

May 2014

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Company Information

ASX Code	VML
Share Price	A\$0.038
Ord Shares	241.3m
Options	82.4m
Diluted Market Cap	A\$12.3m
Cash March 2014	A\$0.78m
Total Debt	A\$3.0m
Enterprise Value A\$	14.52m

Directors

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

Company Details

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Top Five Shareholders

Citicorp Nominees Pty Ltd	9.26%
Mr Rex Harbour	7.25%
HSBC Custody Nominees	4.38%
BNP Paribas Noms Pty Ltd	4.28%
Nereena Pty Ltd	4.25%

1 Year Price Chart



Vital Metals (ASX: VML)

Scheelite Delight

Recommendation: Speculative BUY

Key Points

- *Watershed Scheelite Project DFS nears completion*
- *Key partner in JOGMEC*
- *Our modelling indicates a viable and robust project, with an unfunded NPV of \$153 million and an IRR of 27%*
- *We have a risked value for Vital Metals of \$38 million, or ~\$0.16/share*
- *Excellent option value in the Doulunia Gold Project in Burkina Faso, which continues to return good results*

Vital Metals continues to progress its Watershed Scheelite Project in North Queensland, Australia, with key points of the current DFS expected to be finalised by mid-2014, and a final investment decision by the end of 2014.

Although originally conceived as a 1mtpa operation, the scope has been expanded to 3mtpa to take advantage of economies of scale and the large JORC-compliant resource. Our modelling indicates a robust project, which will withstand reasonable adverse movements in key financial parameters.

Tungsten consumers see supply risk for the metal given the Chinese concentration of production bans on concentrate exports and restrictions on APT exports, and thus are keen to diversify their supply base, with Watershed being ideally placed to tap into this potential demand.

Company Overview

Vital Metals (ASX: VML) is a tungsten development company with its flagship project being the Watershed Scheelite Project in North Queensland. Watershed, which is one of the 10 largest un-exploited tungsten deposits in the world, has a measured, indicated and inferred JORC-compliant resource of 49.3Mt @ 0.14% WO₃ for 70,400t of contained WO₃.

Vital Metals has a key partner in the Japan Oil, Gas and Metals National Corporation, which has earned a 30% interest in Watershed through funding the current Definitive Feasibility Study to \$5.4 million, and will act as match-makers to source potential offtake/funding/development partners to take the project through to production.

Vital Metal's second string is the 100% interest in four gold tenements in Burkina Faso, collectively termed the Doulunia Project. The tenements are located over units of the Birimian Greenstone Belt, the host to a number of world-class gold deposits. Drilling to date has returned very encouraging results.

We continue to rate Vital Metals as a Speculative Buy, with key medium term price drivers including attracting a suitable partner to help take Watershed through to production, which should result in a significant rerating. Shorter term momentum should be gained from the release of a positive numbers from the current DFS.



Investment Thesis

Advanced Tungsten Project, Permitted

The Watershed Scheelite Project is permitted, with a final investment decision due following completion of the BFS by the end of 2014

In the Watershed Scheelite Project (“Watershed” or “the Project”) Vital Metals (“Vital” or “the Company”) has a robust, largely permitted tungsten project, which is amongst the top ten un-exploited tungsten projects in the world. The Company is in the final stages of a Definitive Feasibility Study (“DFS”), which is expected to be largely completed by the middle of 2014, after which, following a technical review, a Final Investment Decision (“FID”) is expected by late 2014, contingent upon a development partner being attracted to the Project.

Permitting in place includes granted Mining Leases, environmental permits and Traditional Owner and pastoralist agreements.

A 10 year, 3mtpa open pit project is envisaged, producing +40,000t of WO₃ in concentrate over the life of mine (“LOM”), which, on an ungeared basis has the capacity to produce \$328 million free cash flow over the LOM.

Tungsten – A Strategic Metal

There is demand for non-Chinese tungsten supply

Tungsten has been classed by the EU and others as a “Strategic Metal”, with China dominating global production and supply. Non-Chinese consumers are keen to diversify their supply sources, and as such there is impetus to develop new projects. This is exacerbated by China’s current ban on concentrate exports and restrictions on APT exports due to their wish to move up the value chain.

Key Strategic Partner in JOGMEC

Vital has a key partner in JOGMEC, who besides helping fund the BFS, act as a match-maker between Vital and potential development partners

The Watershed DFS has been largely funded by the Japan Oil, Gas and Metals National Corporation (“JOGMEC”), who initially contributed \$5.4 million to earn 30% of the project, and are now contributing on a pro-rata basis with Vital.

JOGMEC is a key partner – one of its key briefs is to ensure a stable supply of non-ferrous metals to Japan, and thus it will source and initially fund projects that have the capacity to supply such materials. A key role is that it acts as a matchmaker between foreign companies and potential third party offtake, funding and development partners in Japan, which would then take over the JOGMEC stake in any project they enter into. JOGMEC also has the capacity to act as a guarantor for debt funding.

Close to Infrastructure

Watershed is well served by infrastructure

Watershed is located within 160km of Cairns in North Queensland, and is accessible all year round via all-weather roads. The project is also located 24km from grid power, that has sufficient free capacity to supply the proposed 3mtpa operation

Robust Project Financials

Our modelling indicates robust project financials

Our modelling indicates that the conceptual 3mtpa operation is robust, with an ungeared NPV of \$153 million, and an IRR of 27%. Sensitivity analysis indicates that the Project should withstand over 20% detrimental movements in key parameters, including tungsten price, exchange rates and operating costs.

Burkina Faso Gold

We see good option value in the Company’s gold project in Burkina Faso

We see good option value in the Company’s gold Projects in Burkina Faso – these have returned very encouraging exploration results to date in this key West African gold producing region.



Company Valuation

We have arrived at a risked company valuation of \$0.158/share as shown in the following table.

We have calculated a risked company valuation of ~\$0.16/share, significantly higher than the current price of \$0.03

Company Valuation – Risked - 70% of Watershed

Project	Risked Value (\$A)	Value per Share	Notes
Watershed	\$32,000,000	\$0.133	DCF, 8% DR, 70% Discount to NPV
Doulunia	\$5,400,000	\$0.022	2013 Annual Report Book Value
Cash	\$780,000	\$0.003	March 2014 Quarterly
Total	\$38,180,000	\$0.158	

In arriving at this valuation, we have discounted the NPV of the Company's share of Watershed by 70% to reflect remaining uncertainties in development of the project, including attracting a development partner.

Key price drivers will include attracting development partners and obtaining funding

However the Company is still trading at a significant discount to our valuation, and we do see significant upside potential. Our view is that the key price driver will be attracting suitable offtake/development partners, and then obtaining funding, however in the shorter term positive results from the DFS may provide some momentum.

The market is currently significantly discounting those companies approaching development, which will need significant capital. The presence of a Japanese partner with a 30% stake in the project will reduce this capital hurdle and potentially provide access to additional sources of project finance.

Peers

Vital is one of a number of ASX-listed tungsten hopefuls

Vital is one of a number of ASX-listed tungsten developers, as presented below. Vital is one of the most advanced of these (although most are relatively well advanced), with permitting and agreements in place, and a DFS is due to be largely completed by mid-2014, with a final investment decision targeted by the end of 2014.

Vital is at the lower end of the EV/tonne WO₃ valuations

One comparative valuation metric is the enterprise value per tonne of contained WO₃ (or WO₃ equivalent). As can be seen, most companies fall in the range of \$200/t to \$350/t, including Vital Metals, although being one of the most advanced; it falls near the middle of this metric. This metric however should be used with care – it is indicative at best, and is affected by a number of factors.

