

VGO.AU

30 March 2011
 Gold
 South Africa
 Production, Advanced Exploration
 Exchanges: ASX:VGO

Vantage Goldfields Limited

A\$ 0.24

With most of the hard work done in 2010, VGO is heading for its maiden profit as a producer with a strong production expansion profile. It is based in a major African gold province, with >4moz of resources already established. Looks undervalued with market cap. of <\$50m.

Capital Profile

| | |
|--|--------------|
| Share price (A\$) | 0.24 |
| 52 week range (A\$/share) | 0.15 to 0.40 |
| Number of shares (m) | 199.5 |
| Options and warrants (m) | 36.1 |
| Convertible notes (m) | 0 |
| Fully diluted (m) | 236 |
| Market capitalisation (undiluted) (A\$m) | 46.9 |
| Debt (A\$m) - Mar 11F | 0.0 |
| Enterprise value (A\$m) | 46.9 |
| Major shareholders: AIMS (29.7%) *, Platinum Asset Mgt (25.1%), M M ^c Chesney (7.1%), | |
| Avg monthly volume (m) | 1.2 |
| Cash (A\$m) - Mar 11F | 2.3 |
| Price/Cash (x) | 20.7 |
| Price/Book (x) | 0.9 |
| Listed company options: | No |

* AIMS is Asian Investment Management Services

Investment Points

Expanding gold production in South Africa in the under-explored Barberton goldfield, SA's major greenstone belt.

Forecast for FY11: 24.4koz equity production and maiden net profit of A\$9.9m (4.3cps).

Equity production forecast to grow to 64kozpa by 2014. Company targets 100kozpa in five years.

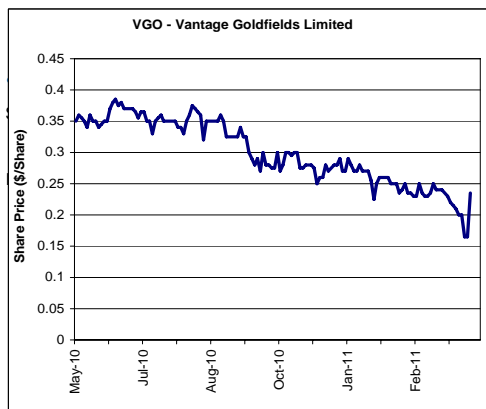
Low risk - production is from expansion of two mines with recent operating history, which are shallow, low cost underground mining operations.

Total gold resource is 4.38moz (VGO equity 3.46moz), likely to grow significantly with further exploration.

(EV-Cash) ratio of US\$13.60/resource ounce is very low relative to peers - we would expect US\$30-40/oz.

RCR base case valuation of A\$0.50/share f. dil., using forecast long term Au price US\$900/oz, A\$/US\$=0.82, increases to A\$1.22/share using spot gold.

Low forward P/E ratios (6.1 FY11, 4.2 FY12, 3.3 FY13).



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 T Muftizade (Non Exec Dir)

Production and Financial Forecasts

| YEAR END: Dec | 2010a | 2011F | 2012F | 2013F | 2014F |
|------------------------------------|-------|-------|-------|--------|-------|
| Equity Production (koz) | 5.4 | 24.4 | 36.1 | 42.5 | 63.7 |
| Cash Cost (A\$/oz) | na | 745 | 648 | 618 | 627 |
| EBIT (A\$m) | -8.5 | 11.6 | 23.1 | 24.4 | 28.2 |
| Net Profit (norm) (A\$m)** | -9.3 | 9.9 | 15.7 | 16.5 | 19.2 |
| EPS (norm) (A¢/share) | -3.9 | 4.3 | 6.7 | 7.0 | 8.2 |
| CFPS (A¢/share) | -1.1 | 5.6 | 10.9 | 11.8 | 14.5 |
| Dividends (A¢/share) | 0 | 0 | 0 | 0 | 0 |
| PER (x) | na | 6.1 | 4.2 | 3.3 | 2.9 |
| P/CF (x) | na | 4.6 | 2.6 | 2.0 | 1.6 |
| Yield (%) | 0% | 0% | 0% | 0% | 0% |
| Shares on Issue (EOP) (m) | 199.5 | 199.5 | 199.5 | 199.5 | 199.5 |
| Exploration and Development (A\$m) | 1.8 | 1.5 | 2.0 | 2.0 | 2.0 |
| Drilling - RAB (m) | 6,000 | 4,000 | 4,000 | 4,000 | 2,000 |
| Drilling - RC/Diamond (m) | 5,100 | 7,000 | 9,000 | 10,000 | 5,000 |
| Land holding ('000 ha) | 16 | 16 | 16 | 16 | 0 |

