



Breakaway Research

June 2012

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Company Information

ASX Code	VML
Share Price A\$	0.039
Ord Shares	228.8m
Options	4.7m
Market Cap A\$	8.9m
Cash A\$	1.3m
Total Debt	-
Enterprise Value A\$	7.6m

Board of Directors

Non-Executive Chairman	David Macoboy
Chief Executive Officer	Mark Strizek
Non-executive Director	Peter Cordin
Non-executive Director	Andrew Simpson
Non-executive Director	Doug Stewart

Substantial Shareholders

Citicorp Nominees Pty Ltd	9.4%
Mr Rex Harbour	7.7%
JP Morgan Nominees Aust	5.6%

Company Details

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Web	www.vitalmetals.com.au

12-Month Price Chart



Source: Bloomberg

Vital Metals (VML)

Watershed tungsten project in northern Queensland fully funded through DFS, whilst encouraging gold results continue from Doulnia project in Burkina Faso

Recommendation: Speculative BUY

Company Update

Key Points

- **The company's Watershed tungsten project in Queensland ranks amongst the top ten undeveloped tungsten projects in the world, having originally been identified back in the 1980s**
- **Watershed is at an advanced stage, with a Pre-Feasibility Study completed during 2008 and a Definitive Feasibility Study funded by Japan's JOGMEC scheduled for completion during Q4 2012**
- **Commercial prospects for Watershed appear robust, with the biggest factor being the vastly improved price and outlook for tungsten, which is now essentially a strategic metal**
- **The company is generating highly encouraging exploration results from its Doulnia gold project in Burkina Faso, with the most recent drilling producing the best drilling results so far encountered**

Vital Metals has historically been a tungsten-focused company, with 100% ownership of one of the world's most advanced, undeveloped tungsten deposits – Watershed in northern Queensland. The project is now being fully funded through DFS, at a cost of \$5.4m, by Japan's JOGMEC group.

The company has actively sought to diversify its exploration focus by farming-into an 850 sq km exploration project in southern Burkina Faso, West Africa, where gold is the major target. Recent drilling has returned the best results yet, including 5m @ 60.36 g/t gold (including 2m @ 128.50 g/t gold).

Company Overview

Vital Metals was listed on the ASX in October 2005 to explore and appraise its flagship Watershed tungsten project in northern Queensland. The project has a history dating back to the early 1980s when it was discovered by Utah Corporation of the US. A significant JORC-compliant resource was defined and a Pre-Feasibility Study was completed during late 2008.

In August 2011 Japan Oil, Gas and Metals National Corporation (JOGMEC) confirmed a potential 30% earn-in to the project by spending \$5.4m to fund completion of a Definitive Feasibility Study (DFS), which is currently underway. The aim is to have the DFS completed by Q4 2012.

Recent excitement has focused on the company's gold drilling program in Burkina Faso, where a project best gold intercept of **5m @ 60.36 g/t gold** from 75m (including **2m @ 128.50 g/t gold** from 76m), has continued the trend of high-grade gold mineralization being reported for drilling at Kollo.



Investment Review

Vital has interests in tungsten in Queensland and gold in West Africa

Vital Metals is an Australian advanced tungsten exploration company listed on the Australian Securities Exchange (ASX: VML). The company is simultaneously advancing two majority-owned projects - the 100%-owned Watershed tungsten project in Queensland and the 60%-owned Doulunia gold project in Burkina Faso.

Watershed is an advanced tungsten deposit

The Watershed project is amongst the top ten undeveloped tungsten resources outside of China and is well positioned as a potential new ore supply as demand for the metal continues to grow. The Watershed deposit was originally located and explored by Utah Development Company Limited during the early 1980s, with some additional work conducted by Peko-Wallsend during the mid-1980s. Vital acquired the project in 2005 and has been working on the deposit since that time.

Vital has recently boosted its ground position at Watershed

Vital has been active in increasing its tenure position and now has access to an exploration portfolio that covers an area of more than 600 sq km. The increase in land holding has been achieved via the grant of an application (EPM 18171) and purchase of tenements from Republic Gold Limited (EPM 14735 and EPM 10026) and Seco Resource Finance Pty Ltd (EPM 15544). A total of seven Mining Lease Applications encompass more than 1,900Ha.