On a project basis Wolf Minerals would be the closest analogy to Vital, with their reserve similar in size and grade to the in-pit recoverable resource calculated for Vital.

On a project basis Wolf Minerals would be Vital's closest analogue

For Wolf we have calculated the metric based on the mining reserve, and not the overall resource. Wolf's comparative value largely reflects that the project is funded and in development, as well as some influence from the large overall resource. If the overall resource was used the EV/t equals \$405. Wolf exhibits the potential for value increase as a project moves towards development.

Our Watershed valuation (as discussed later) results in an NPV/tonne of WO₃ figure in the order of \$2,600/tonne, which is in the ballpark of Wolf's \$3,900/tonne based on its reserve.



Vital Metals Peer Group

Company	EV (\$Am) ¹ EV/t WO ₃	Project	JORC Resources	Stage/Notes
Wolf Minerals	\$211.45 (\$3,901/t) (based on reserve)	Hemerdon, England	401.4Mt @ 0.13% WO ₃ 521,820t	Development on a 26.7Mt @ 0.19% WO ₃ (50,730t) reserve, 3mtpa. 0.02% Sn credit. Figures include issue of 608.6m shares @ \$0.30, still awaiting shareholder approval
Hazelwood Resources	\$37.37 (\$253/t)	Big Hill, Pilbara, Mt Mulgine, Yilgarn WA	85Mt @ 0.17% WO ₃ 147,900t	DFS on Big Hill underway. Also has a majority interest in the recently completed 4,000tpa nameplate ATC ferrotungsten plant in Vietnam
Venture Minerals	\$31.95 (\$273/t WO ₃ Eq)	Mt Lindsay, Tasmania	45Mt @ 0.26% WO ₃ Eq ² 45,000t WO ₃	DFS completed 2012, no permitting 0.1% WO ₃ , 0.2% Sn, 17% DTR magnetite credits. Also has nearby Mt Riley DSO iron, which is being developed
Carbine Tungsten	\$22.70 (\$319/t)	Mt Carbine, Qld	59.3Mt @ 0.12% WO ₃ 68,760t	Tailings retreatment underway (50t/month WO ₃), feasibility study on hard rock stockpile treatment, on granted ML.
King Island Scheelite	\$16.77 (\$205/t)	King Island, Tasmania	9.11Mt @ 0.9% WO ₃ 81,990t	Review of DFS, looking to fast track development. Previous development scenarios fully permitted – will need some permit updates.
Vital Metals	\$14.52 (\$294/t)	Watershed, Nth Qld	49.2Mt @ 0.14% WO ₃ 70,400t	All approvals in place and expanded DFS underway. In partnership with JOGMEC (30%). Also has Doulunia Gold Project in Burkina Faso
Thor Mining	\$6.94 (\$314/t WO ₃ Eq)	Molyhil, NT	4.71Mt @ 0.47% WO ₃ Eq 13,200t WO ₃	0.28% WO ₃ , 0.22% MoS ₂ On granted ML's, Positive DFS completed, currently in permitting process
Tungsten Mining	\$4.70 (\$348/t)	Kilba, Pilbara WA	5.0Mt @ 0.27% WO ₃ 13,500t	Commencing DFS work. Cash and structure dependent upon current rights issue take-up

Source: IRESS, Company reports, values as of close of business, Tuesday May 20, 2014

1. Here the enterprise value is the enterprise value of the company as a whole and not of the tungsten projects alone. This is particularly relevant to Hazelwood Resources (who have the ferrotungsten plant), and Venture (who have the DSO iron ore projects).
2. Where a resource has by-products we have calculated a WO₃ equivalent grade using prices of US\$370/mtu WO₃, US\$14/lb Mo, US\$23,225/t Sn, US\$110/mtu Fe. WO₃ equivalents are used in the EV/tonne calculation where applicable and are noted.

Risks

The key risk for Vital is attracting partners and funding for Watershed

We see the key risk for Watershed as securing the necessary partners and funding to take Watershed to production. However having JOGMEC as a partner should partly moderate this risk, with JOGMEC acting as a matchmaker to introduce and partner Vital with Japanese industrial partners.

Technical risks are largely mitigated

The project is at a stage now where obtaining such a partner is the key to advancement.

Technical risks have largely been mitigated – the project has a large viable resource, and metallurgical testwork and other technical studies are now well advanced, with no significant issues.

Permitting is completed

Permitting is a significant risk in any mining project; however Vital has now got past this with Watershed now being permitted.

Pricing and exchange rates are key risks outside of Vital's control. However our modelling indicates a robust project able to absorb adverse movements

Pricing and exchange rates are prime considerations in any resources project, and are outside of the control of the Company. Tungsten has a relatively volatile price history, however since 2011 has been trading around US\$400/tonne as APT. Our modelling indicates that Watershed, on an unfunded basis, will absorb ~20% adverse movements in tungsten prices and exchange rates, thus somewhat mitigating this risk.

Likewise, the robustness of the project will allow it to absorb adverse movements in costs.



Project Review

Watershed Scheelite Project (Vital 70%, JOGMEC 30%)

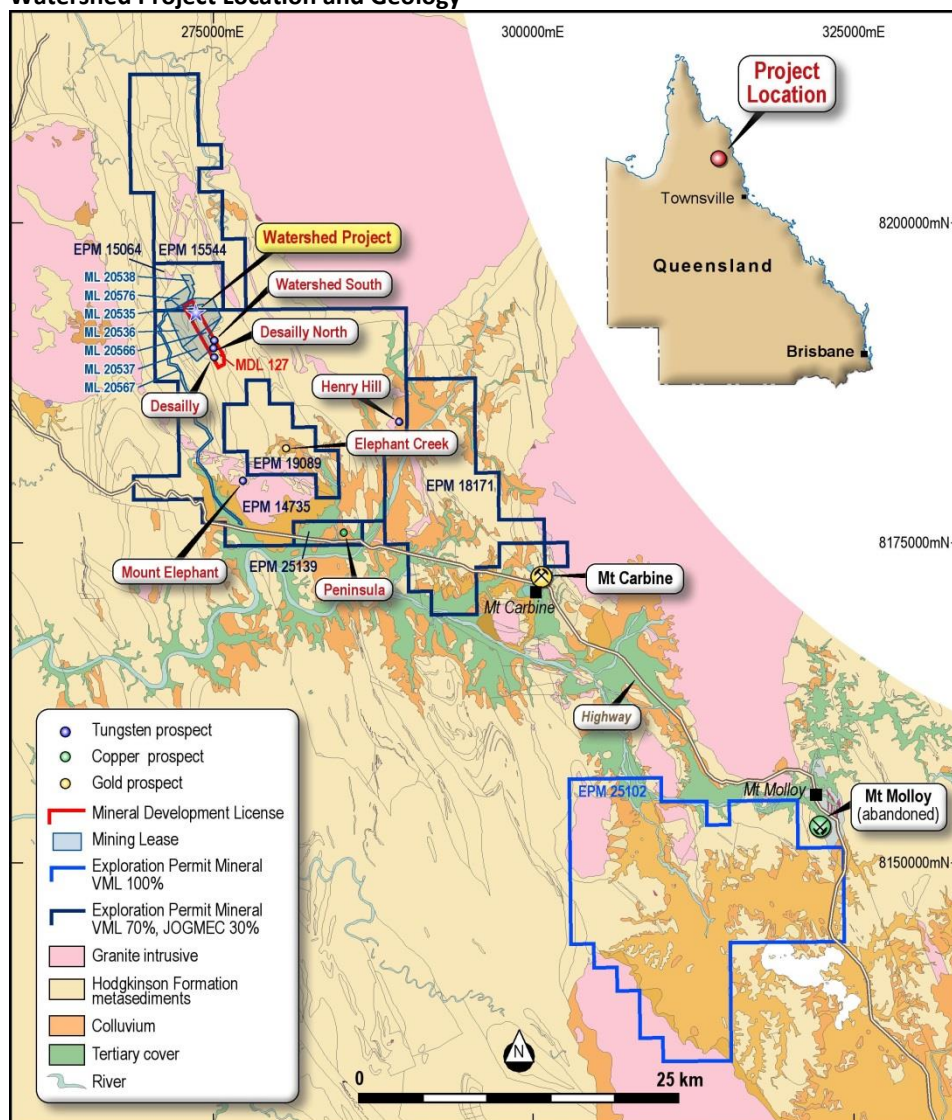
The Watershed Scheelite Project is centred approximately 160km NW of Cairns, with good access to infrastructure

Watershed is located in Far North Queensland, approximately 160km NW of Cairns, and 35km NW of Mount Carbine. Access is good, via graded track off the Peninsula Development Road.