Company Comment

Overview: VGO was founded in 2004 by the current CEO Michael M^cChesney, with an operating mine and a strategic 16,000 hectare land holding in the Barberton (Eastern) goldfields of South Africa. The Company listed on the ASX in May 2010, raising A\$20.4m development capital (plus A\$10m pre-IPO).

Company Strategy: VGO's focus is to maximise the potential from its strategic position in the historically prolific Barberton goldfields in South Africa. The first priority is to expand production in a low-risk staged manner from its two relatively shallow existing operations, using Australian bulk mining techniques. Firstly Lily (currently operating), and then Barbrook (past production, currently dormant), to become a (>60kozpa equity) profitable gold producer in three years. The second priority is to build the regional gold resource base and new project pipeline in the Barberton goldfields, through further exploration of the many advanced exploration prospects in this under-explored region. This is likely to lead to further expansion in equity gold production to well over 100kozpa in the next 5-6 years.

The Region: The Barberton greenstone belt is the second major goldfield in South Africa after the better known Witwatersrand Basin. The historic Barberton goldfields have a history of continuous gold production over a period of more than 100 years mainly from gold-quartz lode deposits. However, the region remains relatively un-explored in terms of modern exploration techniques.

Lily Mine (85% reducing to 74%): Lily is a shallow, medium cost underground mine. In 2010 it produced only ~6koz (~120ktpa ore through the old Lily mill - mainly development ore). Production in Sep-Oct '10 was curtailed by strike action, since resolved. Reserves are 407koz and Resources 2.0moz. VGO has completed extensive underground mine development and has now commencing a ramp up to ~35kozpa by 4Q11, with ore processing switched to the recently refurbished 400ktpa Central Metallurgical Complex "CMC". Total capex for the ramp up and CMC refurbishment in 2010 was ~A\$23m. Cash costs should reduce to ~US\$700/oz with the ramp-up, giving an inaugural FY11 profit.

Barbrook Mine (74%): This mine was last operated in 2006, acquired by VGO in 2008. It is relatively shallow underground mine already extensively developed (>50km of u/g development to 10L). Current resource is 2.0moz. VGO has completed a BFS to resume production in 2Q11 at ~120ktpa (12kozpa), with expansion to 540ktpa (65kozpa) in mid 2014 (~A\$30m capex). The ore is higher grade than Lily, but is not free milling and is treated through a separate existing CMC flotation circuit to produce a gold concentrate. Forecast cash costs are <US\$600/oz. Set to become VGO's biggest producer.

Worcester Project (74%): Dormant underground mine, resource 0.35moz. VGO will undertake a PFS with a view to a potential re-start. Excellent potential to be the third production mine in the medium term.

