

Flash Note – Vital Metals Limited

Robust Watershed DFS – Ready For Development

September 24, 2014

EVENT

- Definitive Feasibility Study for Watershed Tungsten Project confirms strong economics
 - A\$178m pre-tax NPV₈, IRR of 28%
 - Initial mine life of 10 years at 2.5Mtpa
 - Life of mine APT price of US\$455/mtu
 - Life mine cash operating costs of ~US\$200/mtu, lower at start of production
 - Predicted life of mine revenue of A\$1,080m
 - Pre-production capital estimate of A\$172m
- Development ready – fully permitted
- Next stage to secure JV partner and project financing

BREAKAWAY COMMENTS

Vital Metals has released the results of the Definitive Feasibility Study for its 70% owned Watershed Tungsten Project in North Queensland. Watershed is one of the 10 largest un-developed tungsten deposits in the world, and has the potential to be a major western producer, with production of ~3,200tpa of WO₃ for the initial three years, with a life of mine average of ~2,500t of WO₃ per annum.

The initial higher production rate allows rapid repayment of debt at the critical start-up stage of the project through increased revenue and lower operating costs per mtu of WO₃ produced.

Key points highlighted by Vital Metals include:

- Project is fully permitted with all Mining Leases, Environmental Authority and Indigenous Land Use Agreement in place.
- DFS delivery is the expected catalyst for JOGMEC to transfer its 30% interest in the Watershed Project to a new Joint Venture partner that would have an off-take interest and responsibility for arranging its share of project finance.
- Maiden Ore Reserve of 21.3Mt grading 0.15% WO₃ for 31,400 tonnes of contained WO₃ with a strip ratio of 3:1 waste to ore.
- Simple open cut mining operation using excavators and trucks, no pre-strip required. Ore is processed into readily saleable concentrate using simple processing involving ore sorting, spirals and flotation.
- Metallurgical test work has indicated average process recovery of 73.6% WO₃ to deliver a high-grade concentrate (>65% WO₃) with very low contaminants, making it extremely attractive to tungsten metal producers located in Japan, USA and Europe. Further test work could increase recoveries.

- Significant exploration potential to add additional mineral resources near to the proposed mine development.
- Based on successful completion of project finance, there is a clear pathway to begin development in 2015.

The results indicate a robust project, with an NPV in line with modelling in our May, 2014 report, which returned a value of \$153 million. There are some differences in inputs, including the reserve grade being lower than the grade assumed in our modelling and a more favourable concentrate pricing structure than originally envisaged. Vital has based its tungsten prices on forecasts by Tungsten Market Research, an independent tungsten research consultancy.

This can also be considered a base case study – there is scope to increase near mine resources and hence increase mine life once in production.

The project strength is its simplicity– a low strip ratio (3:1), open cut mining operation, with a +65%, low contaminant, ready marketable concentrate produced using standard “off the shelf” ore sorting, spirals and flotation beneficiation.

A key outcome of the completion of the DFS is that it is a trigger for JOGMEC, 30% holders of Watershed, to transfer their interest to a new Japanese joint venture party that would have an offtake interest, and the potential to help secure attractive project financing.

A potential funding model is the Salar de Olaroz Lithium Project in Argentina, an incorporated JV between Orocobre (ASX: ORE, 66.5%) and Toyota Tsusho Corporation of Japan (25%), with the Jujuy State Government having an 8.5% interest.

Here, JOGMEC are guarantors to a maximum facility of US\$191.9 million provided at the project level by Mizuho Corporate Bank – this includes a primary facility of US\$146.3 million, which, with equity capital of US\$82.8 million covers the US\$229.1 million estimated construction cost. The financing has very attractive terms, with a maximum 70:30 debt: equity ratio, and estimated financing costs of 4.5% of the drawn amount, fixed for the ten year term of the loan.

JOGMEC has already identified and met a number of potential partners for Vital – the completion of the DFS should be a catalyst for taking negotiations to the next step, which would then be followed by a decision to proceed and arranging of project financing.

Crucially, Watershed is fully permitted and hence development ready – this should help facilitate financing, and once financing is secured, allow for rapid development. The potential contrasts with many other tungsten projects that need to go through the permitting process.

This should prove a competitive advantage in securing offtake/funding partners – particularly with expected shortfalls in supply as a result of Chinese export restrictions – Japan currently has a demand of around 6,500t WO₃ per annum (~10% of world demand), with no domestic supply.

We maintain our Speculative Buy on Vital Metals, with an unchanged valuation of ~\$0.16/share.

Company Information

ASX Code	VML
Share Price	A\$0.034
MCAP	A\$8.9m
Cash	A\$0.3m
Debt	A\$3.0m
EV	A\$11.6m

Please see recently completed ‘full coverage’ report via link:

<http://www.breakawayresearch.com/research-portfolio/vital-metals>

Analyst Verification

We, Grant Craighead and Mark Gordon, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Vital Metals and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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