

2 March 2011

## Venture Minerals

VMS

\$0.53/share

Buy

### Pre-feasibility Study Complete

Venture Minerals (VMS) yesterday announced the completion of the Mt Lindsay (100%) Pre Feasibility Study (PFS). Key results include (i) 1.3Mtpa rates over an initial 8 year mine life, (ii) capex of A\$162M, (iii) open pit mining costs of A\$62-65/t, (iii) mining inventory of 11Mt @ 0.6% Sn Eq, (iv) IRR up to 55% at spot prices. The study confirms a robust high margin project and reinforces our positive view on VMS. VMS is trading at a 21% discount to our valuation of A\$0.67/share. We recommend buying VMS.

#### PFS – Mt Lindsay (100%)

- Studies confirm a robust high margin project.
- Base case \$54Mpa cashflow, upside case \$90Mpa.
- IRR range of 29% - 54%.
- Capex of A\$162M – includes addition of Ammonium Paratungstate (APT) plant (A\$20M).
- Cash costs of A\$62-65/t - (Petra A\$62/t).
- Higher costs reflect larger crush/grind capacity and higher reagent prices.
- Current spot prices equate to ~A\$150/t ore.

#### Upside considerations

- Resources are likely to continue growing.
- Potential cash cost savings of A\$10/t identified.
- We are yet to model in the new APT circuit.
- Spot prices see valuation rise 59% to ~A\$1.05ps.

#### Positive drivers for VMS

- One of the world's largest undeveloped tin deposits.
- Resources extend over 3.9km of strike length (Fig.6).
- Only 10% of skarn targets tested to date.
- Six rigs currently drilling – aggressive campaign.
- Further drill results expected in coming weeks.
- Leverage to a rising tin price (Fig. 7).

#### Our View - BUY

- NPV of A\$0.67/share.
- Forward PEs of 4.0x.
- Forward PCFs of 2.0x.
- Forward EV/EBITDA of 1.9x.
- Strong exploration upside, likely resource increases.

#### Key Dates

- Mar 2011 – BFS commences.
- Q1 2012 – Completion of BFS.
- Q1 2012 – Financing and construction.
- Q3 2013 – Production.

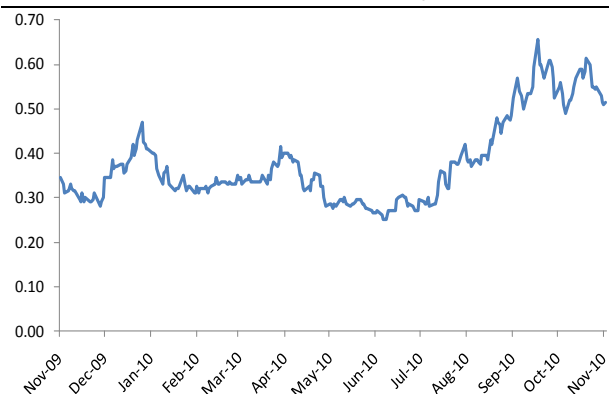
#### Company Data

Shares – ordinary (M)	220.9
Unlisted Options (M)	32.1
Total (fully diluted) (M)	253.0
Market capitalisation (\$M)	134.1
12 month low/high (\$)	0.24 / 0.66
Average monthly turnover (\$M)	9.5

#### Financial Summary (fully diluted/normalised)

Year end June	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.0	0.0	39.6	130.2	154.3
Costs (\$M)	(2.1)	(2.1)	(20.9)	(65.7)	(82.2)
EBITDA (\$M)	(2.1)	(2.1)	18.8	64.4	72.0
NPAT (\$M)	(0.9)	(2.0)	6.3	32.3	33.5
EPS (¢ps)	-0.4	-0.8	2.5	12.7	13.2
PER (x)	na	na	21.3	4.2	4.0
Cashflow (\$M)	(1.7)	(5.4)	16.3	64.1	57.9
CFPS (¢ps)	(0.7)	(2.1)	7.4	29.0	26.2
PCFPS (x)	na	na	7.2	1.8	2.0
Enterprise Value (\$M)	114.9	187.6	230.1	177.8	135.0
EV / EBITDA (x)	-55.1	-87.8	12.3	2.8	1.9
Dividends (¢ps)	0.0	0.0	0.0	0.0	3.7
Yield (%)	0%	0%	0%	0%	7%

#### VMS (A\$ps) – performance over one year



#### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 40.9M shares at \$0.44/share in October 2010, raising A\$18.0M. A fee was received.