Investment Comment: VGO is an emerging gold producer that has invested substantial capital and put in the hard work to build a 4.4 moz project resource base (in a highly prospective South African mineral province) and production operations that can be expanded to over 100kozpa equity gold production in stages, with modest capital requirements and low production and technical risk. So why only ~A\$47m market cap? If it's because of South African mine nationalisations scares or recent strike problems, the former may be a bit over done, and the latter has been resolved. If VGO was based in Ghana its share price would probably be three times what it is today. Our share valuations suggest significant potential upside as production ramps up and profits flow. **Our six month target is A\$0.30- A\$0.40/share.**

Reserves and Resources/Mineralised Material

| Code for reporting mineral resources - Australian: (JORC) | | | | | | | | |
|--|-------------------|---------|-------------|-------------|-------|--------------|--------------|--------------|
| Gold | Classification | Project | Ore | Au | c/off | Au | Au | Eqty |
| Reserves | | Equity* | Mt | g/t | g/t | t | koz | koz |
| Lily Mine | Proven + Probable | 85% | 4.80 | 3.09 | | 14.8 | 479 | 407 |
| Total | | | 1.4 | 8.90 | | 14.8 | 479 | 407 |
| Resources (includes proved and probable reserves as above) | | | | | | | | |
| Lily Project | Meas+ind+inf | 85% | 22.3 | 2.82 | | 62.9 | 2,025 | 1,721 |
| Barbrook Project | Meas+ind+inf | 74% | 11.2 | 5.56 | | 62.3 | 2,003 | 1,482 |
| Worcester Project | Ind+inf | 74% | 2.9 | 3.86 | | 11.2 | 354 | 262 |
| Total | | | 20.0 | 5.50 | | 136.4 | 4,382 | 3,465 |

Reserves and Resources as at December 2009

* Lily equity will reduce to 74%.

Mineralised Material (est., non compliant with JORC) **0.0 0.0 0.0**

Key Projects

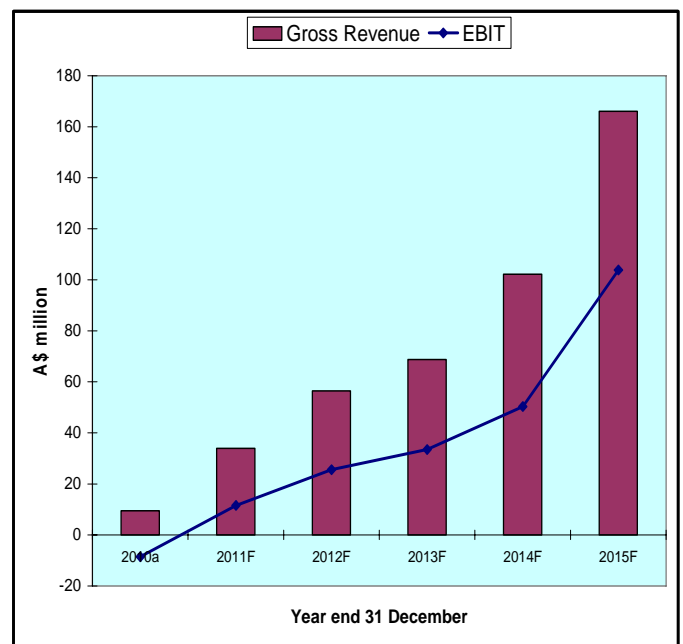
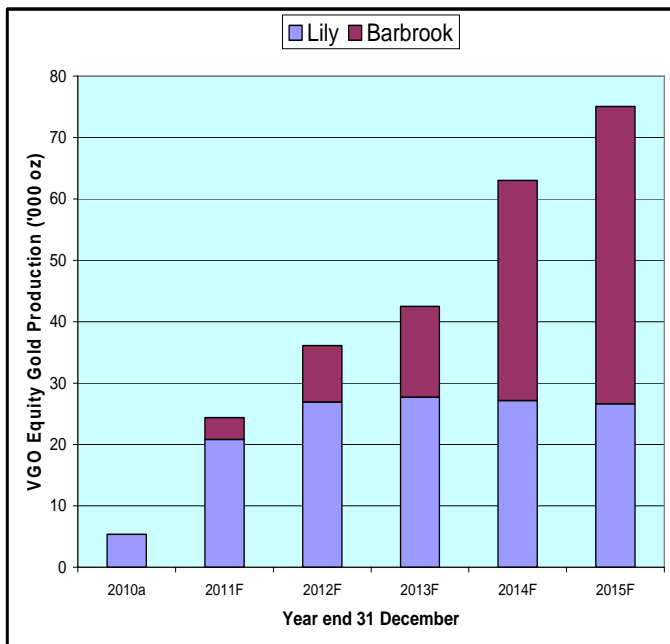
| Project | Ownership/Option | Metal | JV Partner | Target Type | Process Route | Project Status | Location |
|-----------|------------------|-------|-------------|-------------|---------------|----------------|--------------|
| Lily | 85%/74% | Au | private Co. | sulphide | CIP | Production | South Africa |
| Barbrook | 74% | Au | private Co. | sulphide | Flotation | BFS - restart | South Africa |
| Worcester | 74% | Au | private Co. | sulphide | CIP | Dormant Mine | South Africa |

