



**Breakaway
Research**

October 2013

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Company Information

ASX Code	VML
Share Price	A\$0.04
Ord Shares	241.3m
Options	76.4m
Diluted Market Cap	A\$9.7m
Cash Sept 13 (est) A\$	1.5m
Total Debt	3.0m
Enterprise Value A\$	11.3m

Board of Directors

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

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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Phone	+618 9388 7742
Web	www.vitalmetals.com.au

12-Month Price Chart



Vital Metals (VML)

*DFS imminent for world class
Watershed tungsten project*

Recommendation: Speculative BUY

Company Update

Key Points

- **3Mtpa operation being assessed in DFS (scheduled for completion by ends 2013)**
- **Supply and demand fundamentals point to increasing tungsten prices**
- **Quality JV partners provide access to Japanese capital markets**
- **Secondary project focused on gold exploration in Burkina Faso**
- **High grade gold intercepts bode well for a maiden JORC resource**

Vital Metals is in the advanced stages of completing an extension of its DFS which is assessing a potential tripling of capacity at the world-class Watershed tungsten project. Japanese government owned JOGMEC's 30% interest in the project provides unprecedented access to Japanese capital markets for project funding. Vital's highly prospective Burkina Faso gold project brings welcome diversification with the company intersecting multiple high grade gold lodes.

Company Overview

Vital Metals (ASX: VML) is an advanced exploration company with its flagship Watershed tungsten project located in northern Queensland. Watershed currently hosts a JORC Resource of 49.3Mt @ 0.14% WO₃ for 70,400 tonnes of contained WO₃.

Japan Oil, Gas and Metals National Corporation (JOGMEC) have earned a 30% interest in the Watershed project by spending A\$ 5.4m to fund completion of a Definitive Feasibility Study (DFS). Initially the DFS was designed to assess a 1Mtpa capacity processing scenario, however this capacity was recently increased to 3Mtpa following a resource upgrade – creating more robust financial outcomes. JOGMEC will not take Watershed into production but rather act as a match maker to third party Japanese corporation; however, it may act as a bank guarantor during the project finance stage.

Vital also holds a 100% interest in a series of exploration projects in southern Burkina Faso, comprising over 850km² of contiguous tenements in highly prospective Birman Greenstone terrain – collectively known as the Doulania project. Early stage drilling programs have been particularly encouraging at the Kollo prospect, encountering significant 'ore grade' gold mineralisation. The Burkina Faso tenements are also prospective for VMS style zinc mineralisation.



Investment Review

Watershed - Tungsten

World class asset

The Watershed project is a world class tungsten project and Vital is well placed to advance the project into production at a time when demand for the metal continues to grow.

Large resource in place

The Watershed deposit was originally identified and explored by Utah Development Company Limited during the early 1980s, with some additional work conducted by Peko-Wallsend during the mid-1980s.

Fully funded DFS due for completion in coming months

Vital acquired the project in 2005 and has steadily advanced the project which now hosts a JORC Resource of 49.3Mt @ 0.14% WO₃ for 70,400 tonnes of contained WO₃ (at a 0.05% WO₃ cut-off grade). The company has undertaken extensive feasibility studies which have outlined technically viable and financially attractive development options. Initially the DFS considered an operation with 1Mtpa processing capacity and more recently this has been increased to 3Mtpa.

Ideal JV partner

In 2011, Vital agreed to farm out a 30% interest in Watershed in return for A\$5.4m required to fund a Definitive Feasibility Study (DFS), **due for completion in Q4 2013**. Vitals' JV partner is a Japanese government owned company set up to ensure stable supply of energy and mineral resources to Japan. The company has an annual budget of \$18 billion and is regarded as a 'partner of choice' for Vital, providing the company with valuable access to Japanese expertise, as well as a potential source of funding during the development stage.

DFS extended to include 3Mtpa option

After achieving positive outcomes in its initial feasibility program, Vital increased the JORC resource at Watershed to 49.3Mt @ 0.14% WO₃ and this provided the impetus to extend the parameters of the DFS to incorporate a much larger 3Mtpa capacity operation. While indicative CAPEX requirements are estimated to be ~A\$150m (considered relatively cheap for an operation this size), the increased production and greater capital efficiencies are likely to significantly enhance the overall robustness of the project. The DFS is scheduled for completion imminently (Q4 2013).

