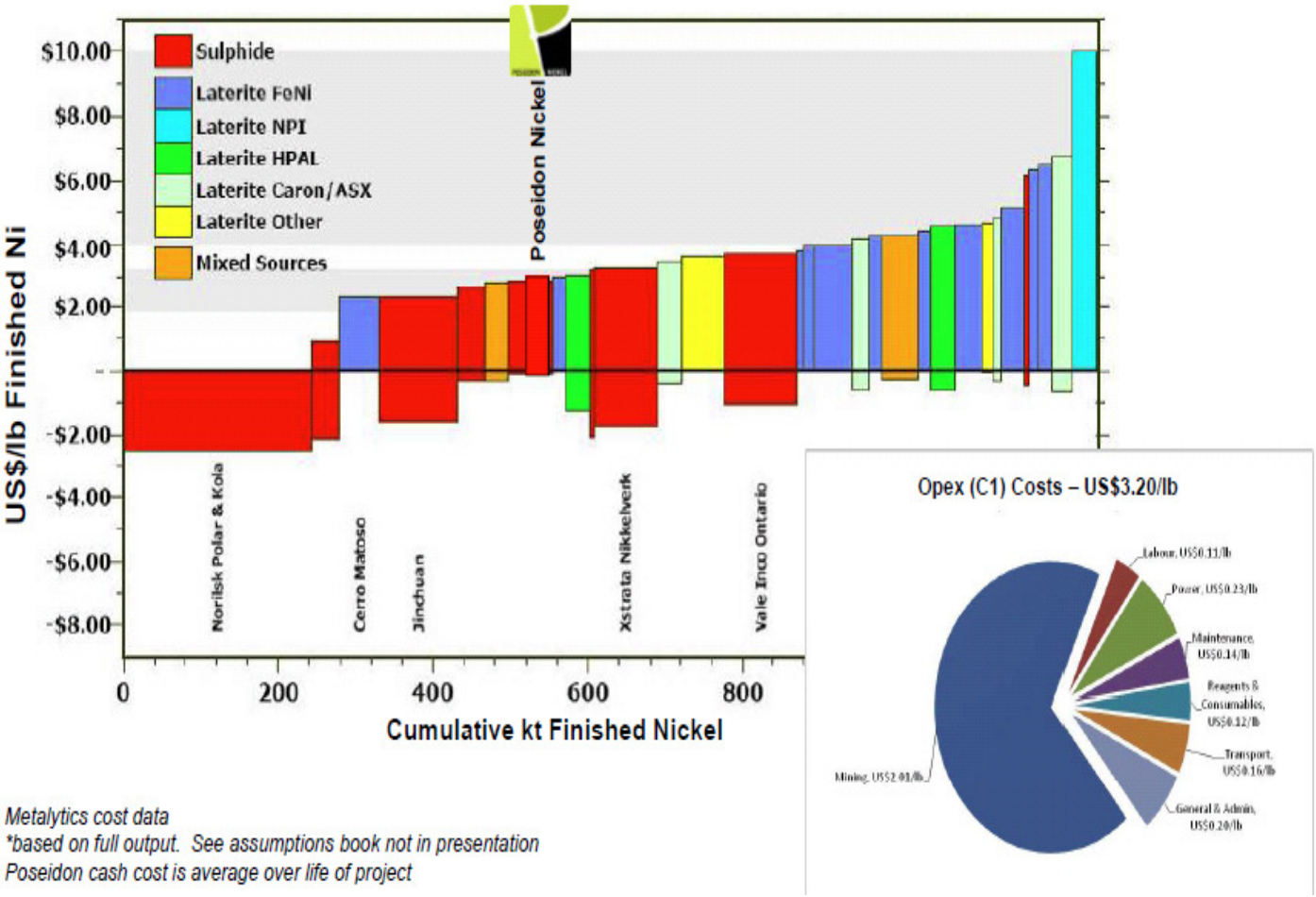
As I've emphasised previously, the nickel industry worldwide is going through an interesting phase, with traditional, higher-grade nickel sulphide deposits becoming increasingly isolated and difficult to identify. In my view this provides significant supply-side challenges for the nickel industry. Simultaneously, the situation is being exacerbated by significant technical challenges being faced by the burgeoning lateritic nickel industry. There have been a litany of spectacular failures in Australia's lateritic nickel industry over the past decade, the most recent being BHP Billiton's multi-billion dollar disaster at Ravensthorpe in WA.

