

AUSTRALIAN

RESEARCH



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Vital Metals Limited (VML)



Sector	Industry Group	Industry	Sub Industry
Materials	Materials	Metals & Mining	Diversified Metals & Mining

Company Overview

VML is progressing along the path to become a major world producer of tungsten from its Watershed scheelite deposit in North QLD. The size of the global resource is 21.8Mt at 0.26% WO₃. Drilling will extend the size of the deposit, along strike and at depth. High-grade intervals over 1% WO₃ have been encountered. Ore sorting will significantly lift the average grade of ore milled. VML also owns 100% of the Alexander tungsten project and is earning 70% of the Mt Mulgine tungsten prospect.

Strategy

The company intends to become a tungsten producer by late 2009 via its flagship Watershed scheelite (tungsten) deposit.

Aegis Comments

Outlook: VML is a one commodity play, but one that has very strong fundamentals. The main use of tungsten (W) is for hardening steel to make cutting, drilling and grinding tools. Global demand for W is growing at 4%, but industrial growth in China has accelerated demand for W to 10% per annum. Russia and America had significant strategic stockpiles of W, but these have largely been depleted. The current trend shows a potential shortfall of 8,000t by 2010. Production is expected in 2008/2009.

Catalysts: A feasibility study is due for completion in 3Q07. Details of agreements with international buyers would be well received by investors. Two 50t bulk samples to be taken in 3Q07 will provide additional metallurgical data. There is still potential for a big increase in the size of the resource through infill drilling between the west and east zones and to the north and south-west of the deposit. Hole MWD145 encountered multiple mineralised horizons and extended the resource 50m to the west.

Risks: There are a number of milestones that must be achieved prior to first production. These events include an EIS, a bankable feasibility study and marketing agreements. The demand for tungsten is firm and the price is holding above US\$175/MTU for WO₃ in a wolframite concentrate at a minimum grade of 65%. Despite China's dominance of the tungsten market, fundamentals are good, with little likelihood of a collapse in price like in 2002 when massive destocking in Europe sent the price down 50%.

Key investment information

Price:	\$0.71
Price as at:	02-Oct-07
Market Cap (\$M):	78.0
Equiv. Shares (M):	109.81
% Market:	0.00
12Mth Range (\$):	0.38 - 0.95
Shares Traded (\$M pa):	30.5
Listed since:	October 2005
Index:	n/a

Share price performance



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Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2005A	(0.2)	(0.2)	(8.6)	n/a	(8.0)	(0.3)	(0.3)	0.0	0.0	0	(382.7)
2006A	(1.1)	(1.1)	(1.9)	n/a	(35.3)	(1.7)	(1.9)	0.0	0.0	0	(43.7)
2007A	(1.5)	(1.5)	(2.0)	n/a	(34.2)	(1.8)	(2.1)	0.0	0.0	0	(26.4)

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Financial Stability
Balance Sheet (Y/E Jun) 06A 07A

Net debt (cash) (\$M)	(4.9)	(1.5)
Total assets (\$M)	11.0	14.1
Net debt/equity (%)	(48.0)	(11.5)
Net interest cover (x)	n/a	n/a
NTA per share (\$)	0.07	0.02
Current ratio (x)	7.4	1.8

As at 30-Jun-07

Net debt (cash) (\$M)	(1.5)
Net debt (cash) / shr (\$)	(0.01)
Net debt (cash) / MktCap (%)	(1.9)

Substantial Shareholders

Consolidated Minerals	13.7%
S A Macdonald	9.9%
Breamlea Pty Ltd	6.9%

Board

W Ryan (Chairman/Director)
D Kennedy (Non-Executive Director)
A Simpson (Non-Executive Director)
C Hunter (Non-Executive Director)

Differentiating Factors

The Watershed project in far-north Queensland is VML's main focus and key project. Watershed was discovered in 1978 by the Utah Development Company, which carried out extensive drilling and other work leading to an inferred resource estimate of 13.9Mt at an average grade of 0.35% WO3. The project is currently at the pre-feasibility stage.

Achievements

Most junior explorers have little interest in minor metals. Taking a different tact, VML had the foresight to buy the Watershed tungsten deposit from BHP Billiton in 2005. VML has wisely acquired the Alexander WO3 project, two low-grade prospects at Mt Mulgine, all in WA. VML has completed a placement that raised \$6.6M. A rights issue will bring in another \$6.9M. Funding is in place for working capital to finish the Feasibility Study. VML is well placed to become a major tungsten producer.

Current Projects

Watershed Project: Watershed, a scheelite deposit purchased from BHP Billiton, is a major tungsten resource in pre-feasibility mode requiring confirmatory in-fill drilling and metallurgical development. Vital has commenced a two-rig 15,000m diamond drill campaign with metallurgical sampling. The mineralisation is suitable for shallow open-cut mining. Processing options include pre-concentration ore sorting using u/v or x-ray fluorescence followed by gravity and flotation. Full feasibility is planned for 1Q08.

Mt Alexander Project: Mt Alexander deposits near the Nanutarra Roadhouse host scheelite in skarns surrounding a granite intrusion at Moodang Well. ANZECO drilled the area in the 1970s. Several scheelite shoots occur around the Kilba granite. At Love's Find, widespread surface evidence of scheelite awaits drilling.

Mt Mulgine Project: Vital Metals can earn 70% equity in the Mt Mulgine project by sole-funding \$750,000. Tungsten and molybdenum occur in skarns around the mulgine granite. Previous drilling by several companies has outlined two large low-grade deposits: Hill for 5Mt @ 0.24% WO3, and Trench for 83.4Mt at 0.136% WO3 and 0.045% Mo. A gravity survey was completed during the quarter.

Capital Structure

VML has 97.91M ordinary shares listed. There are also 6.95M unlisted shares. There are 5.8M listed options (\$0.80, 31/08/08) and 5.6M unlisted options. The exercise prices of unlisted options vary between 20 and 80 cents. On 14 August, 4.96M options were in the money.



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