SHAW STOCKBROKING
research
SHAW STOCKBROKING LIMITED
A.B.N. 24 003 221 583
PARTICIPANT OF ASX GROUP AND HOLDER OF AUSTRALIAN FINANCIAL SERVICES LICENCE NO 236048
RESEARCH

WEDGETAIL EXPLORATION (WTE)

THE NULLAGINE GOLD PROJECT

Recommendation

Short Term:	**Buy**
Long Term:	**Outperform**
Price:	**A$0.25**
Date:	**21st Sept, 2006**

Capital Profile

ASX Code:	WTE
Sector:	Metals & Mining
Issued Capital	233m
Market Cap:	$58m
Cash*	$14m
Debt:*	$40m
Net Debt:*	$26m
Major Shareholders	Linq 28%

*at plant commissioning

Website: www.wedgetail.net.au

Board:
Clive Donner
Ross Gillon
Evan Kirby
Geoffrey Ernest Lambert
Richard Proctor
Frank Vanspeybroeck

Key Management:
Peter Woodman – CEO
Michael Grigson – Exploration Manager
Paul Thomas – Project Manager
Jim Moran - CFO
Beng Ko - Manager Mining

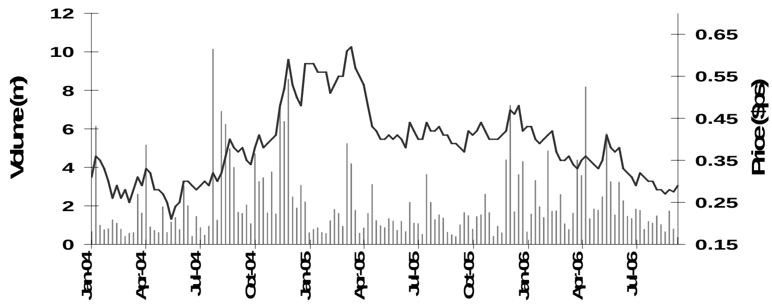
We value WTE at A$0.39ps with potential up-side to A$0.55cps

Our long term assumptions comprise US$550/oz gold price and A$ of US68c

Analyst: Ted Leschke

WTE controls one of the few undeveloped goldfields in WA and has a substantial and growing gold resource/reserve base. The Nullagine goldfield has a history of gold production, however, has previously lacked the application of suitable funding and modern exploration techniques.

WTE plans to become a gold producer through the development of a standard open cut mining operation and CIL treatment plant. We believe that gold output will exceed that outlined in the completed Feasibility Study due to conservative parameters used and recent high grade discoveries. We recommend WTE as a Buy with a base case value of 39cps post a recent placement raising $17.5m and assuming $40m debt funding for the Nullagine gold project.