This brings us back to the old-fashioned sulphide nickel producers, with Poseidon Nickel heading the pack in Australian terms. Poseidon is a nickel exploration and development company focused on the historic

Windarra nickel project in WA's Northeastern Goldfields. The Windarra project comprises an existing open-pit and underground mine at South Windarra and Mount Windarra respectively, as well as 24km of highly prospective and under-explored host mineralisation.

So far, Poseidon has defined 97,331 tonnes of JORC-compliant nickel sulphide resources at Windarra, comprising: 61,764 tonnes of contained nickel at Mt Windarra adjacent to and below the existing underground infrastructure; as well as a maiden 25,269 tonne nickel resource at the Cerberus deposit; and finally 10,298 tonnes of contained nickel at South Windarra.

With respect to a likely production scenario, I estimate an initial 7-10 year mine life at Mt Windarra, but with considerable scope for expansion over time. Annualised production would be around 10,000 tonnes, with an estimated low cash operating cost of around US$3.20/lb at full output. This compares nicely with a current nickel price of around US$13/lb. And the chart below shows that Poseidon stacks up really well in comparison with its nickel sector production peers.

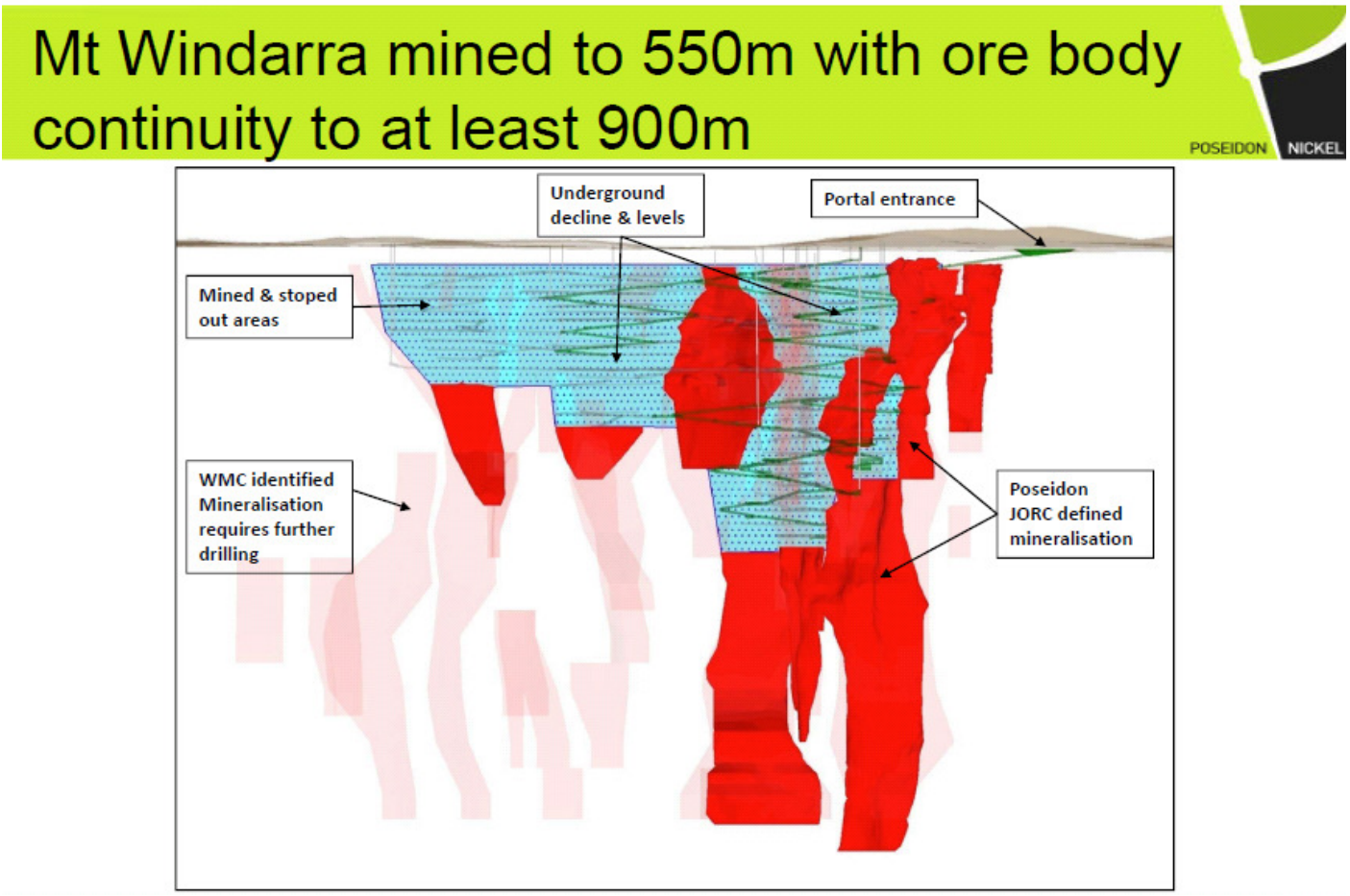



*Metalytics cost data*
**based on full output. See assumptions book not in presentation*
*Poseidon cash cost is average over life of project*

