

Tuesday 15<sup>th</sup> May, 2007

## Vulcan Resources Ltd

VCN Last \$0.460 52wk Hi-Lo: \$0.540-\$0.200 100M fpo

## Speculative Buy

Market Cap: \$46M

- On 31Jul06 we restated our long-held view that VCN (then \$0.26) was one of the market's significantly undervalued base metal stocks.
- Its price continued to languish in the low to mid 20s, until March 2007.
- The market now seems to be recognising some of the underlying value.
- Cash at 30Mar07: A\$7.2M with quarterly cashburn running at \$2.7-3M.
- VCN's main activities are in Finland: 100%-owned copper-cobalt-nickel **Kylylahti Project** and the 95%-owned **Kuhmo Nickel Project**.
- Primary focus is completion of a definitive feasibility study at Kylylahti.
- Deep drilling at Kylylahti has continued to improve the understanding of the geology and mineralisation and has also expanded the resource.
- The most recent JORC-compliant Indicated and Inferred resource (at 17-Jan-2007) was:  
**7.445Mt at 1.07% Cu; 0.22% Co; 0.43% Zn; 0.22% Ni; and 0.69gAu/t**
- At metal prices (US\$/t) of Cu:\$7,400; Co:\$66,000; Ni:\$52,000; Zn:\$3,600; gold at US\$650/oz, and A\$=US\$0.82, the notional value of the in-ground metal comes to A\$3,358 million.
- This is meaningless if metal cannot be extracted commercially: hence the current feasibility study. Prior metallurgical and process testwork indicates that commercial concentrates can be produced.
- Many studies have been completed: mine planning and scheduling; hydrology; flowsheet processes; and surface infrastructure. Formal completion of the feasibility study is expected in July 2007.
- Conservatively, if just 2% of the theoretical in-ground value of the current resource can be realised, then Kylylahti is worth A\$67M to Vulcan, or 67¢ per share.
- Results of recent drilling are being incorporated into a revised resource statement due this quarter and the company is targeting a resultant resource in the order of 10Mt at similar grades.



- VCN is forecasting A\$900M total revenues and A\$430M net operating cashflow over a 10-year mine operating life.
- The company's other main project at Kuhmo continues to deliver exciting nickel exploration results in its own right.
- Initial assay results announced recently from a 2,000m 40-hole diamond drilling program included:
  - 6m from 55m at 2.2% Ni; 2.5 gPd/t; 1.6 gPt/t
  - 2.7m from 16m at 1.8% Ni; 2.3 gPd/t; 0.6 gPt/t
- Copper and cobalt minerals were also encountered.
- Assays are pending from a further 13 holes drilled.
- Zones of massive sulphides up to 24m thick (downhole) were intersected in ultramafic rocks at the footwall contact.
- Only one of the holes drilled failed to intersect any sulphides.
- The rig will now move on to drill Hietaharju, the second of five nickel sulphide targets scheduled for testing.
- These targets occur over a 150km north-south strike length in rocks similar to the komatiite-hosted Ni deposits of WA.
- In the current quarter VCN will commence formal funding and offtake discussions as the DFS nears completion.
- The long-standing presence of Macquarie Bank, Sempra Metals, and Finnish Industry Investment Ltd on the register add further credibility to this emerging production story.

### Speculative Buy as Feasibility work at Kylylahti and nickel exploration drilling at Kuhmo proceed.

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