Watershed is an advanced project, with all Mining Lease and environmental approvals in place. The current DFS, which is being largely funded by JOGMEC in return for a 30% stake in the project, is expected to be completed in mid-2014. Although originally envisaged as a 1mtpa operation, the Company is now investigating the potential for a 3mtpa operation in the DFS.

Through JOGMEC, the Company is currently seeking offtake and development partners to take over JOGMEC's interest in the Project. Vital has had meetings with a number of prospective parties, and is confident of securing a development partner following completion of the DFS.

Watershed Project Location and Geology



Source: Vital Metals



JOGMEC Agreement

JOGMEC hold 30% of Watershed, and have largely funded the DFS

JOGMEC formally became a partner in the project in August 2011, with the start of an earn-in agreement with Vital to fund the DFS. The terms included staged payments totalling \$5.4 million to earn 30% within two years (this has been satisfied), followed by an un-incorporated joint venture, with both parties contributing on a 70:30 pro-rata basis.

As part of the agreement (and as part of their overall strategy) JOGMEC are actively seeking potential Japanese offtake and development partners. The chosen partner would take over JOGMEC's share of the project subsequent to completion of a positive DFS, with this being a key aspect of obtaining project funding.

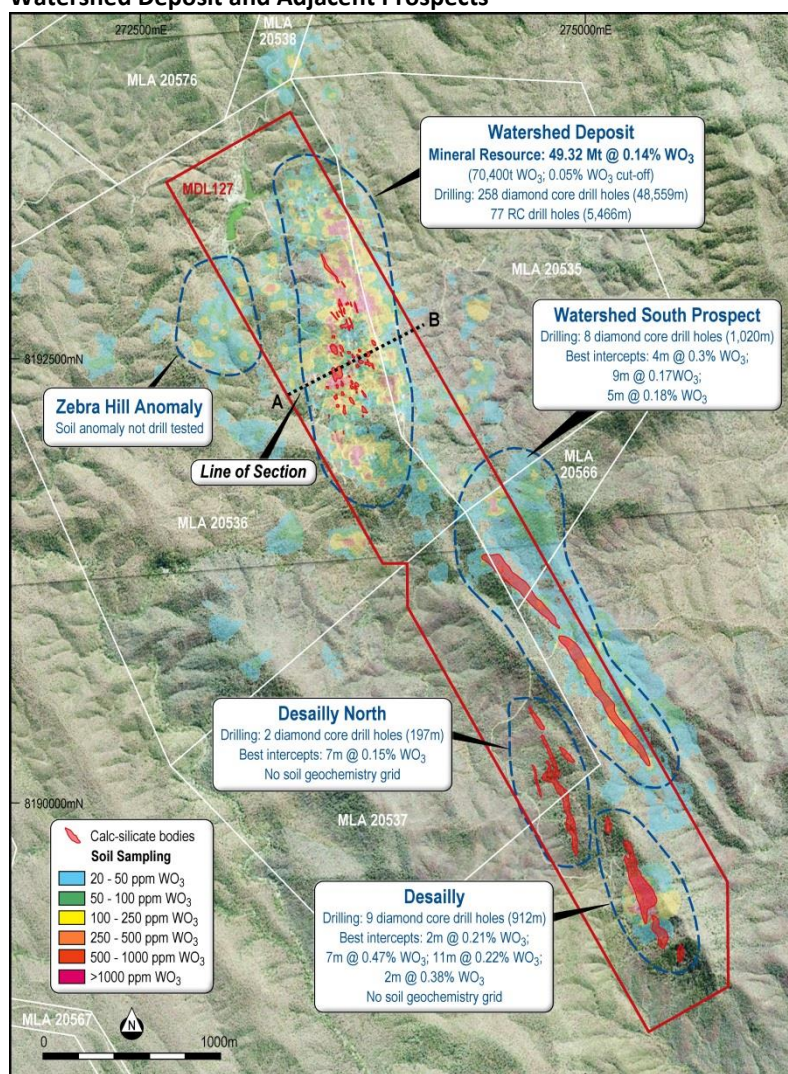
Geology and Mineralisation

The mineralisation is hosted in metasediments of the Hodgkinson Formation, that have been intruded by mineralising granites

The mineralisation is hosted in metasediments of the early Palaeozoic Hodgkinson Formation, which has been intruded by the Early Permian Mareeba Granite Suite, which is interpreted as being the source of the mineralisation.

Watershed is just one of a number of mineralised zones along a 3km ridge

Watershed Deposit and Adjacent Prospects

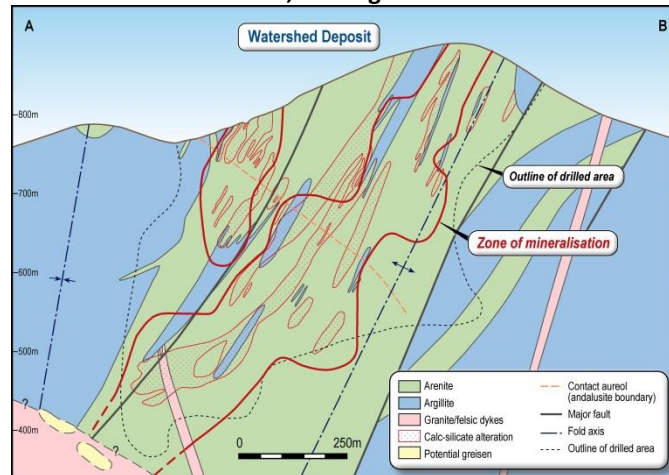


Mineralisation is hosted in altered wall rocks and quartz-scheelite veins

The mineralisation is hosted in a series of east-west striking steeply dipping quartz/scheelite vein swarms, controlled by a north to NW trending, steeply west to SW dipping structural zone, expressed by a prominent ridge and a regional anticline. This zone is parallel to the regional fabric, and the strike length of the mineralised package (including all prospects) is approximately 4,000m



Watershed Cross Section, looking north



Source: Vital Metals

The mineralised zone dips steeply to the west and SW

At Watershed the mineralised zone is approximately 1,200m long by 250m wide, and is open at depth and along strike

At Watershed, mineralisation occurs within a zone approximately 1,200m NS by 250m EW, and has been drilled to a depth of around 550m below surface. The mineralisation is open at depth and along strike, with grades and vein widths apparently increasing at depth which is typical for this style of mineralisation. This is supported by hole MWD119 which intersected 20m @ 1.27% WO₃ from 302m downhole. This depth extension is a potential future underground mining opportunity.