In terms of development potential, the Windarra story is an excellent one. Site infrastructure has been refurbished, with a fully functioning mining camp. Mining equipment is on site and final refurbishment of the decline has just been announced. Poseidon expects to commit to concentrator options in early 2011 and operating costs are estimated to be low at around US$3.20/lb. Total refurbishment is expected to take up to

24 months at a total cost of around $55 million. Poseidon has a life-of-mine off-take arrangement with China's Jinchuan Group.

Tenders for the supply and installation of the second-stage dewatering pumps required to complete the mine dewatering have been issued with the aim of having this equipment operational during Q1 2011, by which time the first stage of pumping to 165 meters vertically will have being completed. In addition, the company has commenced negotiation with a number of other companies for the supply of equipment and consumables required for the restart of underground operations.

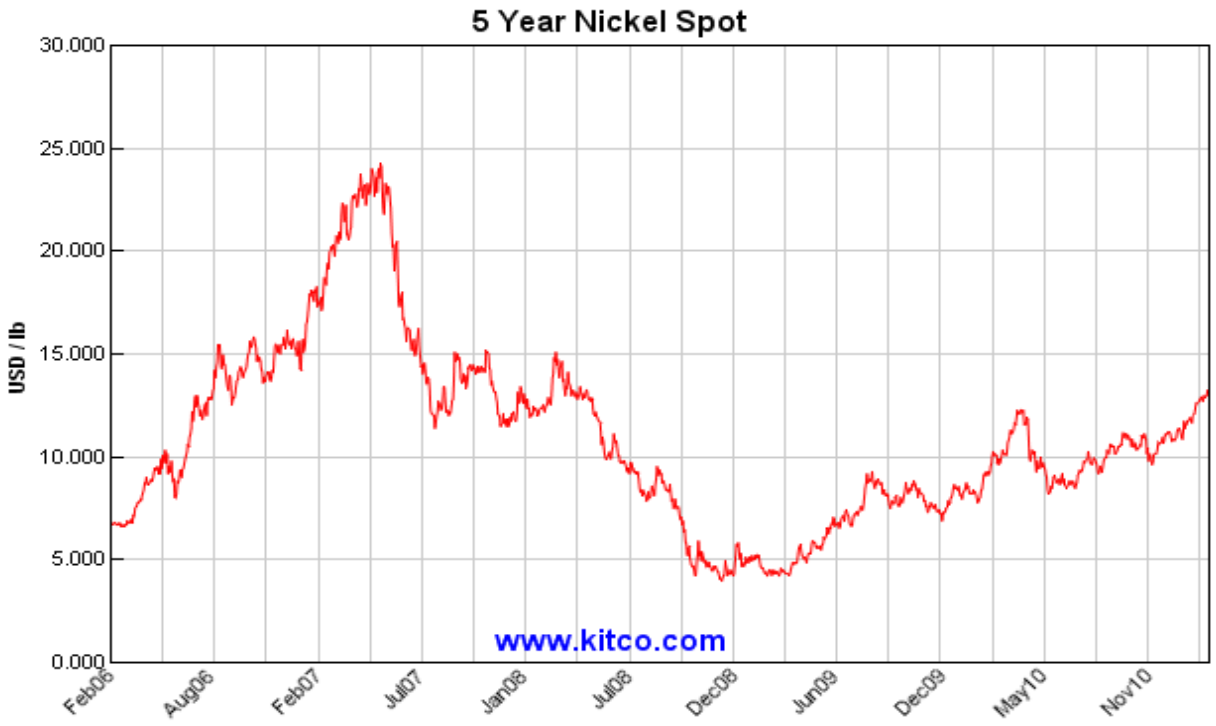



The company has reactivated the contract for the refurbishment of the underground mine and as a result of the ongoing high standards of care and maintenance through the period, Poseidon will be able to recommence the rehabilitation of the underground mine during March 2011. This will be completed down to 550 metres below the surface, the location where the previous mining operations ceased. The completion of the refurbishment will also allow Poseidon to undertake further drilling activity at a lower cost from underground, whilst simultaneously being able to complete preparations for the restart of mining operations.