Gold projects located in highly prospective region

Doulunia Project

In 2009 Vital enhanced and diversified its exploration interests to include gold and base metal prospects in southern Burkina Faso, West Africa. It currently holds four permits in a favorable geological setting within the prospective Markoye Fault Corridor. The Markoye Fault Corridor is host to the Essakane (5.1 Moz), Tarpako (1.3 Moz), Bombore (5.2 Moz) and Kiaka (5.2 Moz) gold deposits.

Numerous high grade gold intercepts

Exploration within the project area is being steadily advanced, with early drill programs intersecting multiple high grade gold intercepts. Planned drilling campaigns are aimed at extending the limits of the known near surface (open pitiable) mineralisation, as well as identifying additional deposits that will provide the critical mass for a stand-alone project.

An early drilling campaign intersected **44m @ 6.39 g/t gold** from 8m depth, highlighting the potential to delineate meaningful scale, shallow resources within the project area.

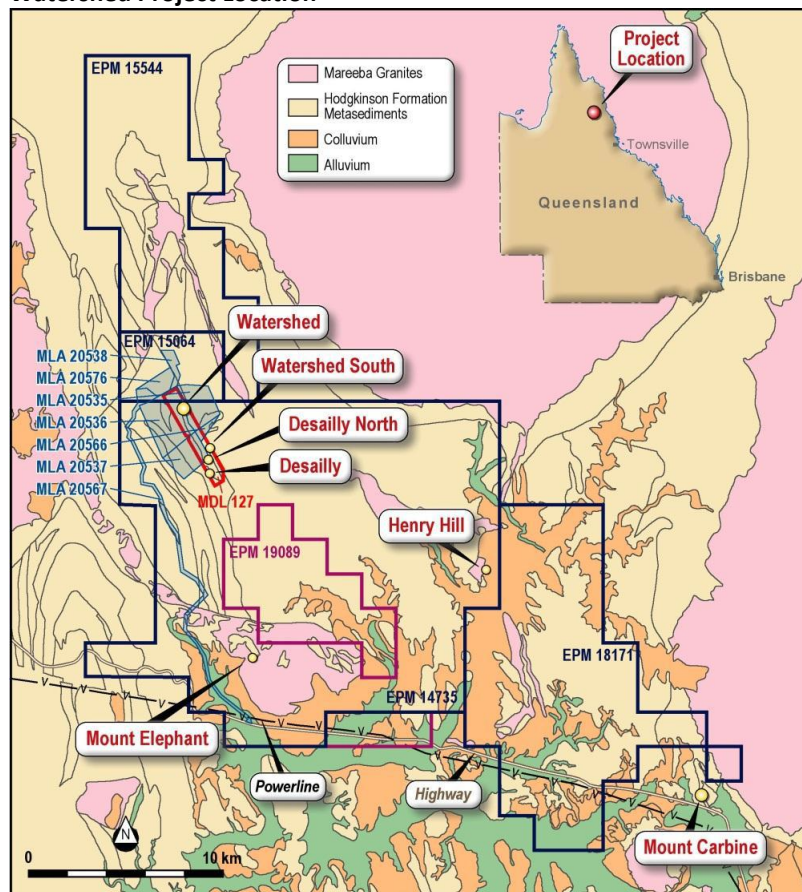


Project Review

Watershed Project

The Watershed tungsten project is located in far north Queensland, ~160km northwest of Cairns and ~35km northwest of the Mount Carbine tungsten deposit.

Watershed Project Location



Source: Vital Metals

JORC Resource

A JORC Resource of 49.3 Mt @ 0.14% WO₃ for 70,400 tonnes of contained WO₃ has been estimated for the Watershed deposit. Significant exploration potential still exists with the mineralisation interpreted to be open along strike and at depth.