Watershed hosts a well-defined JORC-compliant resource

The Watershed project hosts an undiluted, JORC-Compliant Indicated Resource of 15.1Mt grading 0.46% WO₃ for 69.3kt of contained metal at a cut-off of 0.1%. The Resource comprises 997 mineralised intercepts, including 304 intercepts exceeding 5m @ 0.5% WO₃ (of which 160 exceed 5m @ 1.0% WO₃). The average length of the mineralised intercepts is 5.4m.

Resource upside is considerable

Vital's geological team believes that there is significant scope to extend the limit of the known scheelite mineralisation at depth; having observed a trend for the mineralisation to increase with depth as demonstrated in hole MWD119 which intersected 20m @ 1.27% WO₃ from 302m (reported to ASX in February 2007).

A major recent development was the farm-in of JOGMEC

Vital recently received a formal notice of participation in the Watershed project from Japan Oil, Gas and Metals National Corporation (JOGMEC) during August 2011. Under the terms of the Agreement, JOGMEC can earn a 30% stake in Watershed by spending \$5.4 million to fund completion of a Definitive Feasibility Study (DFS) for the Project. JOGMEC will make the \$5.4 million payment in a series of instalments over the Earn-In period and the initial payment of \$800,000 was received on the 22nd September 2011.

In-house modelling has defined a project with robust margins and rapid pay-back

Revised estimates from the 2008 Pre-feasibility Study indicate, total capital costs of A\$69m (incl. \$12m working capital), Will be required to establish a 610,000tpa plant in Stage One producing 3,000t WO₃ concentrate annually over an initial mine life of six years. Assuming a discount rate of 12.5%, project NPV is estimated at A\$65.5m, with a strong IRR (Internal Rate of Return) of 42%, solid operating cash flow of A\$33.8m annually and a capital pay-back period of just 2.3 years.

The company's acreage footprint is continually growing

Vital has expanded and diversified its exploration interests to include gold and base metal projects in Burkina Faso, West Africa. The gold projects are located in favourable geological settings at, or in close proximity to, the intersection of the Markoye Fault Corridor (host of Essakane, Tarpako, Bombore, Kiaka and Youga gold deposits of >16 Moz combined resource/reserve) and the 1,200km long Bole Shear Zone (host to Castle Minerals' and Azumah Resources' exciting gold projects).