The refurbishment will include the removal of water from the mine, rock-bolting and meshing of the decline and the installation of various infrastructures necessary to commence mining operations. The work will take around ten months to complete at a cost of around $8m. Poseidon recently commissioned an examination

of the vertical shafts in the mine using a remote camera system. The results of this examination have provided further confidence that the areas not yet refurbished have remained in good standing.

With respect to project financing, in late 2010 the company announced it had secured a US$20m Convertible Note funding facility from New York-based Harbinger Capital Partners LLC and its affiliates. The Convertible Notes are subject to shareholder approval at a general meeting which will be held on 28 March 2011. The company is looking for the additional $35m necessary for the cost of the concentrator plant.




The outlook for Poseidon in our view is extremely positive, although patience will be required. There will be strong news flow over the next two years until first production commences, with fund raising, refurbishment work and the arrival of long lead-time items.

At the same time the company won't be sitting still on the exploration front and is pushing ahead with a major drilling program to test regional targets that have been developed over the past three years. The company will permanently have available a drill rig for next two years, with the areas around the Cerberus and South Windarra being the top priorities. The company will also undertake an underground drilling program at Mt Windarra, with the plan to expand the current resource base & develop a mine plan.

This approach has been highly successful in other Western Australian nickel camps and I believe that Poseidon can replicate that success at Windarra.

**I maintain a Hold recommendation on Poseidon Nickel.**

## Bathurst Resources (BTU) – Sell Half @ $1.06 (Original Buy @ 65c)

Emerging NZ coal producer that has generated a ~60% return since our initial recommendation. Now is the right time however to lock in some profits. Sell Half, retaining exposure to first coal production in Q4 2011.

**Corporate Details**

Status: Emerging Producer

Size: Small Cap

Commodity Exposure: Coal

Share Price: $1.06

12-month Range: 5.7c – $1.22

Shares: 613.2m, Options: 75.4m

Top 20: 62%

Net Cash: $73m

Market Value: $650m


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

Coal is one of the key commodities fuelling the growth of the world economy, particularly with respect to the emerging powerhouses of Asia - China and India. Coking coal in particular has been on an extraordinary growth trajectory due to the huge increase in steel production from both countries. The emerging coal space however is fraught with risk issues.

Whilst Australia is a safe and somewhat mature coal producing market, many new participants are seeking their fortunes internationally. Indonesia and Africa are two of the biggest draw-cards for new Australian coal hopefuls. However coal quality, production reliability, infrastructure constraints and political risk, are just some of the issues in these new coal hotspots.

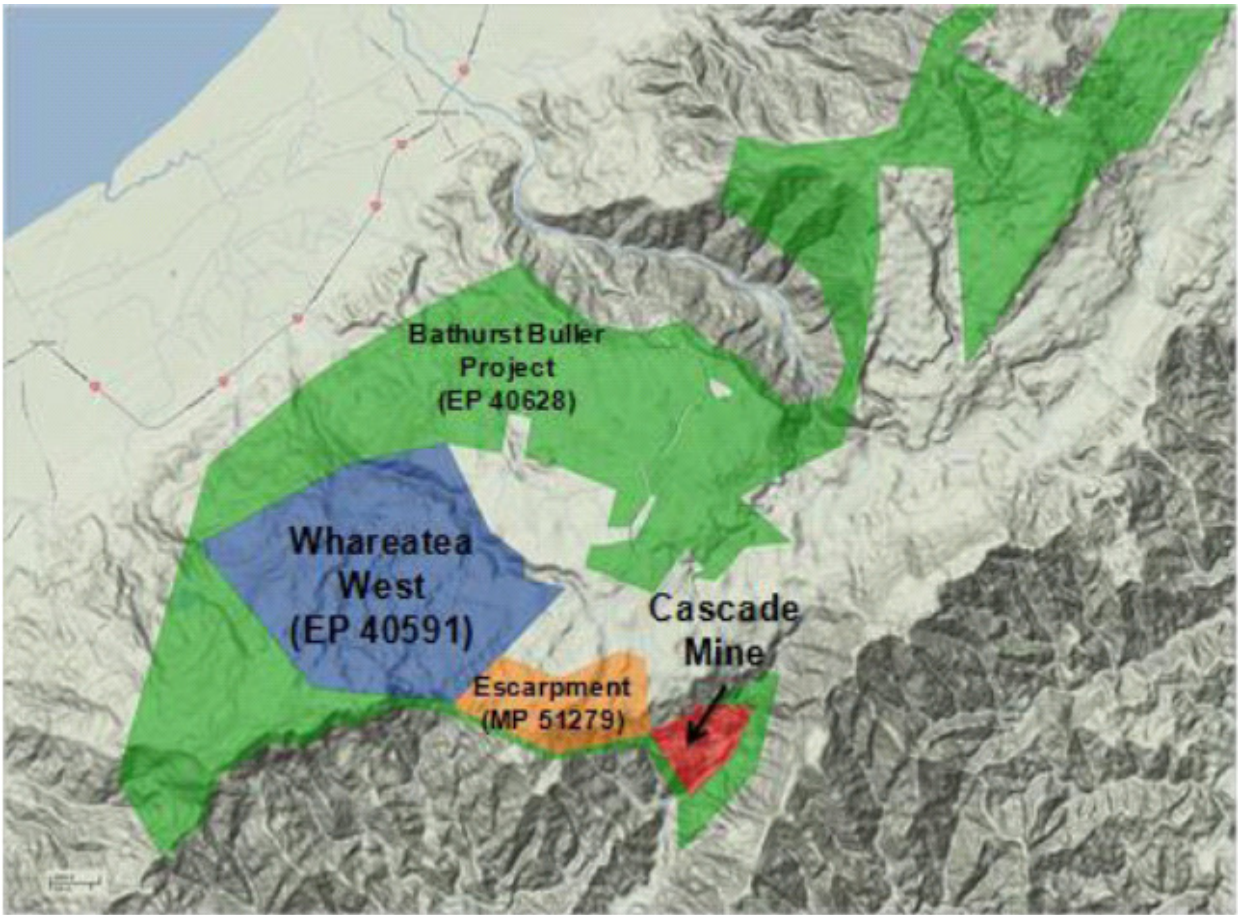
We've looked closer to home for opportunities with a more appropriate risk-reward balance for investors. As a result, our preferred investment opportunity in the emerging coal space is Bathurst Resources, a company 100% focused on newly-acquired premium coking coal operations in one of New Zealand's historic coal mining provinces.