Watershed: JORC Resource Summary

Measured		Indicated		Inferred		Total			
WO ₃ % Cut off	Mt	WO ₃ %	Mt	WO ₃ %	Mt	WO ₃ %	Mt	WO ₃ %	WO ₃ % Tonnes
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

Located in north Queensland

Open along strike and at depth

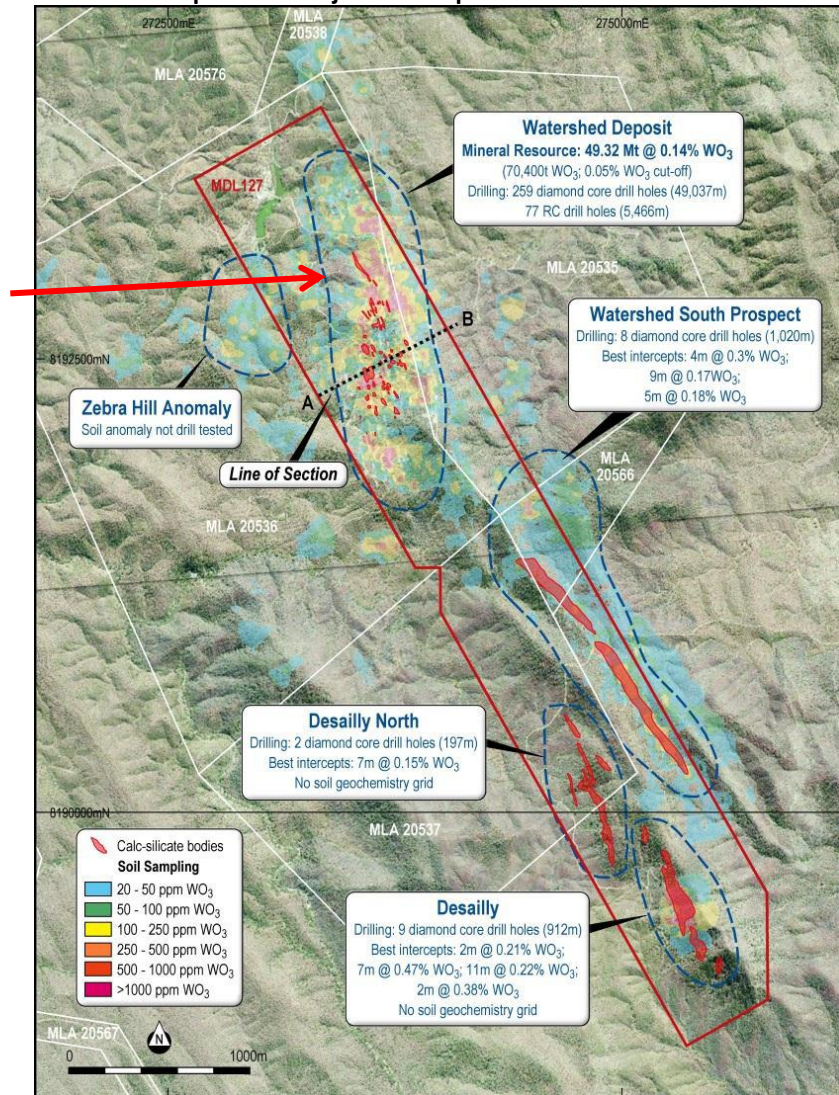
49.3 Mt @ 0.14% WO₃ for 70,400 tonnes of contained WO₃



Watershed Deposit and Adjacent Prospects

The Resource is calculated from just this area

Similar size targets along strike



The image above illustrates multiple prospects which have been identified in close proximity to the Watershed deposit. Initial drill testing at some of these prospects has encountered encouraging grades and widths of mineralisation at relatively shallow depths. This bodes well for future resource upgrades in ongoing exploration campaigns.

Definitive Feasibility Study Nearing Completion

In August 2011, Japan Oil, Gas and Metals National Corporation (JOGMEC) agreed terms to earn a 30% interest in the Watershed project for a total investment of A\$5.4m (implying a project value of A\$18m).

The JOGMEC funding was to be directed at completing a DFS based on a 1Mtpa processing capacity operation. However, the feasibility scope was extended to assess a 3Mtpa capacity operation following a significant resource upgrade to 49.3Mt @ 0.14% WO₃. Final DFS results are yet to be released, however early indications are that the increased production and significantly reduced operating costs, partially offset by an increase in upfront CAPEX to ~A\$150m, create a more robust financial outcome. Based on the 3Mtpa scenario, production of 4,000 – 5,000tpa of >65% WO₃ concentrate is likely to be achievable.