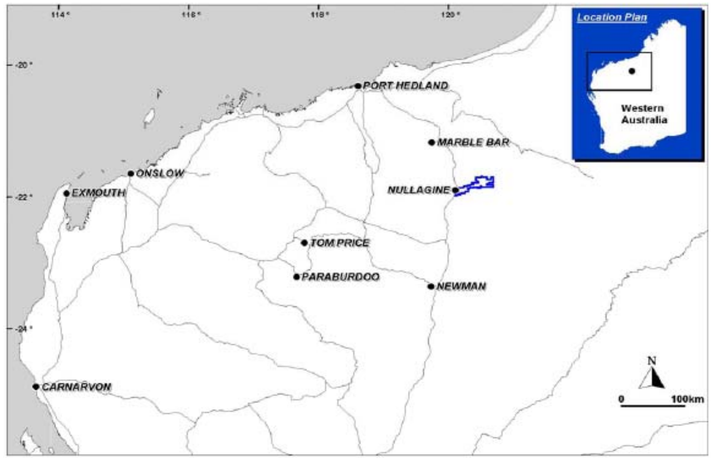
KEY POINTS

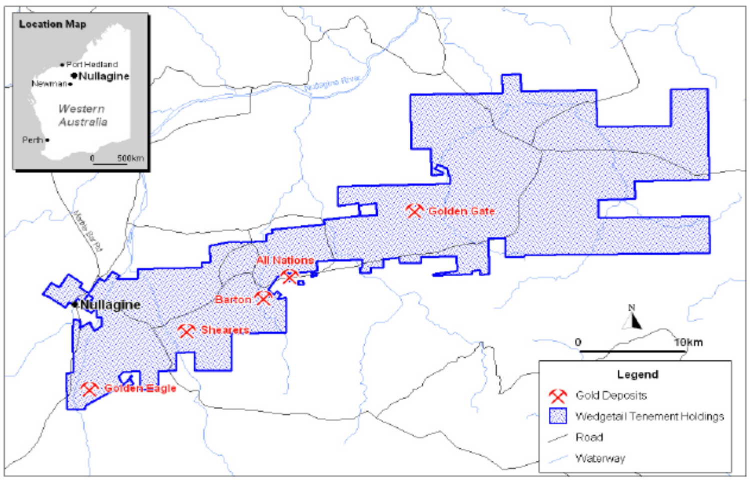
- WTE's plans to develop the Nullagine gold project which is located in the Central Pilbara region of Western Australia.
- 270,000 metres of drilling has outlined 343koz in reserves and 716koz in resource ounces.
- A full feasibility study for a standard shovel and truck gold mining operation treating 1mtpa though a CIL gold plant has been completed
- The feasibility is based on an initial mine life of 5 years with no pre-stripping required. Capital costs are expected to be $45m.
- We believe production will exceed the baseline case of 70kozpa due to:
  - Throughput exceeding nameplate capacity
  - Positive ore reconciliations
  - Supplementary high grade feed commencing sooner than planned
  - Higher proportion of high grade feed due to recent discoveries
- We estimate yearly earnings for WTE in the order of $11m to $14m once the Nullagine gold project reaches full capacity. We value WTE at 39cps.

WTE($0.25) Yr to 31 Dec	2007f	2008f	2009f	2010f
Gold Production (Koz)	25.2	78.7	80.3	85.0
Revenue (A$m)	20.4	62.5	64.3	68.7
Profit (A$m)	3.0	10.9	13.0	13.9
-EPS (cents)	1.3	4.7	5.6	6.0
-P/E ratio	19.5	5.3	4.5	4.2
Cashflow (A$m)	7.0	20.3	22.9	29.0
-CFPS (cents)	3.0	8.7	9.8	12.5
-P/CF ratio	8.3	2.9	2.5	2.0
Dividend (cps)	0.0	0.0	0.0	0.0

Nullagine Gold Project Location

WTE is a gold exploration and development company with prospects based in Western Australia. WTE's plans to develop the Nullagine gold project which is located in the Central Pilbara region of Western Australia.





In 2002, WTE amalgamated its tenement holdings in the Nullagine Goldfield, and now has 686 km² of 100% controlled leases covering the majority of the Nullagine goldfield and circa 150 km² of strike of the prospective Middle Creek Shear Zone.

Corporate Developments

In preparation for the transition from an exploration to a mining company, WTE has recently undergone:

- a reorganisation of capital with shares consolidated on a 10-for-1 basis
- change of status from a NL to a Limited company
- change of name from Wedgetail Exploration to Wedgetail Mining
- received approval to issue shares in exchange for convertible notes held by LinQ Capital – assumed in our numbers
- received approval to issues new shares to raise funds for capital development requirements - $17.5m raised.

DISCLOSURE: SHAW/SHAW Corporate Finance (a wholly owned subsidiary of SHAW) is Sponsoring Broker to a placement in the company and will earn fees for such activities. SHAW/SHAW Corporate Finance, its authorised representatives and associated persons have an interest in the securities of Wedgetail Mining.

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Sydney NSW 2000	Melbourne VIC 3000	Parramatta NSW 2150
Tel (02) 9238 1238	Tel (03) 9268 1000	Tel (02) 9891 5644
Fax (02) 9232 1296	Fax (03) 9650 2277	Fax (02) 9891 1018

Reserves & Resources

As a result of some 270,000 metres of drilling gold resources and reserves have been outlined at the Golden Eagle, Golden Gate, Barton, All Nations and Shearers prospects. Golden Eagle contains the majority of gold reserves and resources, equivalent to 64% and 67% of the 343koz in reserve and 716koz in resource ounces respectively. The Golden Gate ore body contains higher grade material and is expected to significantly enhance the project's economic as more mineralisation is delineated.