Bathurst Resources last year made the strategic move into the New Zealand coal space by entering into an agreement with L&M Holdings Ltd to acquire the Buller Coal Project, situated on the West Coast of New

Zealand's South Island. The project contains a well-defined JORC-compliant Resource of 47.1Mt of essentially premium coking coal, with an overall exploration target in the vicinity of 60-90Mt.

In terms of project scope, Bathurst recently completed a Definitive Feasibility Study (DFS) that confirmed the project's sound economics. Production is planned by the end of 2011, with the mining permit already granted. The project is based on a low-risk, conventional open-cut mining operation, initially producing ~1.0Mtpa premium coking coal before ramping up to ~2.0Mtpa, as successive mining areas are brought on stream.

The project capex of US$64 million compares exceptionally well with similar projects elsewhere. Operating costs originally estimated by the company at US$103/t, have been reduced to US$84/t due to a lower stripping ratio (and hence start-up costs) at Deep Creek, and direct shipping coal bypassing the CPP.




In November, Bathurst sensibly seized upon the opportunity to further consolidate its position in the Buller Coalfield by spending $32.6 million to purchase assets from ASX-listed Galilee Energy (ASX:GLL). Bathurst picked up the prime Whareatea West permit (refer map above), which contains 25.7Mt of JORC-compliant coal adjacent to Bathurst's Escarpment block, importantly boosting its Buller resources by 55% to 72.8Mt.

Bathurst will also get two smaller producing coal mines, the Cascade operation producing 40,000tpa and the Takitimu operation in the Ohai region producing 160,000tpa and hosting 3.24Mt of JORC resources. The acquisition is expected to be settled during the current March 2011 quarter.

In terms of value, despite its strong share price appreciation Bathurst continues to trade at a discount to even a conservative NPV, largely due to its pre-production status and the inherent risks that lie in project development and commissioning. Nevertheless, this is where the investment opportunity continues to exist.

According to Bathurst's estimates of a 90/10 coking coal/thermal coal product split, along with the blended high-fluidity coking coal product selling at a 10% premium to the benchmark premium hard coking coal price (then HCC=US$209/t), an NPV of $1.63 per share is generated. We think this is entirely reasonable, as the likelihood is that premium coking coal prices will now stay higher for longer.

We had the opportunity to meet up with Managing Director Hamish Bohannan at the recent Mining Indaba conference in Cape Town, and the feeling about the company was very positive. One of the key questions that I had involved logistics, with Hamish outlining two possible viable options with respect to obtaining port access. Bathurst has clarified its position this week with respect to its plans, announcing the entering into of a heads of agreement with Westport Harbour to gain exclusive use of a coal handling facility to ship coal from the company's Buller project.