Our base case valuation of VGO (A\$0.50/share f. dil.) is based on the RCR long term forecast for gold of US\$900/ounce and A\$/US\$=0.82. We have run a second valuation at around current spot gold price and exchange rates, which comes in at A\$1.22/share.

VANTAGE GOLDFIELDS LIMITED VALUATION - BASED ON NPV'S OF MAJOR PROJECTS

| | Equity | Equity Gold Resource (moz) | RCR F'cast Resource Valuation US\$/oz ^ | Spot Gold Resource Valuation US\$/oz * | RCR F'cast L.T. Gold US\$900/oz A\$m ^ | Spot Gold US\$1,430/oz A\$m * | |
|--|--------|----------------------------|---|--|--|-------------------------------|-------------|
| Projects | | | | | | | |
| + Lily Gold Mining Operations (NPV nominal @ 5%DR) ^^ | 85% | 1.72 | 36 | 89 | 63.1 | 154.0 | |
| + Barbrook Mine (NPV nominal @ 5% DR)** | 74% | 1.48 | 21 | 68 | 32.1 | 102.2 | |
| + Worcester Mine | 74% | 0.26 | 30 | 38 | 8.0 | 10.0 | |
| + Regional Exploration Potential | | 0.00 | | | 7.0 | 12.0 | |
| Sub Total | | 3.47 | | | 110.2 | 278.2 | |
| Capital Structure | | | | | | | |
| + Cash (est Mar '11) | | | | | 2.3 | 2.3 | |
| + Tax Losses | | | | | 2.6 | 2.6 | |
| - Debt (est. Mar '11) | | | | | 0.0 | 0.0 | |
| - Corporate | | | | | 12.8 | 12.8 | |
| Sub Total | | | | | -8.0 | -8.0 | |
| VGO NET ASSET VALUE (A\$m) | | | | | 102.2 | 270.2 | |
| Capital Structure | | | | | | | |
| Shares (post IPO) (m) | | | | | 199.5 | 199.5 | |
| Fully Diluted Shares (m) | | | | | 235.6 | 235.6 | |
| VGO NET ASSET VALUE PER SHARE | | | | | :A\$/share | 0.51 | 1.35 |
| VGO NET ASSET VALUE DILUTED | | | | | :A\$/share fully diluted | 0.50 | 1.22 |
| ** Barbrook NPV has been risk discounted by further 30% for current project status - BFS (Stage 1 only) and pre-production. | | | | | | | |
| ^ Base case valuation assumes RCR long term gold price forecast of US\$900/ounce from 1Q14, long term A\$/US\$ = 0.82; linear change from current. | | | | | | | |
| * Spot Valuation based on long term gold price = current spot ~US\$1,430/oz, A\$/US\$ = 0.99 | | | | | | | |
| ^^ Lily equity (currently 85%) will reduce to 74% - but sell down will be at market valuation - therefore nominally neutral to our valuation. | | | | | | | |

Vantage's production is set to grow strongly in the next four years, as will profitability with expansion of existing operations, with forecast cash costs <A\$650/ounce. (Revenue and EBIT forecasts are based on RCR long term forecasts: Au US\$900/oz, A\$/US\$ = 0.82).



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