Scheelite is hosted as disseminated mineralisation within calc-silicate and albite-muscovite altered rock units and within quartz-feldspar veins penetrating both the altered and surrounding unaltered rock units. Scheelite is the only tungsten mineral – there is no wolframite. Minor pyrrhotite, pyrite and arsenopyrite are sometimes present.

In addition to Watershed there are a number of other prospects within the project area, with these returning encouraging drill results.

Resources

The most recent resource estimation was released in the July 2012 Quarterly Report, and uses grade estimations by multiple indicator kriging (“MIK”) to calculate open pit recoverable resources, based on selectively mining the mineralisation as envisaged in the on-going BFS. This model takes account of mining dilution when calculating grades.

This superseded an earlier, lower tonnage, high grade resource (15.1Mt @ 0.46% WO₃), optimised for a small scale operation.

The current resource is 49.3Mt @ 0.14% WO₃, and is a bulk-tonnage recoverable resource, which accounts for dilution

Watershed Resources – Various WO₃ cutoffs

WO ₃ % Cut off	Measured		Indicated		Inferred		Total		WO ₃ Tonnes
	Mt	WO ₃ %	Mt	WO ₃ %	Mt	WO ₃ %	Mt	WO ₃ %	
0.05	9.47	0.16	28.36	0.14	11.49	0.15	49.32	0.14	70,400
0.10	4.42	0.25	11.51	0.24	4.73	0.26	20.66	0.25	50,700
0.15	2.69	0.34	6.66	0.32	2.83	0.35	12.18	0.33	40,400
0.20	1.93	0.41	4.56	0.39	2.05	0.41	8.53	0.40	34,100
0.30	1.09	0.53	2.4	0.52	1.17	0.54	4.66	0.53	24,600

Source: Vital Metals



Metallurgy and Processing

Following extensive metallurgical testwork the Company has settled on a preferred flowsheet for metallurgical processing, which includes X-ray ore sorting followed by gravity concentration and flotation recovery. The broad circuit is as follows:

The preferred treatment path utilises X-ray sorting pre-concentration, followed by gravity and flotation concentration

- Crush ROM ore to -80mm to +10mm (3mtpa)
- Pass through X-ray ore sorter – approximately 50% of material is expected to be rejected
- Retained fraction (~50% of ROM tonnage, or 1.5mtpa) milled via a rod mill to ~0.5-0.6mm
- Milled material then gravity concentrated using spirals
- Concentrate (around 20% of ROM feed, or 600,000tpa) then milled to 125µm using a ball mill, then floated using conventional flotation with final high grade cleaner stage achieved using modified Petrov flotation.

This work indicates the potential to produce a marketable 65% WO₃ concentrate at up to 77% recovery, free of any contaminants. The concentrate would be loaded into bulka bags which would then be trucked approximately 500km to Townsville for export.

Definitive Feasibility Study

As previously stated the DFS has largely been funded by JOGMEC, which in 2011 farmed into a 30% interest in the project in return for providing \$5.4 million to fund the DFS.

The DFS is based on a 3mtpa, 10 year project

Although initially being planned around a 1mtpa operation, the DFS is now investigating the potential for a 3mtpa operation based on the expanded resource as completed in mid-2012.

Significant progress has been made on the DFS, with milestones and approvals to date including:

Significant progress has been made on the DFS since JOGMEC's entry in 2011

- Infill and confirmatory drilling completed in 2011
- Upgraded resource (July 2012)
- Ongoing metallurgical process design and optimisation
- Bulk sampling from 2 underground adits (2008) - used in the metallurgical testwork
- Mining Leases granted in November 2013
- Environmental approval issued in September 2013 by the Queensland Department of Environment and Heritage Protection
- Heritage approvals have been completed, with an Indigenous Land Use Agreement (ILUA) between the Company and Traditional Owners registered in December 2012
- Agreements in place with Pastoral Stations
- Talks with Ergon Energy indicate that there is sufficient capacity on the high voltage power line 24km to the south to supply grid power for the 3mtpa scenario.

All major permits and agreements for the Project have been obtained.

Exploration Potential

There is significant exploration potential in the project area

As mentioned earlier, encouraging drill results have been intersected in the immediate Watershed area, suggesting the potential for resource expansions, in addition to the strike and depth potential at Watershed.

The Company has recently announced granting of EPM25139 immediately to the south of Watershed, which contains the historic Peninsula Copper Prospect, which has been interpreted as being a Besshi type deposit, similar to that at nearby Mt. Molloy. No modern exploration has been carried out on the prospect, and grab samples have returned up to 17% copper.



Ongoing Work

Vital will continue to progress the DFS for Watershed, with activities including:

- Finalisation of the key points of the DFS to be completed by end of June, 2014,
- This work includes the engineering work to determine the optimal metallurgical process is expected to be completed, and results reviewed by JOGMEC in May,
- Peer and technical reviews of the DFS during H2, 2014, with a Final Investment Decision expected by the end of 2014, with funding and hence this decision dependent upon securing a development partner, and,
- Ongoing meetings with potential project partners, with a view to securing a development partner following completion of the DFS.

Vital is aiming to complete key points of the DFS by mid-2014, and reach an investment decision by the end of 2014

Doulunia Project: Burkina Faso

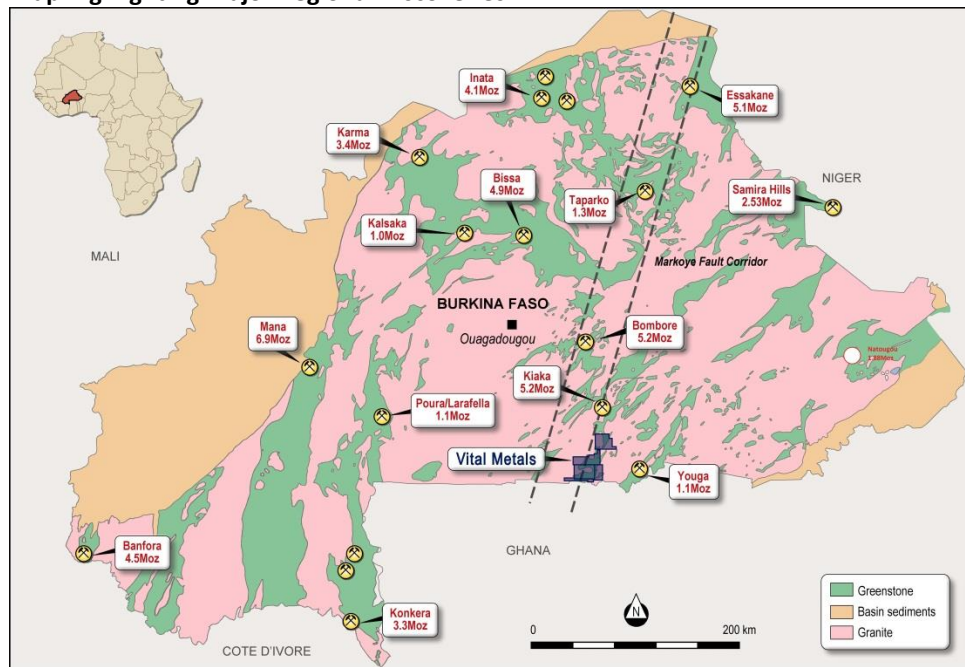
The Doulunia Gold Project is located in southern Burkina Faso, West Africa, and encompasses four permits (Mediga, Zeko, Kampala and Doulunia) that are prospective for gold and zinc mineralisation.

The project is located within highly prospective Proterozoic Birimian Greenstone terrain and covers over 850km² of contiguous tenements. The Birimian Greenstone terrain is the host to a number of world class gold deposits in West Africa, including those in Burkina Faso as shown in the figure below.