This is a key milestone in finalising the logistics chain. Under the agreement, Westport Harbour will construct a coal unloading system, stockpile area, ship-loader and a wharf. Coal will be transported by rail from the Buller coal project to the port from where Westport Harbour will provide coal handling services to receive, unload, stockpile, store and load vessels. Bathurst will pay Westport Harbour for the use of the facility and the provision of coal handling services, with coal volumes anticipated to reach 2 million tonnes within 3 years.

With logistics finalization I am now more comfortable than ever with respect to the Bathurst Resources story. The company possesses a high-quality premium coking coal deposit that can be developed on a modest scale to generate very strong earnings. At the same time the company has managed to astutely acquire neighbouring ground that will enhance its overall acreage and add to its corporate appeal.

Nevertheless, given the company's strong share price performance over the past two months where it has risen by more than 60%, I am more than happy to lock in some profits at current levels, particularly given share market uncertainty caused by political ructions in North Africa and the Middle East.

I therefore maintain a Sell Half recommendation at current prices, leaving the balance of the Bathurst portfolio to benefit from the move towards production at the end of calendar 2011 and any potential corporate interest that might emerge. Bathurst Resources remains in my view probably the best emerging coal play in Australia, but it is prudent to lock-in some profits.

**Accordingly, I maintain a Sell Half recommendation on Bathurst Resources @ $1.06.**

# 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 | ✓✓✓✓✓ |

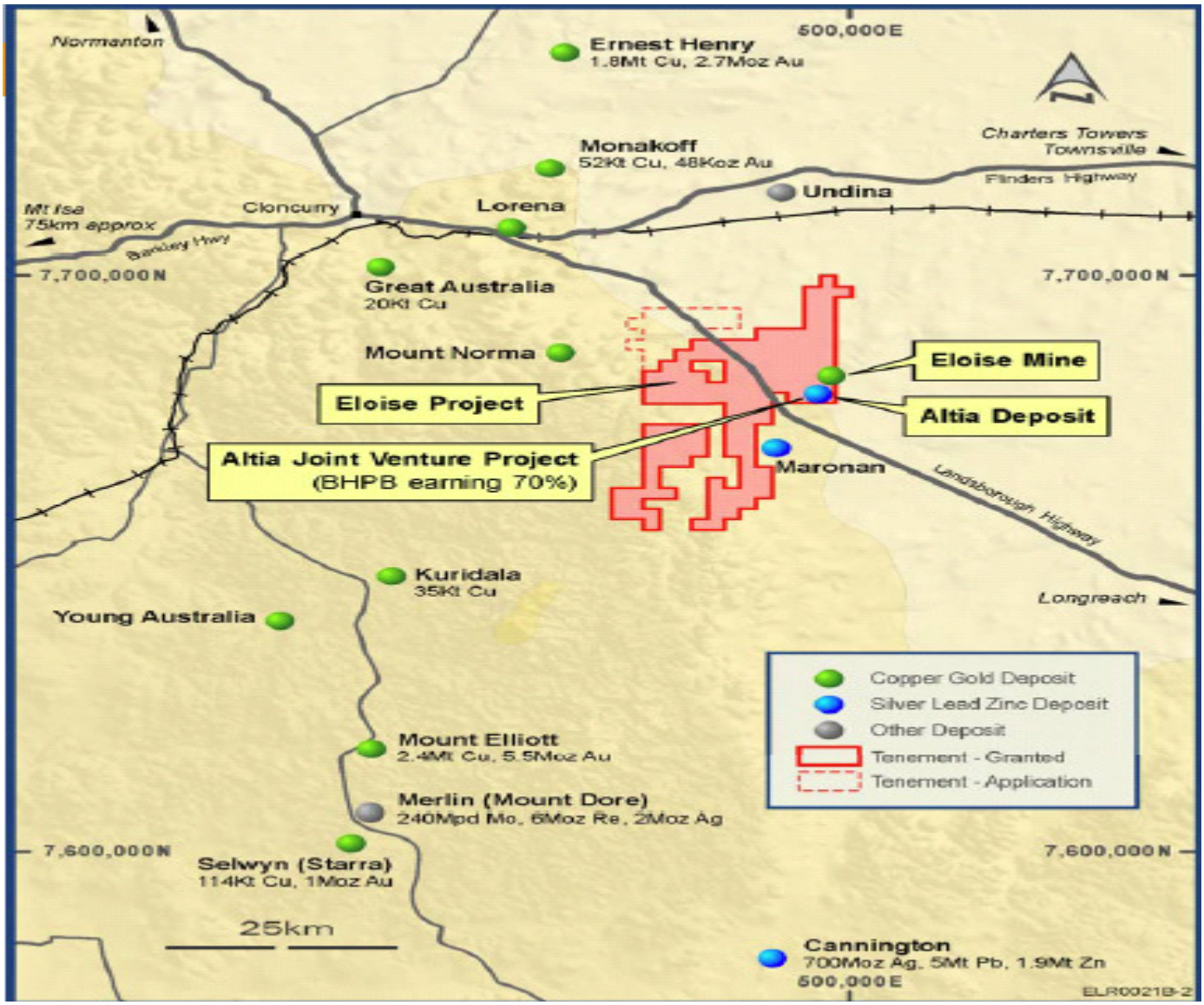
I regard Breakaway Resources as one of the country's best and most persistent exploration companies, with a specific focus these days on two highly prospective areas targeting two different types of commodities. I also regard MD David Hutton as one of the country's best explorationists, so it was logical 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.