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## Analysis – Venture Minerals (VMS)

Venture Minerals (VMS)								Share Price		(\$)	0.53						
2-Mar-11								Iss. Shares		(M)	220.9						
Year End 30 June								Iss. Options		(M)	32.1						
								Mkt Cap.		(\$M)	134.1						
PROFIT & LOSS								RESOURCES									
	2009A	2010A	2011F	2012F	2013F	2014F	2015F	Lindsay (Inferred Resources)									
Sales Revenue	\$M	0.0	0.0	0.0	0.0	39.6	130.2	154.3									
Other Income	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0									
Operating Costs	\$M	0.0	(2.1)	0.0	0.0	(17.1)	(58.3)	(73.8)	Tonnes	Mt	13.0	13.0	17.8	17.8	17.5	16.4	15.1
Royalties	\$M	0.0	0.0	0.0	0.0	(1.6)	(5.2)	(6.2)	Grade - Fe	%	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Corporate Costs	\$M	(1.3)	(0.6)	(2.1)	(2.1)	(2.2)	(2.2)	(2.3)	Weight Recovery (DTR)	%	20.0	20.0	20.0	19.0	19.0	19.0	19.0
Expl write-off	\$M	(1.7)	(0.3)	0.0	0.0	0.0	0.0	0.0	Tungsten (WO <sub>3</sub> )								
<b>EBITDA</b>	<b>\$M</b>	<b>(3.0)</b>	<b>(2.9)</b>	<b>(2.1)</b>	<b>(2.1)</b>	<b>18.8</b>	<b>64.4</b>	<b>72.0</b>	Tonnes	Mt	13.0	13.0	17.8	17.8	17.5	16.4	15.1
Depreciation & Am.	\$M	(0.0)	0.3	0.0	0.0	(4.7)	(15.9)	(19.7)	Grade -WO <sub>3</sub>	%	0.16	0.19	0.16	0.16	0.16	0.16	0.16
<b>EBIT</b>	<b>\$M</b>	<b>(3.0)</b>	<b>(2.6)</b>	<b>(2.1)</b>	<b>(2.1)</b>	<b>14.0</b>	<b>48.5</b>	<b>52.4</b>	Recovery	%	80.0	80.0	80.0	84.0	84.0	84.0	84.0
Net Interest	\$M	0.1	0.3	1.2	0.2	(7.7)	(8.0)	(4.5)	WO <sub>3</sub> content	kt	20.8	24.7	28.5	28.5	28.0	26.3	24.2
<b>Pre-Tax Profit</b>	<b>\$M</b>	<b>(2.9)</b>	<b>(2.3)</b>	<b>(0.9)</b>	<b>(2.0)</b>	<b>6.3</b>	<b>40.6</b>	<b>47.9</b>	Tin (Sn)								
Tax	\$M	0.2	0.0	0.0	0.0	0.0	(8.3)	(14.4)	Tonnes	mt	13.0	13.0	17.8	17.8	17.5	16.4	15.1
Other	\$M	(0.7)	0.0	0.0	0.0	0.0	0.0	0.0	Grade -Sn	%	0.30	0.32	0.30	0.30	0.30	0.30	0.30
<b>Net Profit</b>	<b>\$M</b>	<b>(3.4)</b>	<b>(2.3)</b>	<b>(0.9)</b>	<b>(2.0)</b>	<b>6.3</b>	<b>32.3</b>	<b>33.5</b>	Recovery	%	70.0	70.0	70.0	73.0	73.0	73.0	73.0
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	8.1	Sn content	kt	39.0	41.6	53.4	53.4	52.5	49.3	45.4
<b>Retained Earnings</b>	<b>\$M</b>	<b>(6.4)</b>	<b>(8.7)</b>	<b>(9.6)</b>	<b>(11.6)</b>	<b>(5.3)</b>	<b>27.0</b>	<b>52.4</b>									
CASH FLOW								MINE PRODUCTION									
Revenue	\$M	0.0	0.0	0.0	0.0	31.7	121.8	155.3	Mining	Mt	0.0	0.0	0.0	0.0	2.5	8.4	10.4