The Doulunia Gold Project is located in the highly prospective Birimian Greenstone Belt of West Africa

Vital's four permits are located in a favourable geotectonic setting, along strike and within the Markoye Fault Corridor which hosts the Essakane (5.1 Moz), Tarpako (1.3 Moz), Bombore (5.2 Moz) and Kiaka (5.2 Moz) gold deposits, with a combined endowment of 16.8Moz.

Map Highlighting Major Regional Discoveries



Source: Vital Metals

The project is located in a tectonic corridor that hosts a number of large deposits

Vital initially entered into a staged farm-in agreement with Ampella Mining (ASX: AMX) in November 2009 to earn up to 80% of the Doulunia and Kampala tenements, and also applied for two additional tenements in its own right. The terms of the earn-in included exploration expenditure of \$3.5 million plus completion of a pre-feasibility study. At the end of the earn in Ampella would retain a 10% contributory stake, with the Government of Burkina Faso holding a 10% free carried interest

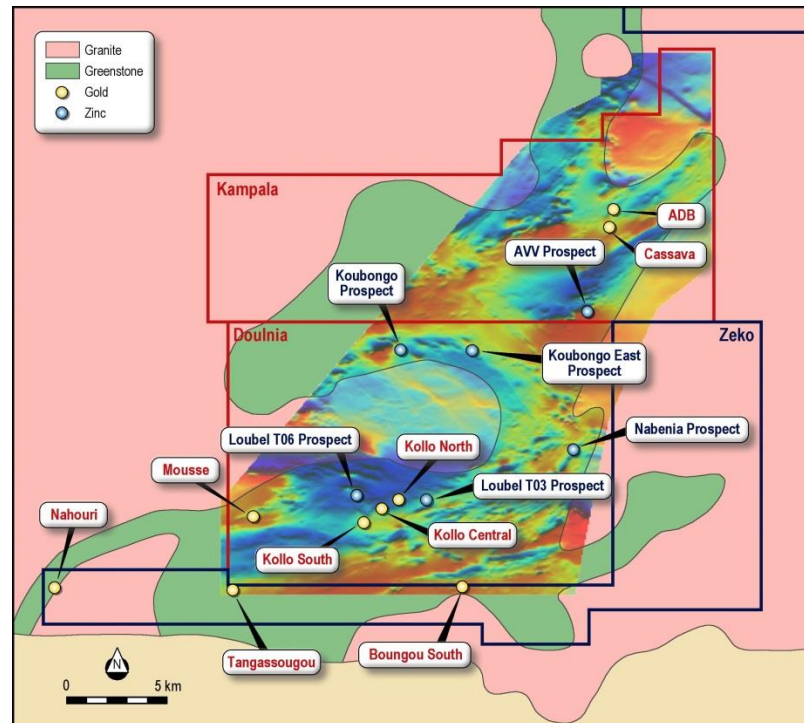


Vital originally farmed into the tenements in 2009, and have recently acquired Ampella's entire stake

In July 2013, Vital agreed terms with Ampella for the transfer of its 20% interest in the farm-in tenements, giving Vital a 100% interest in all four permits. In return, Ampella will retain a 2.25% royalty on all gold produced at Doulnia. Ampella retains a 'claw back' option if a JORC resource in excess of one million ounces is delineated within two years. Under the 'claw back' Ampella would be required to reimburse Vital's discovery costs, plus an additional lump sum equal to 500% of these costs.

Vital is currently in the process of transferring and renewing the Doulnia and Kampala tenements, with the renewal requiring a reduction in area. As part of this Vital is reviewing the exploration data so as it can focus on the most prospective areas of the project.

Kampala and Doulnia tenements, showing prospects



Source: Vital Metals

To date Vital has completed around 18,000m of drilling, largely on the Kollo area, which is characterised by NW plunging high grade shoots associated with an ENE trending shear zone, with mineralisation from surface.

Work has concentrated on the Kollo prospect, where a number of steeply plunging shoots have been delineated

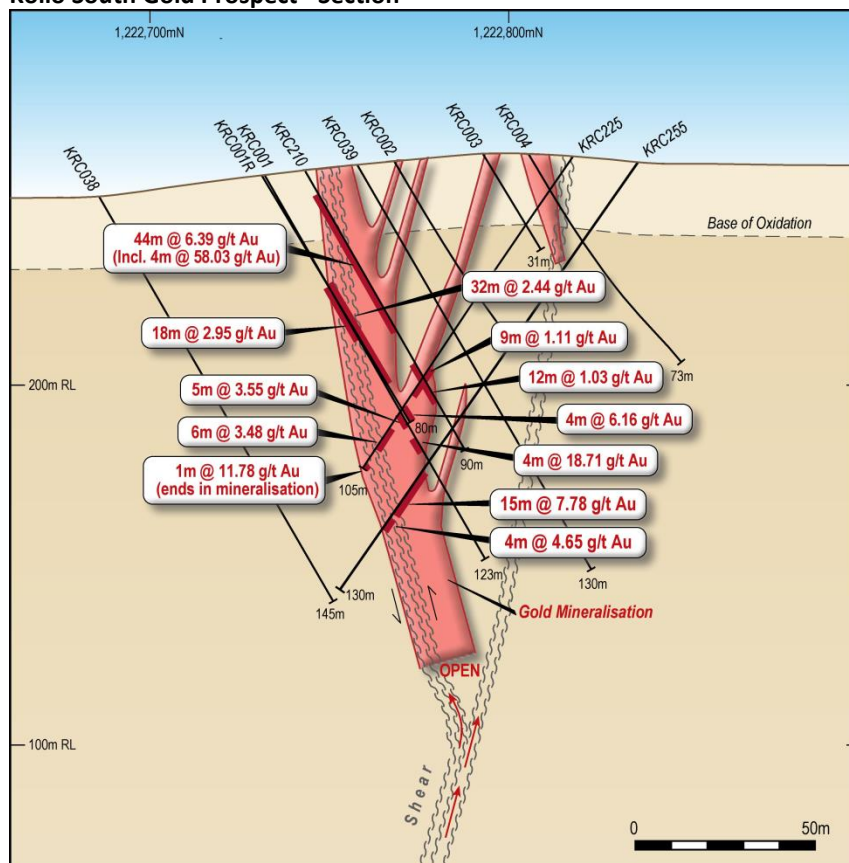
Drill intercepts to date have included:

- **5m @ 60.36 g/t gold** from 75m depth (including **2m @ 128.50 g/t gold** from 76m) in hole KRC260
- **44m @ 6.39 g/t gold** from 8m depth (including **4m @ 58 g/t gold** from 24m) in hole KRC 210.
- **3.5m @ 15.47 g/t gold** from 35.5m depth (including **0.5m @ 92.80 g/t gold** from 38.5m) from hole KDD002,
- **5m @ 3.49 g/t gold** from 40m from hole KRC280

A plan of significant Kollo drilling results and a cross section of the Kollo South prospect are highlighted in the following figures.