JOGMEC farm in valued VML at A\$ 18m (at time of investment)

DFS to assess 3Mtpa potential

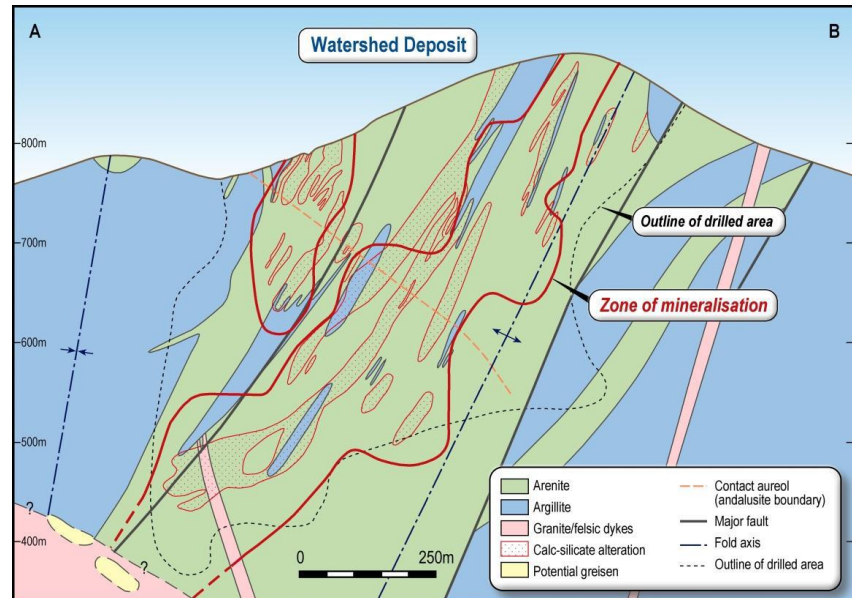


Underground Potential

Mineralisation at the Watershed deposit remains open down plunge, with grades appearing to increase at depth. For example, diamond hole MWD119 intersected 20m @ 1.27% WO₃ from 302m highlighting the potential for establishing an underground mining operation once the open pit resources have been exhausted (thus extending the potential mine life).

Mine life may be extended through underground mining

Watershed Cross Section



Source: Vital Metals

Grade appears to be increasing at depth

The cross section above illustrates an outline of the 'zone of mineralisation' (red line), whilst the dotted line shows the area which has been drill tested.

Recent Developments on Pathway to Production

Indigenous Land Use & Pastoral Station Agreements

Vital has already cleared some significant hurdles on its pathway to production. An agreement is already in place covering the Pastoral Stations, as well as an 'Indigenous Land Use Agreement' (ILUA) for the Western Yalanaji people.

Key agreements in place

Access to mains power

A high voltage power line is located ~24km to the south of the Watershed deposit. Vital has engaged in talks with Ergon Energy who have confirmed there is sufficient capacity on the line for a 3Mtpa operation and have also supplied indicative power charges. A formal connection enquiry will be submitted by Vital at the appropriate time.

Access to grid power

Granting of Mining Licence Anticipated

During Q2, 2013 the department of Environment and Heritage Protection (DEHP) approved the Environmental Management Plan for Watershed and an Environmental Authority (EA) has now been issued. The granting of the mine leases is now considered a formality.

Mining Licence approvals expected in the near term



Exploration around Watershed

Vital has established a large tenement position (4 EPM's) surrounding its Watershed project area, and early stage exploration activities are being undertaken. This includes soil, stream sediment and rock chip sampling and mapping activities which have generated a number of areas for more detailed follow-up.

Region holds potential for additional discoveries

Within EPM 14735 'economic grade' tungsten mineralisation (ranging between 0.04 and 0.5% WO₃) has recently been recorded in rock chip sampling at the Desailly prospect, highlighting the potential for further satellite deposits to be delineated.