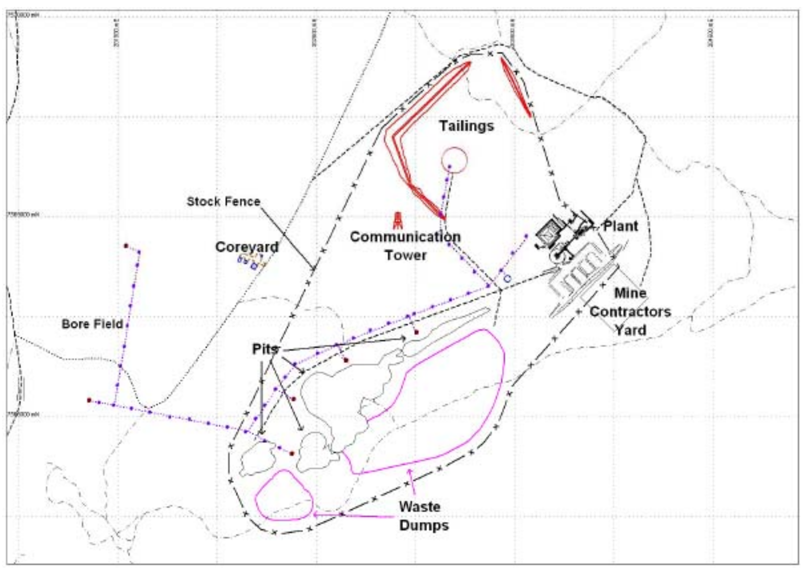
	Resources			Reserves		
	Tonnage	**Grade**	**Ounces**	**Tonnage**	**Grade**	**Ounces**
Deposit	**Mt**	**g/t**	**koz**	**Mt**	**g/t**	**koz**
Golden Eagle	7.53	1.93	467.3	3.09	2.20	218.7
Barton	1.36	2.20	96.2	0.74	2.32	55.1
Golden Gate	0.56	3.64	65.5	0.33	4.24	45.3
All Nations	0.60	2.02	39.0	0.19	2.43	14.7
Shearers	0.52	1.63	27.3	0.13	2.07	8.9
Little Wonder	0.39	1.69	21.2			
Total	**10.96**	**2.03**	**716.46**	**4.48**	**2.38**	**342.7**

Nullagine Gold Project Outline

WTE has completed a full feasibility study for a standard shovel and truck gold mining operation treating 1mpta though a CIL gold plant. The feasibility is based on an initial mine life of 5 years with no pre-stripping required. Capital cost is expected to be $45m.

The approval process is well advanced with Mining approvals and EPA referral documents having been lodged - there have been no controversial issues encountered.

Long lead items such as a ball mill, leach tanks and gravity circuit have been either purchase or secured through down payments.



The 1mtpa CIL plant is to be located adjacent to Golden Eagle which will provide a base load ore supply. We expect 70kozpa output, as outlined in the feasibility study, to be a minimum production rate as we believe the project parameters to be quite conservative. In addition, exploration success since the completion of the feasibility study has discovered high grade near surface oxide material that will significantly improve production output and cash flows as well as extending mine life.

Specifically, production in excess of 70kozpa should be driven:

- Throughput exceeding nameplate capacity
- Positive ore reconciliations
- Supplementary high grade feed from Golden Gate to commence within several months of commissioning
- Higher proportion of high grade feed from the high grade Golden Gate due to recent discoveries.

WTE is to raise approximately $40m through bank debt and now has raised $17.5m through equity. Use of funds are as follows:

- Capital expenditure $43m
- Contingency $7m
- Exploration & new ore body delineation $5m
- Cash remaining $3m

Financial Modelling & Valuation

We have made the following assumptions when modelling WTE (all in A$):

- Capital costs $45 million
- 10 months construction
- 8 year project life
- 1.2mtpa mining/treatment rate with full capacity reached two months after commissioning
- average head grade of 2.17g/t gold
- strip ration of 4.3:1
- 87% gold recovery
- Operating costs of $33/t
- Royalties at $10/oz of gold production
- D&A at $100/oz
- Exploration expenditure of $3mpa
- Sustaining capital expenditure of $500kpa
- $17.5m raised through 79.5m shares at 22cps
- $40m raised through bank debt
- $26m in accumulated tax loses
- 175koz of gold hedge over 4 years
- US$550/oz gold price & A$ of US68c long term
- 10% NPV discount rate