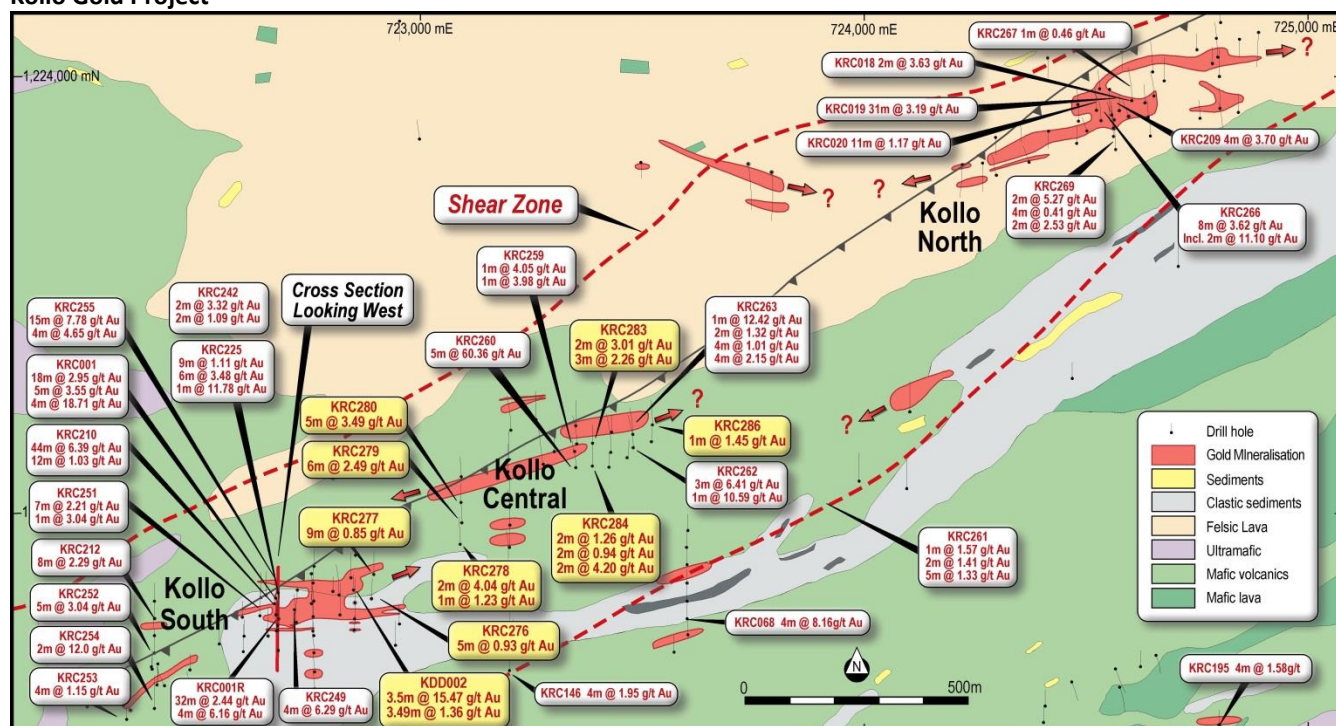


Kollo South Gold Prospect - Section



Source: Vital Metals

Kollo Gold Project



Source: Vital Metals



Valuation

We have undertaken a valuation of Vital Metals, including Watershed, Doulunia and cash.

Watershed, the key project, has been valued on a DCF basis, using an 8% real discount rate. The figures in the two tables below reflect Vital's 70% share of the project. Given the current state of the market we have valued Doulunia using the 2013 Annual Report book value of \$5.4 million, reflecting money spent on the project.

Watershed has been valued on a DCF basis, Doulunia on book value

We value Vital's share of Watershed at \$107m, using a real discount rate of 8%

We have discounted our DCF value of Watershed by 70% to reflect the risk still inherent in the project

Company Valuation – Unrisked – 70% of Watershed

Project	70% of Un-risked Value (\$Am)	Value per Share	Notes
Watershed	\$107,000,000	\$0.443	DCF, 8% DR, 70% of project
Doulunia	\$5,400,000	\$0.022	2013 Annual Report Book Value
Cash	\$780,000	\$0.003	March 2014 Quarterly
Total	\$113,180,000	\$0.468	

Source: Breakaway estimates, Watershed rounded to the nearest million dollars

We consider the un-risked valuation for Watershed as being too aggressive – the project, although permitted, still has a number of hurdles to overcome, including completion of a viable DFS, offtake and funding. In addition there is the time factor to consider. As such we ascribe a discount factor of 70% to the Watershed Project NPV. The resulting valuation is presented below.

Company Valuation – Risked - 70% of Watershed

Project	Risked Value (\$A)	Value per Share	Notes
Watershed	\$32,000,000	\$0.133	DCF, 8% DR, 70% Discount to NPV
Doulunia	\$5,400,000	\$0.022	2013 Annual Report Book Value
Cash	\$780,000	\$0.003	March 2014 Quarterly
Total	\$38,180,000	\$0.158	

Source: Breakaway estimates, Watershed rounded to the nearest million dollars

DCF Valuation - Watershed

Watershed has been valued using DCF methods, based on the conceptual 3mtpa operation as currently being investigated. The figures used in our valuation are to Scoping Study levels, given the ongoing work on the DFS.

The Watershed valuation is unfunded – we consider it too early to speculate on funding solutions

This is an unfunded valuation – we consider it too early to speculate on potential funding scenarios. However, should the Company attract a Japanese partner; indications are that project financing may be able to be secured on attractive terms. A recent example is the funding of Orocobre's Olaroz Lithium Project by Toyota Tsushu Corporation (refer to December 6, 2102 announcement by Orocobre).

The Company estimates initial capex of \$150m

In modelling, we have used the following inputs. All figures are in Australian dollars unless otherwise noted, and are on a 100% project basis. Key parameters include:

- Initial capex of \$150 million
- 10 year, 3mtpa mining and processing rate
- Flat LOM price and exchange rate pricing:
 - AUD/USD exchange rate of 0.85
 - APT price of US\$375/mtu, plus a 20% discount for concentrate

Please note a number of figures are indicative ones supplied by the Company – these are noted in the table. The 3mtpa scenario as modelled is still conceptual, and is being assessed by the current DFS.



DCF Model Parameters and Outcomes – 100% basis

Parameter	Result	Notes
PRODUCTION PARAMETERS		
Total "Reserve" Tonnage	30 Mt	Current DFS scenario
Mining Rate	3mtpa	
Head Grade	0.19%	Calculated from grade-tonnage curve
Metallurgical Recovery	70%	Company provided ~75%, our conservative estimate
LOM WO ₃ Production	40,591t	Approximately 57,400t of 65% WO ₃ concentrate
LOM (years)	10 yrs	Company
Strip Ratio	3.50:1	Our estimate
UNIT FINANCIALS		
Site Opex/mtu WO ₃	\$182	Based on \$3/tonne mining, \$2/ROM tonne G & A, \$9/ROM tonne processing, 500km truck transport. These have been derived from other operations and standard cost curves
Royalties and Taxes/mtu WO ₃	\$43	30% corporate tax, 2.7% Qld state Ad Valorem royalty
Initial Capex/mtu WO ₃	\$37	Based on Company estimate of \$150 million initial capex. Based on other projects this may be low, however the project is least sensitive to capex
Sustaining Capex/mtu WO ₃	\$10	Based on 3% of revenue
Total Cost/mtu WO ₃	\$262	
Sales Price/mtu WO ₃	\$353	Based on an APT price of US\$375/tonne, ER of 0.85, con discount of 20%
Margin/mtu	\$81	
OVERALL FINANCIALS – UNGEARED, 100% BASIS		
Peak EBITDA	\$66 m	
Total FCF	\$328 m	
Real NPV, 8% DR	\$153 m	
Payback Period	3 years	
IRR	27.1%	
OVERALL FINANCIALS – UNGEARED, COMPANY 70% BASIS		
Peak EBITDA	\$46 m	
Total FCF	\$230 m	
Real NPV, 8% DR	\$107 m	

