

12th May 2009

Vatukoula Gold Mines*: Equity Raisings to Fund Increases in Gold Output. Speculative Buy at 0.98p with a 4.2p Target Price.

During the last few weeks Vatukoula Gold Mines has raised a total of £5 million through two separate equity raisings at 0.6p. The money is to be predominantly used for the refurbishment and upgrade of mining machinery and the diesel power facility at its eponymous mine, thus removing the current bottlenecks and paving the way for a significant increase in gold output.

On the 16th of April Vatukoula raised £3.804 million through the issue of 634 million shares at a price of 0.6 pence per share, while on the 7th of May Canadian Zinc Corporation (CZN) conditionally agreed to subscribe for 200 million shares at a price of 0.6 pence per share at a cost of £1.2 million. CZN's subscription, subject to shareholder approval, will take its holding in Vatukoula to 20.01% with the two companies looking to form a strategic relationship with a view to taking the Vatukoula Gold mine's output to 110,000 ounces per annum.

Vatukoula has placed orders for 4 refurbished underground mine haulage trucks, with two trucks to be shipped immediately with the remaining two in need of some customisation for Vatukoula's specific needs. The trucks will greatly improve the transportation of the high grade underground gold ore from the mining faces to the shafts and surface facilities. Funds have also been committed to the refurbishment of the 45 tonne per hour Smith Mill, currently mothballed. This mill will facilitate the treatment of some surface oxide material, which should generate additional gold production at a relatively low operating cost.

In addition, monies have been allocated to a study into the expansion of the mine's tailings facilities as well as to increasing the capacity, and improving the reliability, of the diesel surface power facility. Finally, orders will be placed for three new underground pumps to increase pumping

Key Data

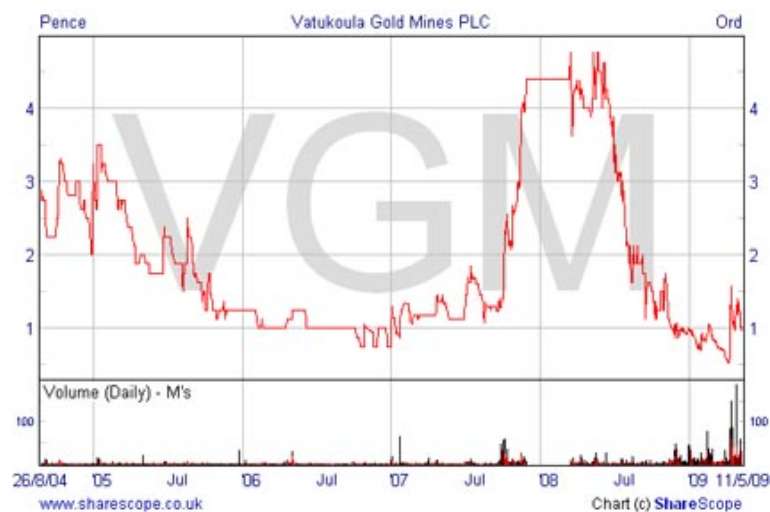
EPIC	VGM
Share Price	0.98p
Spread	0.9p – 1.05p
Total no of shares	2,736,371,027 [^]
Market Cap	£26.8 million
12 Month Range	0.53p – 4.75p
Net Cash	£4 million (est)
Market	AIM
Website	www.vatukoulagoldmines.com
Sector	Mining
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[^]Assumes shareholder approval is gained for CZN transaction

capacity, reduce operational pumping costs and protect against unseasonal rainfall events in the future. Indeed, it is the dewatering of the Philips shaft that will facilitate the increase in total gold production to 110,000 ounces.

Recent discussions with a number of third parties surrounding a potential acquisition offer for Vatukoula have come to an end with all approaches having been withdrawn. In addition, CZN confirmed on the 7th of May that it presently has no intentions of making an offer for Vatukoula Gold Mines Plc, despite taking a strategic stake in the company.

While the equity raisings will provide the funding necessary to propel gold production towards the near-term goal of 110,000 ounces per annum, they are dilutive and thus we have taken this opportunity to review our discounted cash flow model. Incorporating the £5 million raised via the issue of 834 million shares, increasing our long term gold price forecast to \$800 per ounce and reducing our USD / GBP exchange rate to \$1.60, sees our target price fall by 11% from 4.7p to 4.2p. However, despite this reduction in the target price, the new funding de-risks the enterprise as Vatukoula is now able to expand its operations and to solve the recurring reliability issues currently plaguing the mine. We expect the company to now make serious progress in lowering its operating costs from \$884 per ounce, as reported in the February 2009 quarter, and increasing output from the 7,470 ounces of gold, also reported in the February 2009 quarter. At its current share price of 0.98p, our stance on Vatukoula is **speculative buy** with a 4.2p price target.



Forecast Table

Year to 31st August	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2007A	0	(0.98)	(0.05)	NA	0	0.0
2008A	3.8	(4.1)	(0.30)	NA	0	0.0
2009E	20	2	0.07	14	0	0.0
2010E	30	6	0.22	4.5	0	0.0

**Vatukoula Gold Mines is a corporate client of RSH, the owner of GE&CR and RSH also owns shares in Vatukoula.*

This research note cannot be regarded as impartial as GE&CR has been commissioned to produce it by Vatukoula Gold Mines*

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