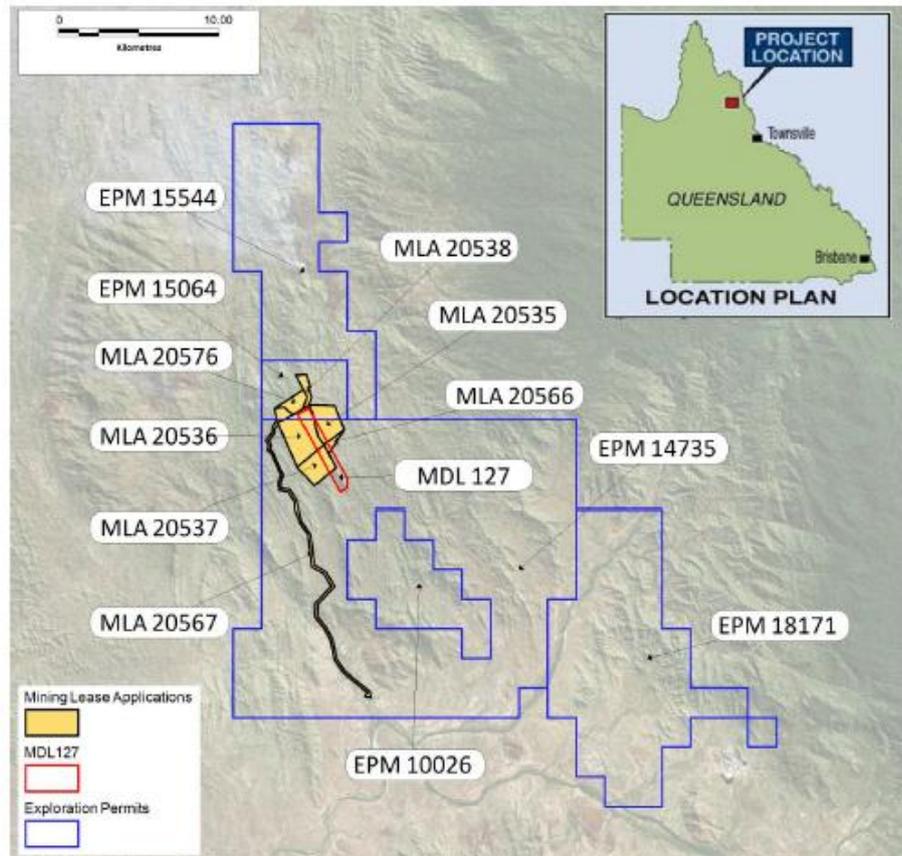


Project Update

Watershed Scheelite Deposit, Queensland

The company's 100%-owned Watershed scheelite deposit ranks amongst the top ten unexploited tungsten deposits worldwide. The current JORC-compliant resource comprises 15.1 Mt grading 0.46% for 69,300 tonnes (6.93 million metric tonne units – mtus) of contained WO_3 , occurring in both scheelite-bearing quartz-feldspar veins and disseminated scheelite in altered metamorphosed host-rock.

Watershed Project Location



~600 sq km acreage position

Source: Vital Metals

The Watershed tungsten deposit was originally located and explored by Utah Development Company Limited during the early 1980's, with limited further work conducted by Peko-Wallsend Operations Limited during the mid-1980's. Vital acquired the project in 2005 and has been investigating the deposit since that time.

Project history dating back to the early 1980s

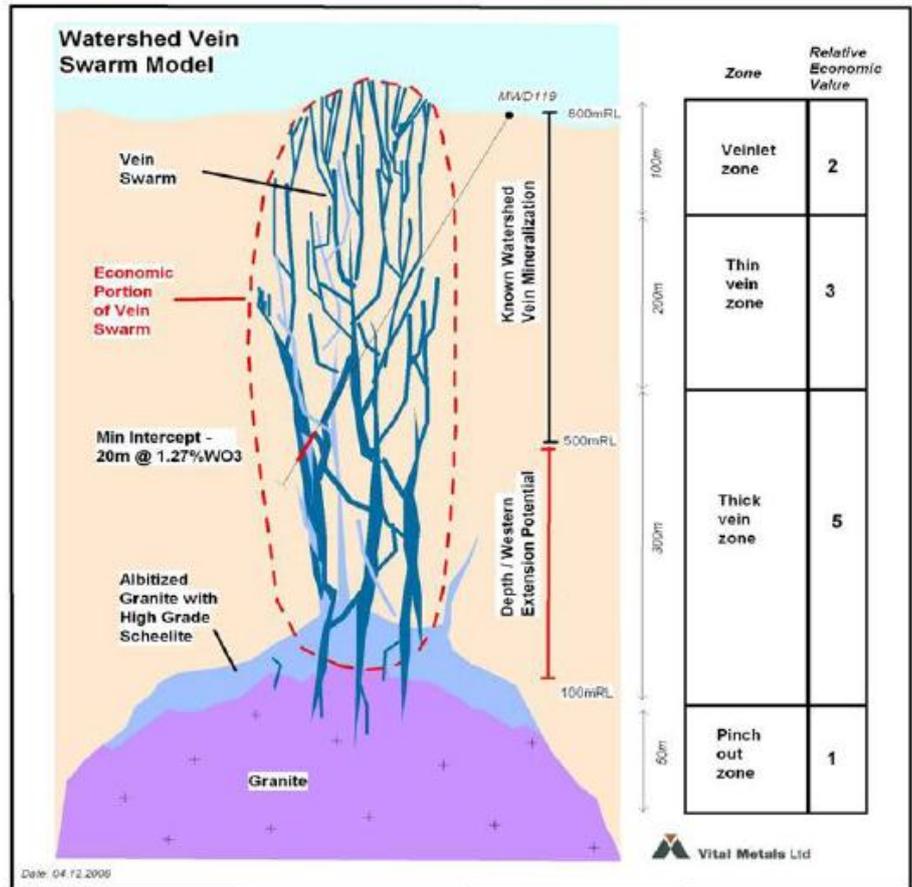
Watershed is located in hilly open woodlands at the headwaters of the Palmer and Mitchell Rivers, about 160km NW of Cairns, in far north Queensland. The deposit lies around 35km northwest of the historic Mount Carbine tungsten deposit, which produced 10,000t WO_3 over 16 years between 1970 and 1986.