Operating Costs	\$M	0.0	(1.8)	0.0	0.0	(8.6)	(48.7)	(73.3)	Waste : ore ratio	x	0.0	0.0	0.0	0.0	7.0	7.0	7.0
Royalties	\$M	0.0	0.0	0.0	0.0	(0.8)	(4.4)	(6.3)	Ore	Mt	0.0	0.0	0.0	0.0	0.31	1.05	1.30
Net Interest	\$M	0.1	0.3	0.4	(3.3)	(3.9)	(2.4)	0.2	Magnetite concentrate	Mt	0.0	0.0	0.0	0.0	0.06	0.20	0.25
Tax Paid	\$M	0.0	0.2	0.0	0.0	0.0	0.0	(15.7)	WO <sub>3</sub> in concentrate (65%)	kt	0.0	0.0	0.0	0.0	0.5	1.6	2.0
Other Costs	\$M	(2.1)	0.0	(2.1)	(2.1)	(2.2)	(2.2)	(2.3)	Sn	kt	0.0	0.0	0.0	0.0	0.7	2.3	2.8
<b>Gross Cash Flow</b>	<b>\$M</b>	<b>(2.0)</b>	<b>(1.3)</b>	<b>(1.7)</b>	<b>(5.4)</b>	<b>16.3</b>	<b>64.1</b>	<b>57.9</b>									
Exploration / Mine	\$M	0.0	(5.3)	(9.0)	(16.0)	(23.4)	(2.9)	(3.0)	REVENUE								
Plant & Equip	\$M	0.0	(0.2)	0.0	(56.2)	(40.4)	(3.9)	(4.0)	Magnetite	A\$/M	0.0	0.0	0.0	0.0	10.9	33.9	35.0
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	(8.1)	Tungsten	A\$/M	0.0	0.0	0.0	0.0	11.5	38.5	48.0
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Tin	A\$/M	0.0	0.0	0.0	0.0	16.8	56.8	71.2
<b>Free Cashflow</b>	<b>\$M</b>	<b>(2.0)</b>	<b>(6.7)</b>	<b>(10.7)</b>	<b>(77.6)</b>	<b>(47.5)</b>	<b>57.3</b>	<b>42.8</b>	<b>Total</b>	<b>A\$/M</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>39.2</b>	<b>129.2</b>	<b>154.3</b>
Equity Issues	\$M	0.0	14.0	20.0	4.9	0.0	0.0	0.0	COSTS								
Net Borrowings	\$M	0.0	0.0	5.0	72.2	50.5	(30.0)	(30.0)	Mining costs	A\$/t	10.5	10.6	10.7	10.9	11.0	11.1	11.3
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Waste mining costs	A\$/t	11.1	11.2	11.3	11.5	11.6	11.7	11.8
<b>Surplus Cash Flow</b>	<b>\$M</b>	<b>(2.0)</b>	<b>7.2</b>	<b>14.3</b>	<b>(0.5)</b>	<b>3.0</b>	<b>27.3</b>	<b>12.8</b>	Magnetite processing	A\$/t	7.5	7.6	7.7	7.8	7.8	7.9	8.8
BALANCE SHEET																	
Cash	\$M	2.6	9.9	24.2	23.7	26.7	54.0	66.8	WO <sub>3</sub> processing	A\$/t	5.0	5.1	5.2	5.3	5.5	5.6	5.6
Current	\$M	0.3	0.6	0.0	0.0	9.5	19.6	18.3	Sn processing	A\$/t	5.0	5.1	5.2	5.3	5.5	5.6	5.7
<b>Total Current</b>	<b>\$M</b>	<b>3.0</b>	<b>10.4</b>	<b>24.2</b>	<b>23.7</b>	<b>36.2</b>	<b>73.6</b>	<b>85.1</b>	Infrastructure costs	A\$/t	9.0	9.2	9.4	9.6	9.8	10.1	10.1
Mine Dev & Explr	\$M	8.6	13.6	10.0	26.0	47.7	44.6	40.3	Admin / other	A\$/t	3.0	3.1	3.1	3.2	3.3	3.4	3.4
Plant & Equip	\$M	0.1	0.3	0.0	56.2	93.6	87.6	79.2	<b>Total (excluding royalties)</b>	<b>A\$/t</b>	<b>51.1</b>	<b>51.8</b>	<b>52.7</b>	<b>53.6</b>	<b>54.5</b>	<b>55.4</b>	<b>56.7</b>
Other	\$M	0.1	0.1	0.0	0.0	0.0	0.0	0.0	Royalties	A\$/t	0.0	0.0	0.0	0.0	2.5	4.9	4.7