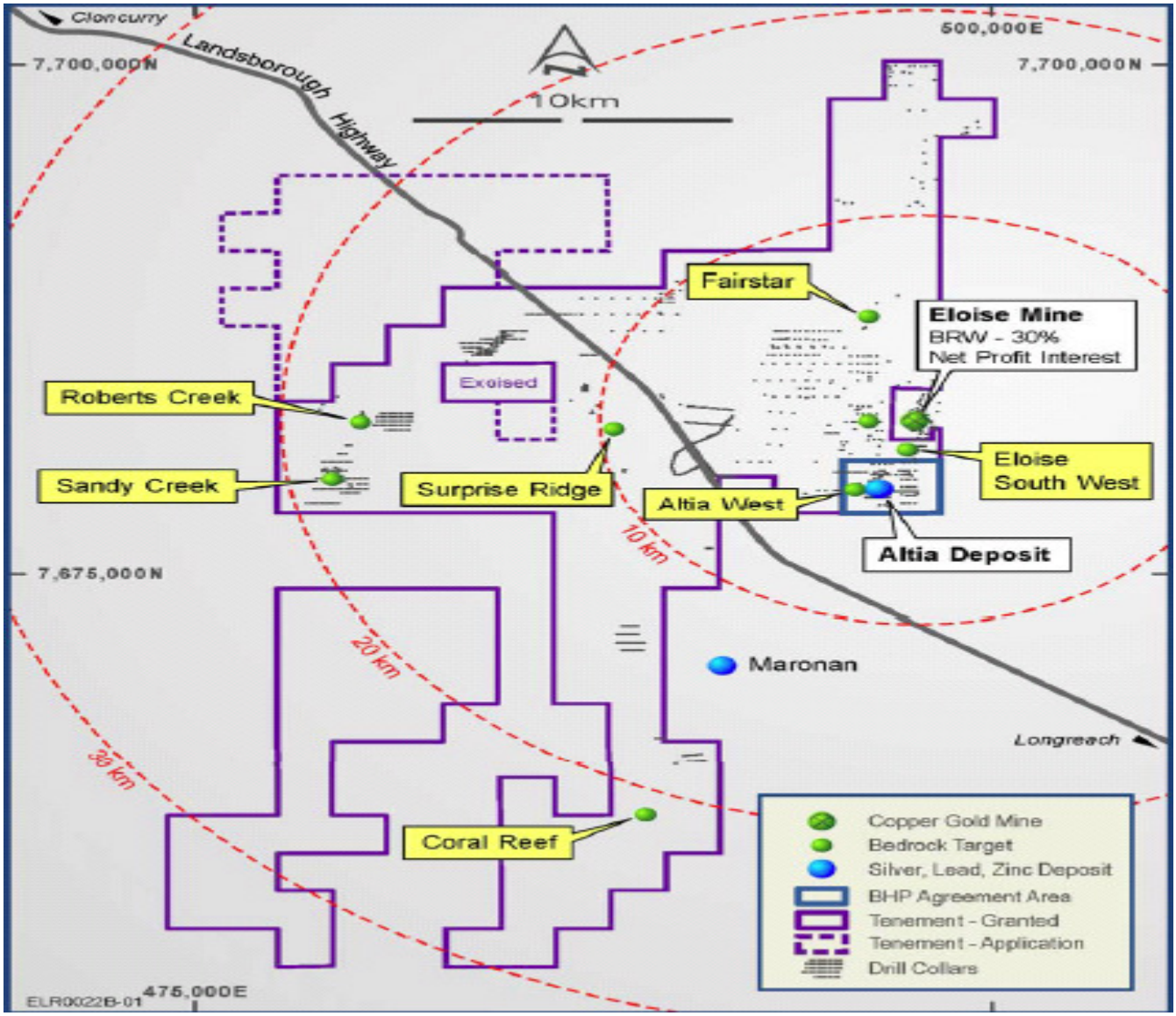
The re-opening of the mine coupled with stronger copper prices outlook for the copper market has provided the company with added confidence to launch copper exploration programs targeting multiple, high-grade copper targets within a 20km radius of the mine.