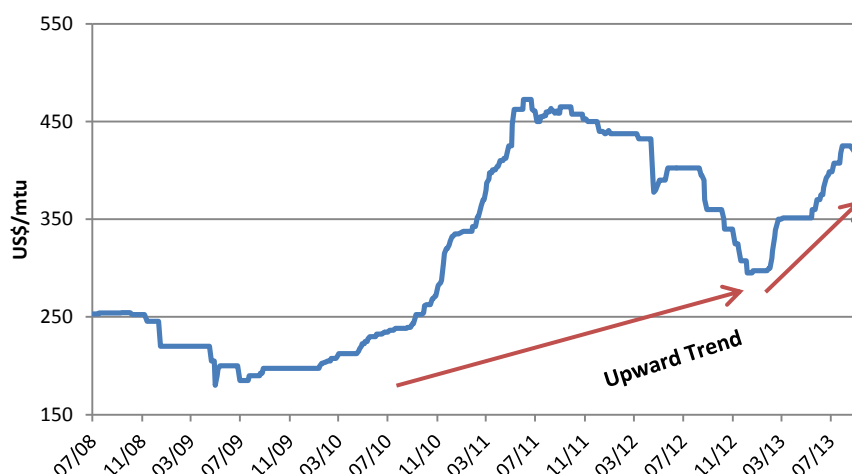
Within EPM 18171 a recent geochemical sampling program has generated numerous overlapping arsenic, tungsten and gold anomalies. A prospective 5km long by 1km wide area has been identified which has elevated levels of arsenic (arsenic is often regarded as an pathfinder mineral for the identification of multiple valuable minerals). In part, this arsenic anomaly overlaps with elevated tungsten (up to 70ppm W in stream sediments) and gold results (up to 0.009 ppm in soils). Follow up work is planned, including infill sampling and mapping programs.

Tungsten Pricing

The chart below shows a five year historical price (China) for APT (Ammonium Paratungstate) in USD. The APT price can be used as a proxy for the trends in a 65% WO₃ concentrate price however tungsten concentrate (which will be produced by Vital) trades at an ~20% discount to the ATP price (depending on demand).

APT price chart 2008- September 2013

Tungsten price continues to outperform most other metals



Source: Bloomberg

1mtu=10kg

The current APT price is US\$407.5/mtu however it was as high as US\$420/mtu recently. This upward trend is set to continue with an ongoing shortfall in forecasted supply (against demand) of tungsten concentrate.

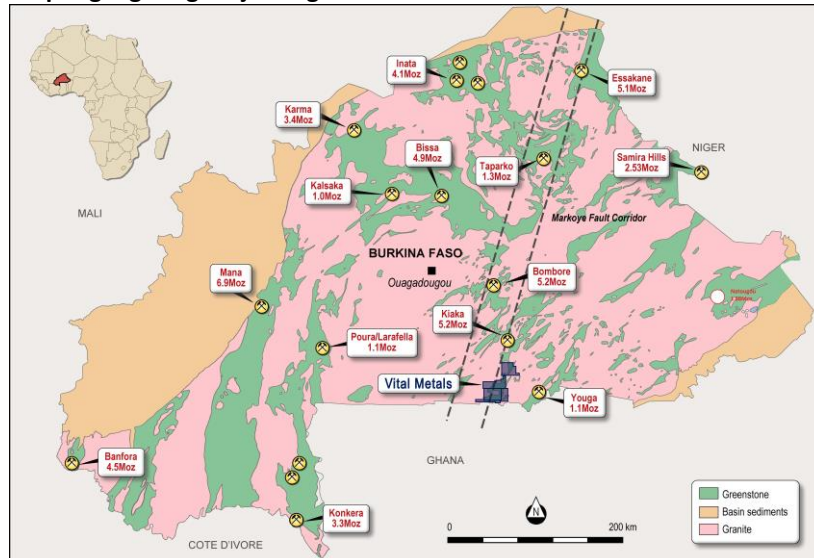


Doulunia Project: Burkina Faso

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.

Vital has highly prospective gold licences in Burkina Faso

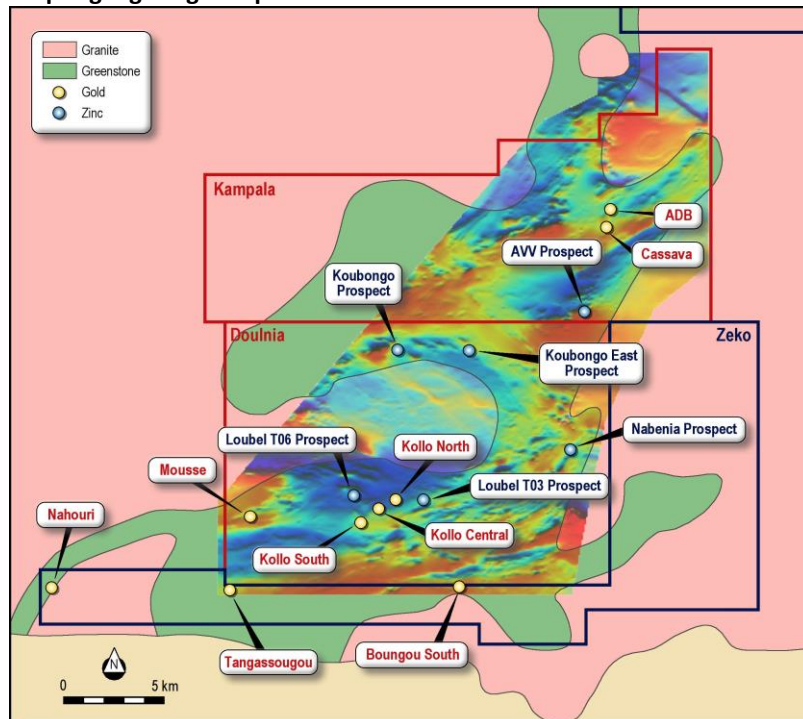
Map Highlighting Major Regional Discoveries