<b>Total NC Assets</b>	<b>\$M</b>	<b>8.8</b>	<b>14.0</b>	<b>10.0</b>	<b>82.2</b>	<b>141.3</b>	<b>132.2</b>	<b>119.5</b>	<b>Total</b>	<b>A\$/t</b>	<b>51.1</b>	<b>51.8</b>	<b>52.7</b>	<b>53.6</b>	<b>57.0</b>	<b>60.4</b>	<b>61.5</b>
<b>TOTAL ASSETS</b>	<b>\$M</b>	<b>11.8</b>	<b>24.4</b>	<b>34.2</b>	<b>105.9</b>	<b>177.5</b>	<b>205.8</b>	<b>204.6</b>	Depreciation	A\$/t	0.0	0.0	0.0	0.0	2.8	5.7	5.7
Total Debt	\$M	0.0	0.0	5.0	77.2	122.7	97.7	67.7	<b>Total Cost</b>	<b>A\$/t</b>	<b>51.1</b>	<b>51.8</b>	<b>52.7</b>	<b>53.6</b>	<b>59.9</b>	<b>66.1</b>	<b>67.2</b>
Current Liab	\$M	0.4	0.7	0.0	0.0	7.1	6.4	14.9	CAPEX & DEBT								
Non Current Liab	\$M	0.0	0.0	(3.2)	(3.2)	(1.3)	0.8	0.6	CAPEX	\$M	0.0	5.4	9.0	72.2	63.8	6.8	7.0
<b>TOTAL LIAB</b>	<b>\$M</b>	<b>0.4</b>	<b>0.7</b>	<b>1.8</b>	<b>74.0</b>	<b>128.6</b>	<b>104.9</b>	<b>83.2</b>	Net Debt	\$M	2.6	9.9	19.2	(53.5)	(96.0)	(43.7)	(0.9)
<b>NET ASSETS</b>	<b>\$M</b>	<b>11.3</b>	<b>23.7</b>	<b>32.4</b>	<b>32.0</b>	<b>48.9</b>	<b>100.9</b>	<b>121.5</b>									
<b>SH/HLDRS FUNDS</b>	<b>\$M</b>	<b>11.3</b>	<b>14.1</b>	<b>32.4</b>	<b>32.0</b>	<b>48.9</b>	<b>100.9</b>	<b>121.5</b>									
RATIO ANALYSIS								ASSUMPTIONS									
EPS	¢	(1.3)	(0.9)	(0.4)	(0.8)	2.5	12.7	13.2	Exchange Rate	A\$/US\$	0.75	0.88	0.94	0.89	0.86	0.83	0.80
PER	x	na	na	na	na	21.3	4.2	4.0	Inflation (CPI Index)	%	0.70	2.40	2.40	2.40	2.40	2.40	2.40
CFPS	¢	(0.8)	(0.5)	(0.7)	(2.1)	7.4	29.0	26.2	Interest Rate (90-day)	%	1.64	2.25	2.50	2.60	2.63	2.63	2.63
PCFR	x	na	na	na	na	7.2	1.8	2.0	Iron ore fines (Fe)	US\$/dmu	120.8	145.5	201.7	221.8	220.8	188.2	150.6
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	3.7	Tungsten (WO <sub>3</sub> ) - 65%	US\$/dmu	181.0	205.5	255.0	245.0	235.0	225.0	220.0
EPS growth	%	67.2	(32.5)	(60.4)	119.8	(417.9)	411.8	3.9	Tin (Sn)	US\$/t	14,530	16,003	25,750	24,500	21,125	20,375	20,000
Interest Cover	x	27.0	8.4	1.8	14.0	1.8	6.1	11.6	VALUATION (June 2010)								
Gearing: ND/(ND+E)	%	0.0	na	na	na	62.6	30.2	0.7	Lindsay	A\$/M							
EBITDA Margin	%	0.0	0.0	0.0	0.0	0.0	162.6	55.3	Exploration & Other Assets	A\$/M							
EBIT Margin	%	0.0	0.0	0.0	0.0	0.0	122.5	40.2	Options	A\$/M							
Return On Assets	%	(25.7)	(10.6)	(6.1)	(2.0)	7.9	23.6	25.6	Net Cash	A\$/M							
Return On Equity	%	(29.8)	(16.1)	(2.8)	(6.2)	12.9	32.0	27.6	<b>Total</b>	<b>A\$/M</b>							
Eff Tax rate	%	8.4	0.0	0.0	0.0	0.0	20.5	30.0									