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.

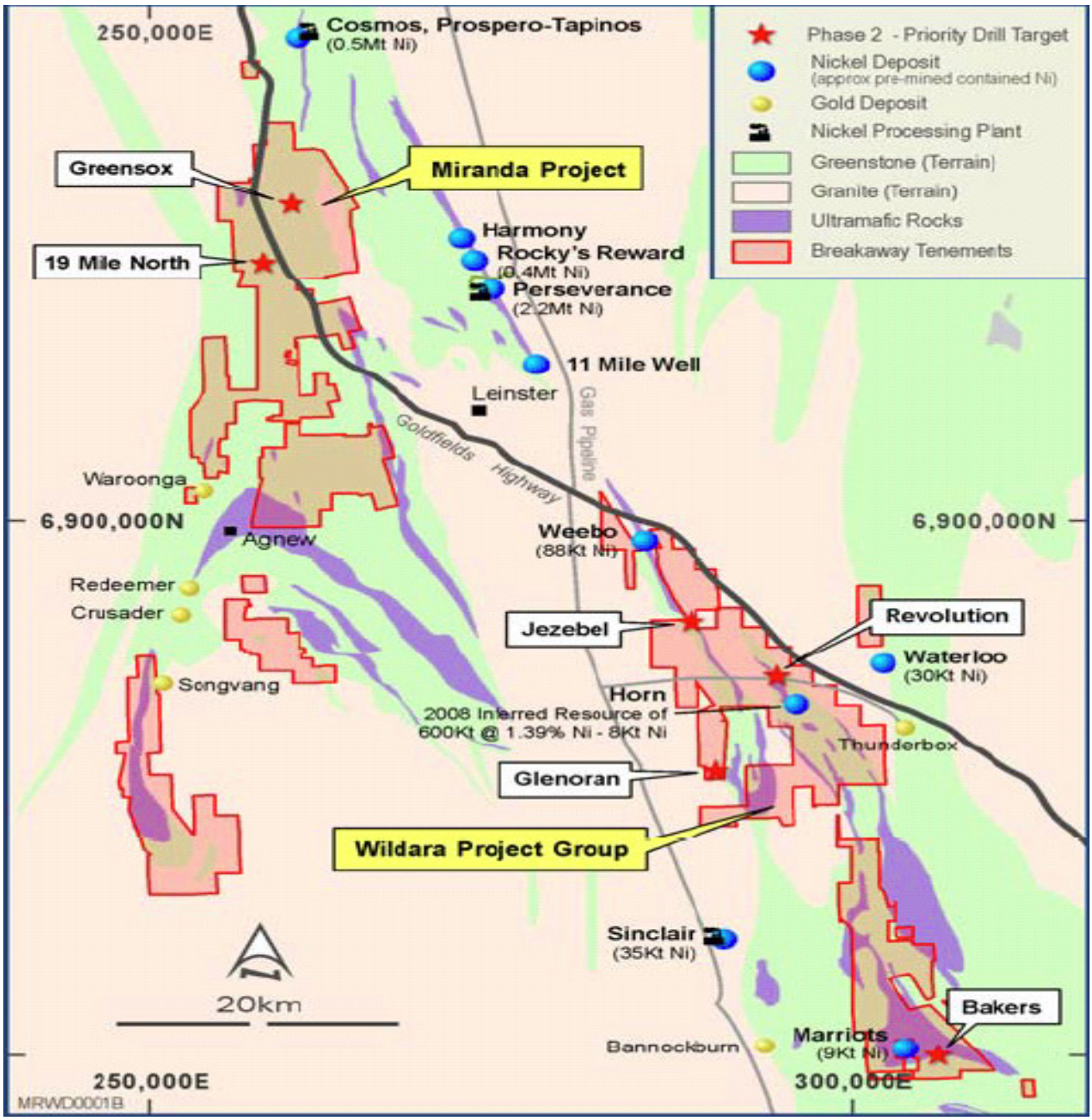
As a key component of this initial expenditure, six diamond drill-holes (totalling 4,480 metres) were completed as an initial test of the Altia deposit's broader potential. The focus of the program is based on the strong geological similarities between the Altia mineralisation and the world-class Cannington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