The Watershed deposit has been defined by more than 44,000m of diamond drilling and 3,800m of RC drilling. Mineralization has been encountered over a strike length of approximately 1,500m and down-dip to 450m. The deposit is open at depth and along strike. In addition to the Watershed deposit there are also exploration prospects at the Watershed South, Desailly and Desailly North prospects.



Project Geology

Watershed Vein Swarm Model



Various exploration target areas

Source: Vital Metals

Vital's geological team believes that there is significant scope to extend limit of the known scheelite mineralisation at depth; having observed a trend for the mineralisation to increase with depth as shown in hole MWD119 which intersected 20m @ 1.27% WO₃ from 302m (reported to ASX 17 February 2007).

Using the Vein Swarm model which shows a good correlation with drilling, it appears that there is potential for the mineralisation to exhibit significantly higher grade and thickness at depth. Further drilling will be required to confirm grades and continuity, however there appears to be reasonable potential for an underground mining operation in the future.



Project Resource

The Watershed Project contains an Indicated Resource at 0.10% WO₃ cut-off of 15.1 million tonnes at 0.46% WO₃ for 69,300 tonnes (6.93 million metric tonne units – mtus) of contained WO₃. WO₃ occurs in both scheelite-bearing quartz-feldspar veins and as disseminated scheelite in the altered metamorphosed host rock. The mineralisation at Watershed is open at depth and along strike in both directions.

Category	Cutoff (% WO ₃)	Ore (Mt)	Grade (% WO ₃)	Metal (kt)
Indicated	0.1	15.1	0.46	69.3

Rising tungsten price have greatly enhanced Watershed's commerciality

Pre-Feasibility Studies Complete

Watershed is at an advanced stage in the development cycle, with a Pre Feasibility Study (PFS) completed in late 2008. This comprehensive study looked at all aspects of the development of possible mining and processing scenarios for Watershed. Vital is greatly encouraged by prices being obtained for tungsten, which are at a level where the development of Watershed as contemplated in the PFS will be economically viable. Vital has reviewed the results of the PFS and is developing a strategy to provide for the commercialisation of the Watershed resource.

The JOGMEC farm-in is a major vote of confidence in Watershed's future

Definitive Feasibility Study Underway

On 22nd August 2011 Japan Oil, Gas and Metals National Corporation (JOGMEC) farmed into the Watershed Project and can earn a 30% stake by spending \$5.4m to fund completion of a Definitive Feasibility Study (DFS). The DFS will review and update the PFS numbers outlined below. The Earn-in by JOGMEC is a major turning point for the Watershed project in our view. In addition to the benefit of a project funding partner, JOGMEC brings considerable technical and development expertise to the DFS process, and is also of strategic value in terms of future off-take.

Desailly is just one of a number of targets that could expand the Watershed resource base

The company recently announced an update on the exploration potential of the area immediately to the south of the Watershed project area. This update follows a fresh program of regional assessment initiated to coincide with feasibility work. Historic geological data suggests that the exploration potential of Desailly tungsten prospect is between 2 to 3 million tonnes of mineralisation.

A Joint Venture between Utah Development Company Limited and Peko Wallsend Operations Limited (JVUP) in the early 1980's identified Desailly as the most prospective prospect of three prospects. Vital notes that the historic drilling orientation used by JVUP was parallel to the strike of the of the quartz veins which carry tungsten mineralisation at Watershed. Vital's geological team has determined that this drilling orientation is not optimal for the tungsten mineralisation as it may miss quartz vein structures. Any future exploration at these projects will be conducted using a drilling orientation that is perpendicular to the quartz veins.