Source: Petra Capital

## Pre Feasibility Study (PFS) – key findings

- Capex of A\$162M includes a 1.3Mtpa plant with a 15% contingency for direct and indirect costs (Fig. 1).
- Operating costs are split out for the two main sources of production at the Main skarn and the No. 2 skarn (Fig. 2).
- Mining Inventory is based on Indicated resources of 11Mt supporting an 8 year mine life. Strong potential exists to increase this given it is within a larger resource base of 17.8Mt (Fig. 3).
- Financials - a robust economic project with strong returns (Fig. 4).
- Price assumptions are outlined below (Fig.5).

**Figure 1: CAPEX (A\$M)**

Capex of A\$162M at 1.3Mtpa rates includes an APT circuit	Item	A\$M
	Process Plant	135.0
	Waste dumps and haul roads	4.8
	Other	2.2
	Contingency	20.0
	<b>Total</b>	<b>162.0</b>

**Figure 2: Open Cut Operating Costs (LOM)**

Operating costs are estimated using contract mining	Item	Main Skarn	No. 2 Skarn
	Mining (A\$/t)	28.65	28.65
	Processing (A\$/t)	31.24	35.49
	Ore haulage (A\$/t)	1.84	1.84
	<b>Total</b>	<b>61.73</b>	<b>65.98</b>

**Figure 3: Mineralised Resources (@ 0.35% Sn Eq cut-off)**

Indicated Resources support an 8 year mine life	Resources	Mt	Sn Eq %	Sn%	WO <sub>3</sub> %	Contained Sn (kt)	Contained WO <sub>3</sub> (kt)
	Indicated	11.0	0.6	0.3	0.2	31.0	20.0
	Inferred	6.8	0.5	0.3	0.1	22.0	8.0
	<b>Total</b>	<b>17.8</b>	<b>0.6</b>	<b>0.3</b>	<b>0.2</b>	<b>53.0</b>	<b>28.0</b>

**Figure 4: PFS Financials**

Financials were run under three scenarios	Spot Price	Spot Price -10%	Spot Price -20%
<b>Net cash (LOM)</b>	\$709M	\$568M	\$428M
<b>IRR (50:50 debt/equity)</b>	55%	42%	29%
<b>Total Revenue (LOM)</b>	\$1,406M	\$1,265M	\$1,125M
<b>Total Costs (LOM)</b>	\$697M	\$697M	\$697M
<b>Average Revenue pa</b>	\$179M	\$161M	\$143M
<b>Average Costs pa</b>	\$89M	\$89M	\$89M
<b>Average Net Cash pa</b>	\$90M	\$72M	\$54M