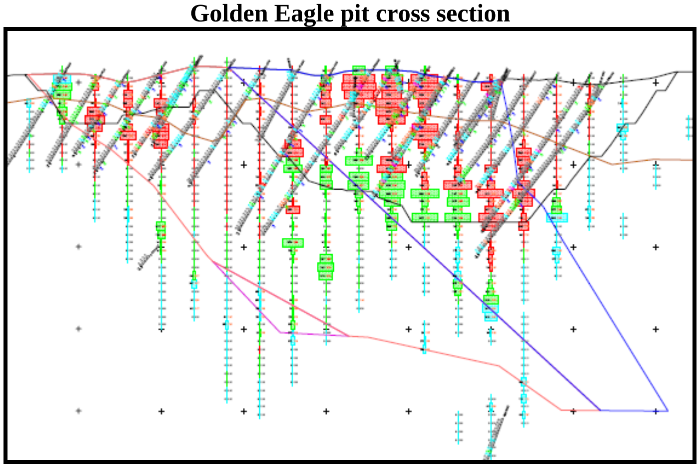
Capital Expenditure Summary

AREA	ITEM	COST ($M)
Fixed Capital	Treatment Plant	26.04
	Site Infrastructure	4.04
	Other Infrastructure	4.11
	Sub total	**34.19**
Non Fixed Capital	Preproduction	2.02
	Working	3.14
	Sub total	**5.16**
Deferred Capital	Fixed	2.15
	Preproduction	0.37
	Sub total	**2.52**
	EPCM	**3.25**
TOTAL EXPENDITURE		**45.12**
INITIAL EXPENDITURE		**42.60**

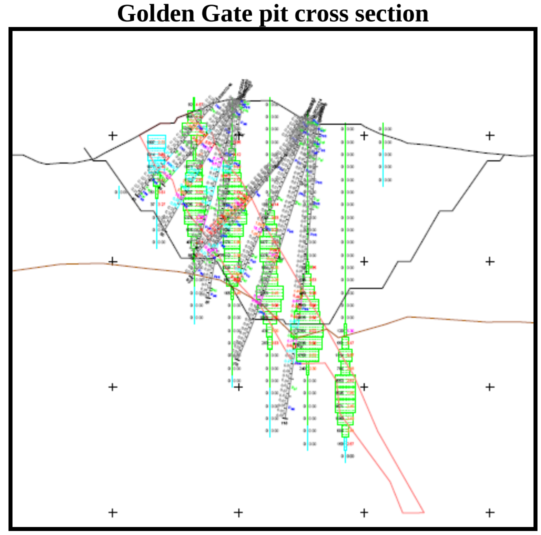
Operating Costs Summary

Operation Costs	$/t
Mining	13.90
Processing	16.00
Other	3.10
Total	**33.00**

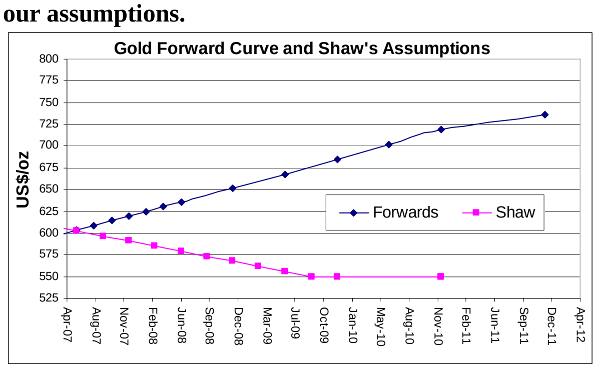
Golden Eagle pit cross section



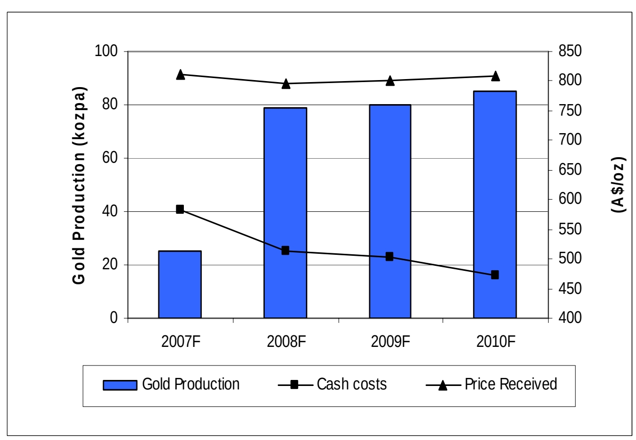
Golden Gate pit cross section



Our long term assumptions comprise US$550/oz gold price and A$ of US68c. It is worth noting that the current forward curve for gold enables WTE to potential lock in gold prices significantly higher than our assumptions.