Source: Vital Metals

In July 2013, Vital agreed terms with JV partner 'Ampella Mining' for the transfer of its 30% interest in two of the permits (Doulunia and Kampala), giving Vital a 100% interest in all four permits. In return, Ampella receives a 2.25% royalty on all gold produced at Doulunia. 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.

Map Highlighting Kampala and Doulunia tenements



Source: Vital Metals



Permits are located along strike from sizable gold deposits

The Doulunia project is located within highly prospective Birman Greenstone terrain and covers over 850km² of contiguous tenements. 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 combined ounces >16 Moz).

Exploration

Vital kicked off its 2013 exploration program in January-February with a 16 drill hole program aimed at extending the limits of known gold mineralisation at the Kollo gold prospect on the Doulunia tenement and the Boungou South gold prospect on the Zeko tenement.

The drill program was targeting shallow gold mineralisation suitable for open cut mining methods. Highlights from the campaign include:

Encouraging drill results

- **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
- **6m @ 2.49 g/t gold** from 99m in hole KRC279

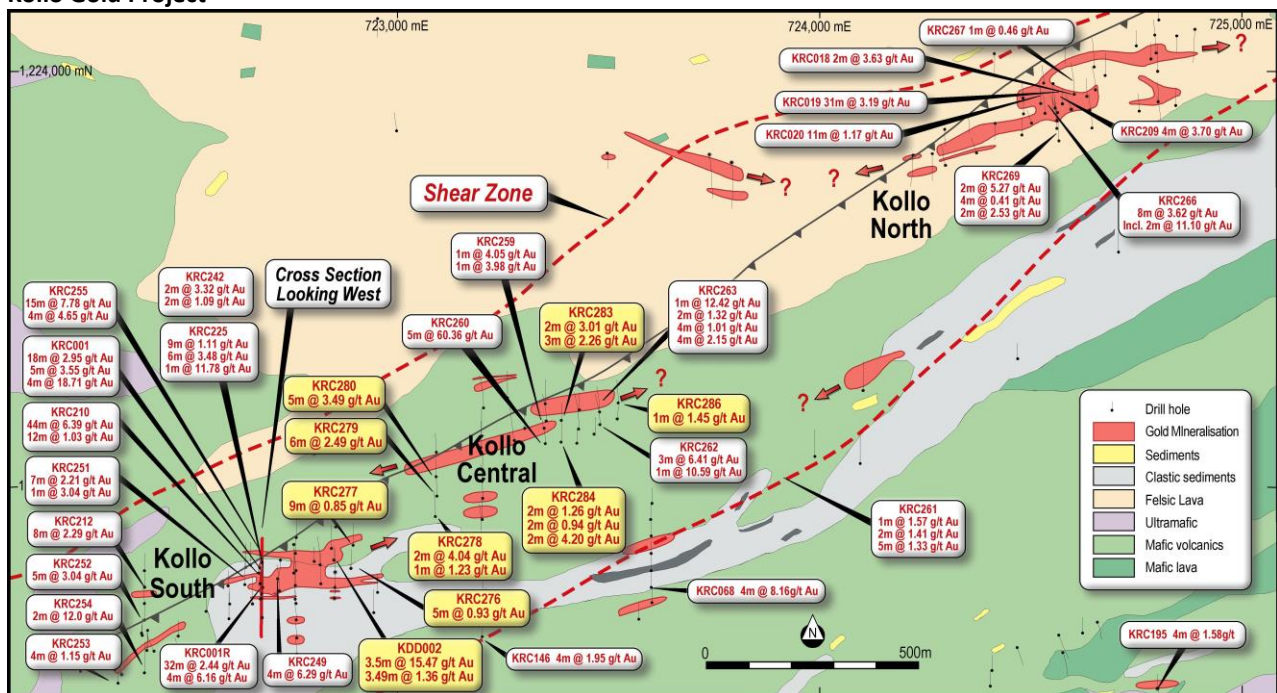
Previous drill intercepts include:

44m @ 6.39 g/t gold from 8m depth

- **5m @ 60.36 g/t gold** from 75m depth (including **2m @ 128.50 g/t gold** from 76m) in hole KRC260 and
- **44m @ 6.39 g/t gold** from 8m depth (including **4m @ 58 g/t gold** from 24m) in hole KRC 210.

A comprehensive plan of significant Kollo drilling results and a cross section of the Kollo South prospect are highlighted in the following images:

Kollo Gold Project

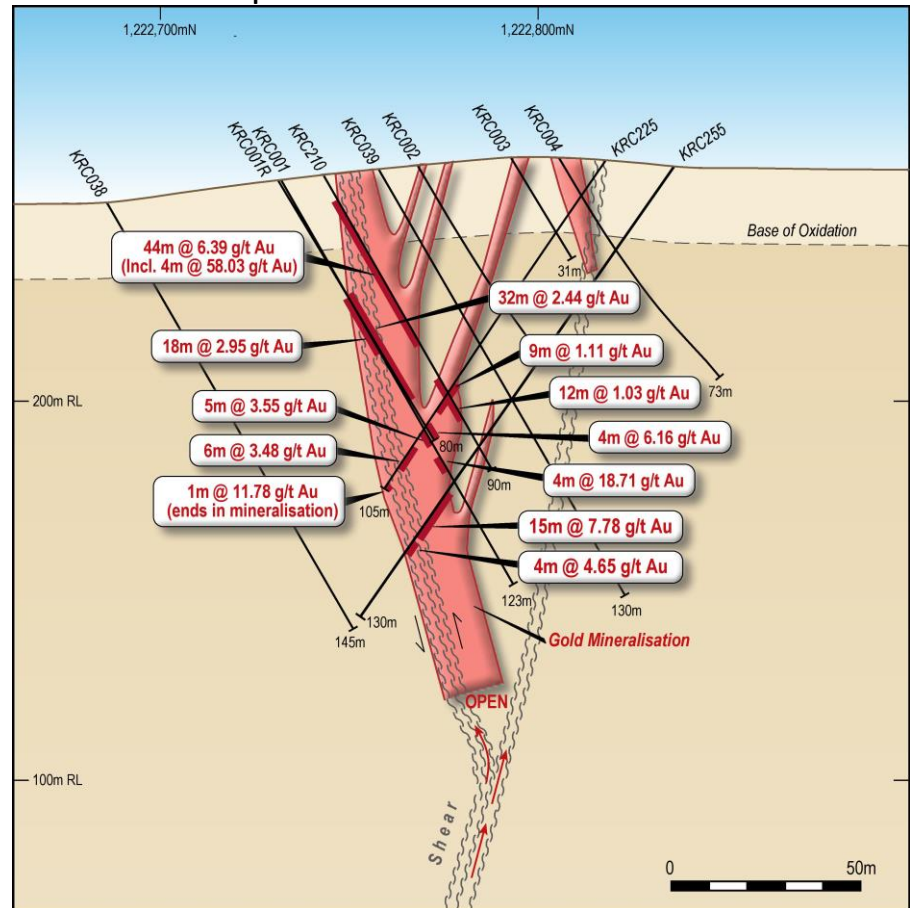


Source: Vital Metals



Kollo South Gold Prospect - Section

Substantial opportunity for a meaningful resource to be identified



Source: Vital Metals

Breakaway's View

Vital is nearing completion of its DFS on the Watershed tungsten project and, against a backdrop of rising pricing for tungsten, this should allow investors to better understand the economic potential of this significant asset. In parallel, the company has consolidated its gold interests in a well-endowed region and is steadily advancing its exploration efforts. Early drilling programs have encountered numerous 'ore grade' intercepts, providing considerable encouragement that meaningful scale resources will be delineated.



Analyst Verification

We, Grant Craighead and Geoff Reed, 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.

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