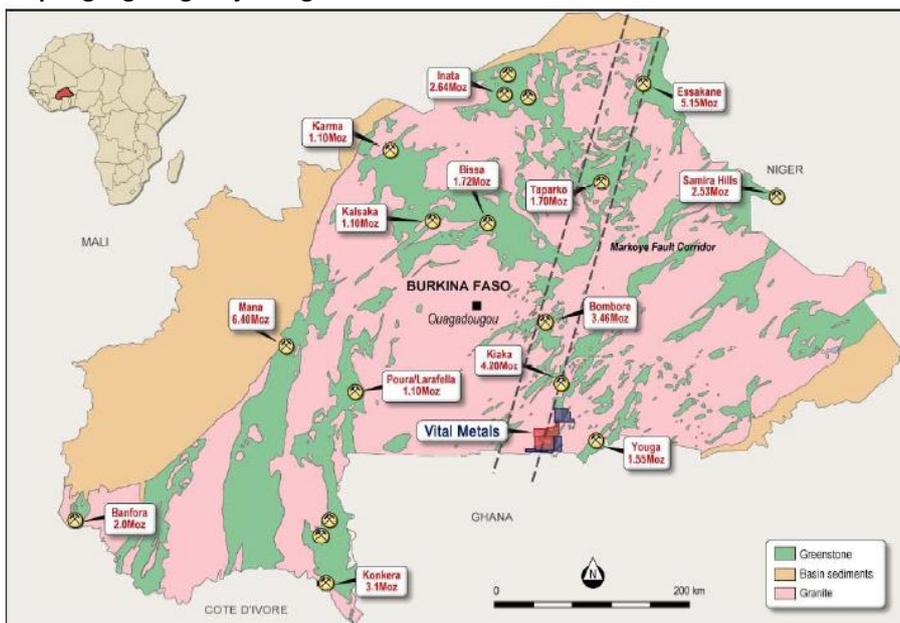
Vital considers that a satellite operation at Desailly has the potential to add value to a future operation at Watershed. The mineralisation is at surface and the distance between the prospects and the proposed processing plant is less than 5km. Vital will be assessing the best way to progress exploration at these prospects and across its tenement package. As tungsten mineralisation tends to occur in clusters, it suggests that there is good potential for further discoveries on the company's 600 sq km acreage package.



Doulunia Gold Project, Burkina Faso

In November 2009, Vital entered into a farm in agreement with Ampella Mining to earn up to 80% of the Doulunia Gold Project in southern Burkina Faso, West Africa. Vital's projects are located in favourable geotectonic settings at, or near to, the intersection of the Markoye Fault Corridor (host of Essakane, Tarpako, Bombore, Kiaka and Youga gold deposits of >16 Moz combined resource/reserve) and the 1,200km long Bole Shear Zone (host to Castle's and Azumah's exciting gold projects).

Map Highlighting Major Regional Discoveries



Source: Vital Metals

The latest drilling program has generated the best gold grades so far

The company has announced final gold assay results from a recently completed 51-hole/5,530m RC drilling program. The latest results, which include a project best gold intercept of **5m @ 60.36 g/t gold** from 75m (including **2m @ 128.50 g/t gold** from 76m) for hole KRC260 and **15m @ 7.75 g/t gold** from 105m for hole KRC255, have continued the trend of high grade gold mineralization being reported for drilling at Kollo.

The new drilling results are a strong follow up to assay results from previous drilling at Kollo, which have included **18m @ 2.95 g/t gold** from 37m (KRC001), **31m @ 3.19 g/t gold** from 34m (KRC019), and **44m @ 6.39 g/t gold** from 8m which included **4m @ 58 g/t gold** from 24m (KRC210).

The particular importance of these results is that they have extended the limits of known gold mineralisation (still open along strike and at depth) on the Kollo trend. The team is now working to complete the interpretation of the gold mineralisation with the objective of defining a maiden JORC-compliant resource. Vital's exploration strategy is to target shallow, high-grade gold mineralisation at Kollo.

Vital continues to be positive about the potential for open-pittable gold resources. The mineralisation is open along strike and at depth at all areas and, significantly, the balance of the Kollo trend (>2.5km) remains untested by drilling. Vital is current reviewing the data to determine the optimum drilling program in order to follow up these excellent drilling results.



Analyst Verification

We, Grant Craighead and Gavin Wendt, 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 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.

Disclaimer

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