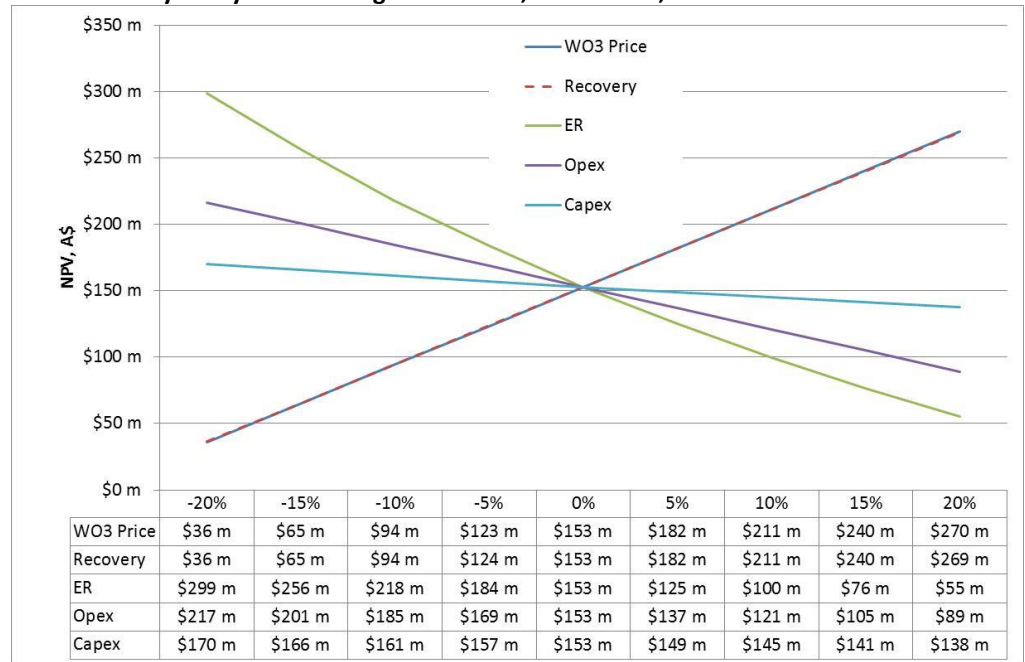
Sensitivity analysis indicates a robust project, able to absorb reasonable adverse movements in inputs

As part of this work we have undertaken a sensitivity analysis, with the following results. This presents the curves for each parameter with a percentage change from the base figures as presented above.

This indicates that the proposed project is most sensitive to tungsten price and recovery, and least sensitive to capital expenditure. However our figures indicate that the project, on an unfunded basis, will be able to absorb adverse movements of >20% in the key parameters, indicating a robust project.



DCF Sensitivity Analysis - % Change From Base, 8% Real DR, 100% Basis



Breakaway's View

In Watershed Vital Metals has a potentially robust tungsten project, and which in our view is currently significantly undervalued by the market. This is a typical situation for a number of advanced development projects (and for a lot of the junior resources sector in general), where the market is awaiting partner and funding outcomes to before realising the true value of the companies. Vital however is well advanced in this respect, with JOGMEC actively seeking a Japanese partner.

Vital has made considerable progress on the DFS since the entry of JOGMEC in 2011, and we eagerly await the key results of the study which are due by mid-2014.

The key driver following the finalisation of the DFS (and hopefully a decision to proceed) will be attracting partners and funding for development. We see similarities between the projects of Vital and Wolf Minerals, which is fully funded and now in the construction phase and currently has a market capitalisation over 25 times that of Vital.

In Doulunia, Vital has a quality gold project with plenty of exploration upside. Burkina Faso is a relatively mining friendly destination, with a number of world-class deposits in the exceptionally prospective Birimian Greenstone terrain.

We rate Vital Metals as a SPECULATIVE BUY, with a medium term price target of \$0.16/share, dependent upon attracting project partners and funding

An immediate issue will be to raise cash to finalise the DFS, continue work on Doulunia and carry the Company through to the end of the year – we consider the Company's March 31 2014 cash position of \$780,000 as being low. We do realise however that JOGMEC are providing 30% of the DFS costs, somewhat mitigating this.

We rate Vital as a SPECULATIVE BUY, with a medium term price target of \$0.16/share. Key price drivers will be securing partners and funding for Watershed. We also may see some movement on release of positive BFS results.



Tungsten

Tungsten is unique in having the highest melting point of any metal

The major use is in tungsten carbide, used in applications that require extreme abrasion resistance

Tungsten demand is closely tied to global economic conditions, however the market is opaque

2013 mine production (exc. the US) was 71,000t, with 60,000t of this from China

Tungsten is unique, having the highest melting point and lowest coefficient of expansion of any metal. It is also environmentally benign, being corrosion resistant and thus neither breaking down nor decomposing. In the form of tungsten carbide, it is extremely hard, being 2nd only in hardness to diamond in the more common materials.

The major use for tungsten is in the form of tungsten carbide, where it is used for applications that require extreme abrasion resistance. These applications include mining drilling bits and cutting tips, and make up approximately 55% of tungsten demand. It is also an important alloying component for making hardened steels, which comprise around 20% of demand.

There are also a number of other uses, including in lighting, electronic components, armaments and sporting goods.

Tungsten is primarily found in the minerals scheelite and wolframite, and first stage processing involves beneficiation to a concentrate – either a premium +65% WO₃ or a lesser value +50% WO₃ product. The concentrates are generally then converted to an intermediate ammonium paratungstate (“APT”) product, before being converted to elemental powder and tungsten carbide.

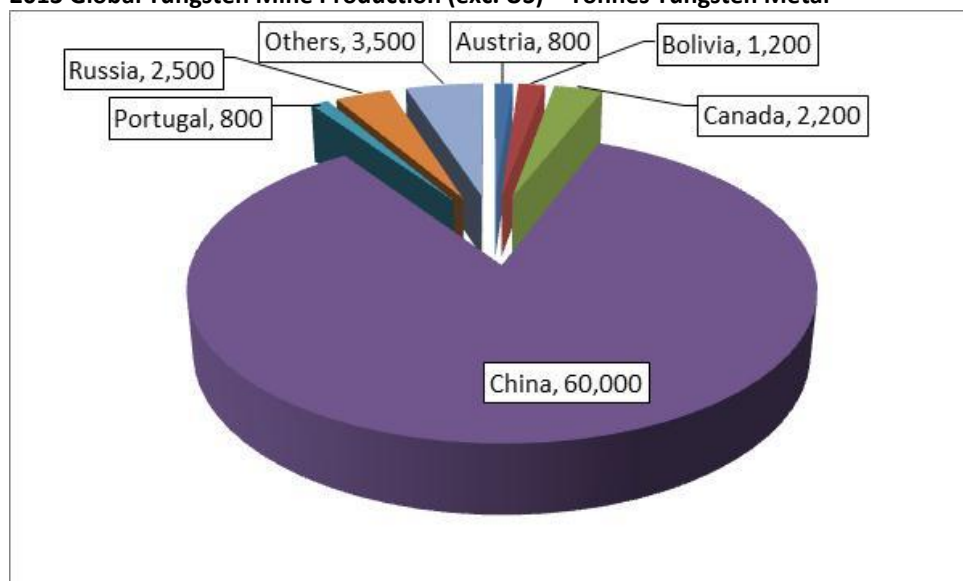
Market and Pricing

Given the specialty industrial uses for tungsten, demand is tied closely to global economic conditions. In addition, the tungsten market is opaque – different sources have different estimates of production and consumption figures, and US production figures are generally confidential.

According to the USGS, world mine production in 2013 (excluding the US) was in the order of 71,000 tonnes of contained tungsten metal, with 60,000 tonnes (85%) of this being produced by China. Recycling of scrap is also an important source of supply, which is estimated to comprise 20-30% of total supply.