**Figure 5: Commodity Price Assumptions (US\$/t)**

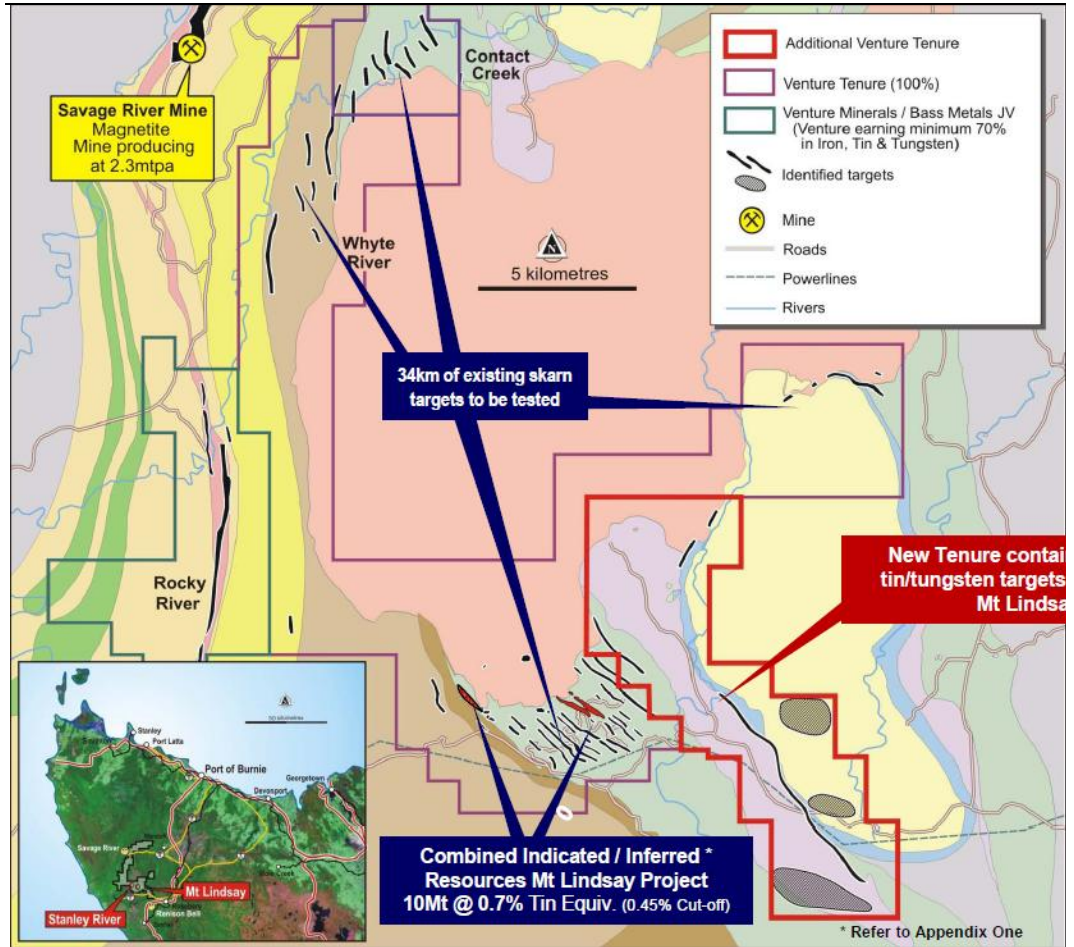
Spot price was taken as at February 14th	Spot Price	Spot Price -10%	Spot Price -20%
Tin	31,754	\$28,579	25,403
Tungsten (APT)	35,250	\$31,725	28,200
Magnetite	163	147	130
Copper	9,975	8,978	7,980

Source: VMS

**Figure 6: Exploration targets**

Mt Lindsay is located within a well known mining region with established infrastructure

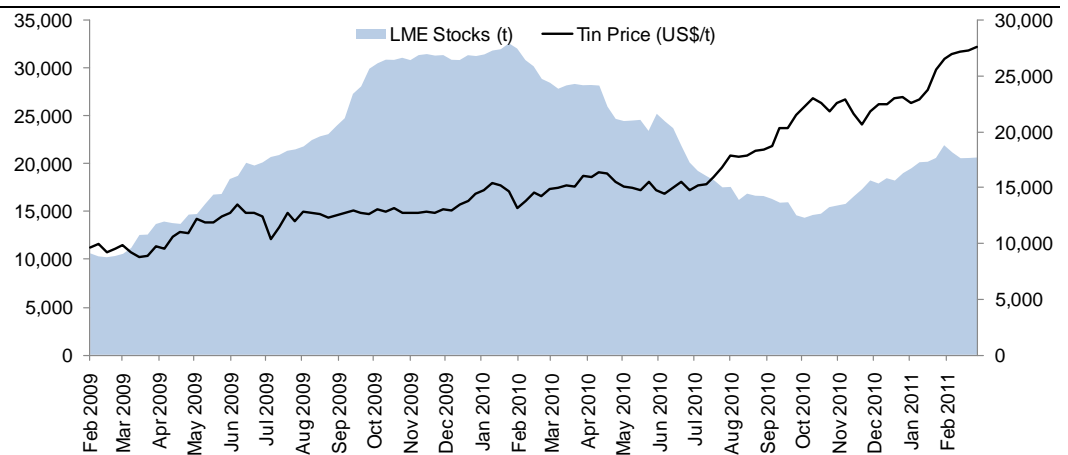
Significant exploration upside exists from 34km of skarn targets yet to be tested



Source: VMS

**Figure 7: LME Tin price (US\$/t) vs. LME Tin stocks (kt)**

Tin price continues to rise



Source: IRESS

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### Disclosure

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