Chinese production did slow down during the GFC, due to depressed foreign demand, however domestic demand continued to grow during this period.

2013 Global Tungsten Mine Production (exc. US) – Tonnes Tungsten Metal



Source: USGS



China is also the world's largest consumer, at 55% of demand

China controls the world tungsten market

There is potential for significant growth in demand, particularly in China

Pricing is reasonably volatile, and is generally published as US\$/tonne APT. Concentrates commonly trade at a 20-25% discount to APT

China is also the world's largest consumer, accounting for 55% of world demand in 2012. The US (12%) and Europe (13%) were the other major consumers in that year. Chinese demand grew strongly from 2000 to 2007, and continued to grow through the GFC which severely affected other users, with an overall growth rate of ~7% pa over the last 10 years. In comparison Europe's share of consumption was 23% in 2008, falling to 12% in 2010 following the GFC.

China controls the global tungsten market, and has put a number of measures in place to control domestic supply and restrict production and exports of tungsten. Given growing domestic demand in the near future, it is likely China may further restrict exports, thus leading to opportunities for non-Chinese producers. However falling domestic demand in China will lead to the reverse, with the potential to flood the external market with cheap product.

Particularly pertinent to Vital, is that Japan imported 5,525t (as W) in 2012, with 4,256t, or 77% being sourced from China. Japan, as well as a number of other consumers are keen to diversify their sources of supply.

There is the potential for significant growth in demand, particularly in China. Cemented tungsten carbide demand is strongly linked to GDP per capita – increasing living standards will lead to an increase in demand for these products.

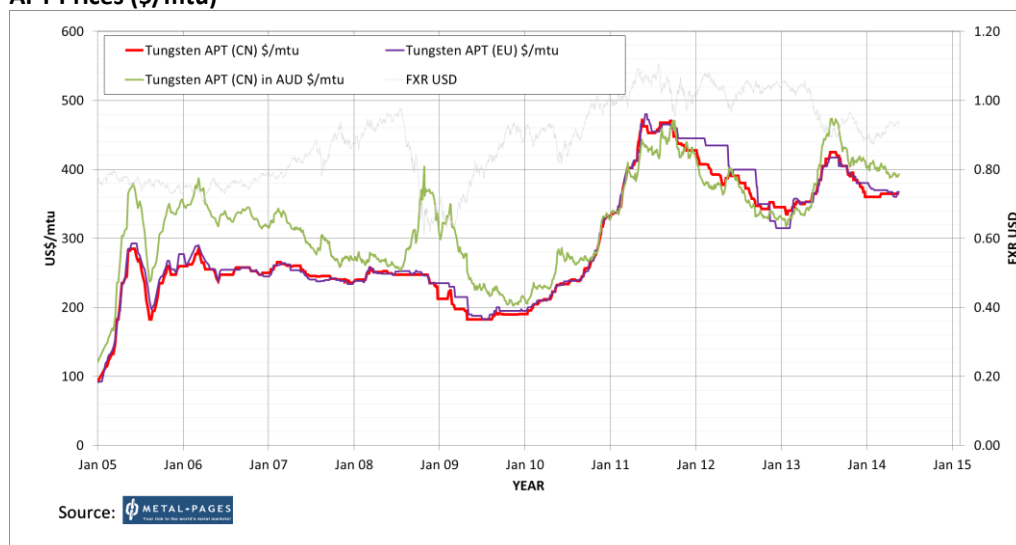
The demand/supply fundamentals have historically been very volatile, which is reflected in pricing as shown in the following graph.

Pricing

Published prices are generally for APT in US\$/mtu (an mtu, or "metric tonne unit" is equal to 10kg of WO₃, which contains 7.93kg of tungsten metal) as shown in the graph below. This shows the Canadian and European prices, as well as the Canadian price in Australian dollars.

65% concentrate prices have historically traded at around a 20-25% discount to the APT price, reflecting the cost of extra processing to APT.

APT Prices (\$/mtu)



Source: Metal-Pages via Vital Metals March 2013 Quarterly Report



Directors and Management

Non-Executive Chairman

David Macoboy

Mr Macoboy holds a Bachelor of Economics (Hons) and a Bachelor of Commerce from the University of WA. David is a Fellow of the Australian Institute of Company Directors and a Certified Practicing Accountant. The Directors and Management of Vital Metals believe Mr Macoboy's cross-industry experience, especially in the areas of corporate strategy, finance, treasury, risk management and international fund raising, are skills needed to ensure the company's new West African Gold project is adequately funded, and its existing Tungsten projects are appropriately promoted.

Managing Director

Mark Strizek

Mark Strizek is a qualified geologist with over 17 years' experience in the mining industry and is Member of the Australasian Institute of Mining and Metallurgy. Mark's career began in the Yilgarn in Western Australia in gold. He has experience in mining and exploration and has also worked as a resource consulting geologist. Prior to joining Vital he was involved in project development of mineral, coal and petroleum resources in both Australia and Papua New Guinea. Away from the corporate circuit Mark has raced both road and off-road motorcycles and has fond memories of riding around the sweeping Phillip Island racetrack.

Non-executive Director

Andrew Simpson

Andrew Simpson holds a Graduate Diploma in Business and Administration (majoring in Marketing and Finance) from Curtin University and is currently the Managing Director and Principal of Resource and Technology Marketing Services Pty Ltd (RTM) in Perth. Andrew's professional career began with Allied Eneabba in 1975 where he held a variety of positions, including Marketing Manager and Commercial Manager (R&D) over an 11 year period. Andrew then moved to become Managing Director of Dolmar Chemicals in WA, Group General Manager in Marketing and Business Development with Simcoa Operations in WA, Executive Director of Simcoa International and CEO of Atomaer, a WA based mining technology company. He formed RTM in 1999 to specialize in strategic and business planning, resource project assessment and marketing. RTM is recognised as one of Australia leading market research consultants to the international mining industry. Andrew is non-executive Chairman of Swick Mining Services Pty Ltd and India Resources Ltd. He is also a Member of the Australian Institute of Company Directors.

Non-executive Director

Peter Cordin

Mr Cordin is a civil engineer with 40 years of experience in the evaluation and operation of resource projects within Australia and overseas. He was Project Manager responsible for the construction of an alluvial diamond facility and two carbon-in-leach gold treatment plants in Australia and Indonesia. He has direct experience in the management of diamond and gold operations and in the development of resource projects in Kazakhstan and New Caledonia. More recently he was Managing Director and Chairman of Nordic gold producer Dragon Mining Limited.

Exploration Manager

Jamie Williamson

Jamie Williamson is a qualified geologist who graduated from the Western Australian School of Mines. Jamie cut his teeth in the Western Australian Goldfields terrains which are so similar to ground in Burkina Faso and prior to joining Vital, Jamie spent 3 years with Anglo Ashanti working on their gold projects throughout Africa. Jamie has a wide and diverse range of geology skills which will be invaluable as we seek to progress both the Watershed and Burkina Faso projects. Jamie also has a love of adventure and motorcycle riding which he brought together with his solo ride in 2011 from South Africa to Ethiopia and back on his beloved "Andy", a KTM 990 Adventure.

Company Secretary

Ian Hobson

Ian Hobson is a Chartered Accountant and Chartered Secretary with over 27 years' experience. Ian has spent most of his professional career as a director at PricewaterhouseCoopers in Australia, London and Toronto before commencing his own practice. Ian provides company secretarial and financial controller services to ASX listed companies as well as private organizations and is experienced in corporate governance, ASX / ASIC compliance, due diligence, valuations, capital raisings and corporate accounting.

(Bios extracted from Vital Metals website, May 18, 2014)



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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