Nullagine Gold Project Forecast Production Growth



Financial Summary

Wedgetail Mining Ltd

September 21, 2006

Share Price	(A$)	**0.25**
Listed Shares	(m)	232.6 (fully diluted)
Mkt Cap.	(A$M)	58.1

Year end 31 Dec

Profit & Loss (A$M)	2007	2008	2009	2010
Revenue	20.4	62.5	64.3	68.7
+Other Income	0.0	0.0	0.0	0.0
+Profit from Associates	0.0	0.0	0.0	1.0
-Operating Costs	14.4	41.3	41.3	41.2
EBITDA	**6.0**	**21.3**	**23.0**	**28.5**
-Depreciation & Amortisation	2.5	7.9	8.0	8.5
-Exploration Expensed	1.5	1.5	1.5	1.5
EBIT	**1.9**	**11.9**	**13.5**	**18.5**
-Net Interest	-1.0	1.0	0.1	-0.9
Pre-Tax Profit	**3.0**	**10.9**	**13.3**	**19.4**
-Tax	0.0	0.0	0.4	5.5
-Minorities	0.0	0.0	0.0	0.0
Net Profit	**3.0**	**10.9**	**13.0**	**13.9**
Abnormals	0.0	0.0	0.0	0.0
Reported Profit	**3.0**	**10.9**	**13.0**	**13.9**
Dividends Paid	0.0	0.0	0.0	0.0

Divisional EBIT (A$M)	2007	2008	2009	2010
Nullagine (100%)	4.4	14.4	16.0	20.0
Other	-2.5	-2.5	-2.5	-1.5
Total	**1.9**	**11.9**	**13.5**	**18.5**

Cash Flow (A$M)	2007	2008	2009	2010
Pretax Profit	3.0	10.9	13.3	19.4
+Depreciation & Amortisation	2.5	7.9	8.0	8.5
+Exploration Expensed	1.5	1.5	1.5	1.5
-Tax Paid	0.0	0.0	0.0	0.4
-Other Items	0.0	0.0	0.0	0.0
Operating Cashflow	**7.0**	**20.3**	**22.9**	**29.0**
-Dividends Paid	0.0	0.0	0.0	0.0
-Working capital/timing	0.0	0.0	0.0	0.0
-Capex	43.0	0.5	0.5	0.5
-Exploration Expenditure	3.0	3.0	3.0	3.0
-Acquisitions/Sales	0.0	0.0	0.0	0.0
Surplus Cashflow	**-39.0**	**16.8**	**19.4**	**25.5**
+Dividend Reinvest.	0.0	0.0	0.0	0.0
+Equity Raising	0.0	0.0	0.0	0.0
-Debt Retirement	0.0	10.0	10.0	10.0
Increase in Cash	**42.0**	**6.8**	**9.4**	**15.5**

Balance Sheet (A$M)	2007	2008	2009	2010
Cash	20.9	27.7	37.0	51.5
Receivables	0.0	0.2	0.2	0.3
Inventories	0.2	3.2	3.6	4.6
Other	0.0	0.0	0.0	0.0
PP&E, Expl & Dev	51.0	45.1	39.1	32.6
Total Assets	**72.1**	**76.2**	**80.0**	**89.0**
Payables	0.1	0.3	0.3	0.4
Provisions	1.0	2.0	2.3	2.9
Tax Liabilities	0.0	0.0	0.0	1.0
Debt	40.0	30.0	20.0	10.0
Other	0.0	0.0	0.0	1.0
Total Liabilities	**41.1**	**32.3**	**22.6**	**15.3**
Outside Equity Interest	0.0	0.0	0.0	0.0
Shareholder Funds	**31.0**	**43.9**	**57.4**	**73.7**

Assumptions		2007	2008	2009	2010
Average spot gold price	US$/oz	600	576	559	550
Average spot silver price	US$/oz	11.42	10.75	10.25	10.25
Average spot A$	US$	0.74	0.73	0.70	0.68

Sensitivity Analyses		2007	2008	2009	2010
Changes in NPAT for 10% change in:					
Gold price	A$M	-0.5	-2.8	-2.8	-1.3
Silver price	A$M	0.0	0.0	0.0	0.0
Currency (A$/US$)	A$M	-0.5	-2.5	-2.5	-1.2

Ratio Analysis		2007	2008	2009	2010
EPS (fully diluted)	¢	1.3	4.7	5.6	6.0
PER	x	19.5	5.3	4.5	4.2
EPS Growth	%		265	19	7
CFPS (fully diluted)	¢	3.0	8.7	9.8	12.5
PCFR	x	8.3	2.9	2.5	2.0
DPS	¢	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Payout Ratio	%	0	0	0	0
Franking	%	0	0	0	0
Interest Cover	x	1	6	9	17
Gearing: ND/E	%	39	10	na	na
Gearing: ND/(ND+E)	%	39	10	na	na
EV/EBITDA	x		2.8	1.8	0.6
EBIT Margin	%		19.0	21.0	26.9
Return On Assets	%	2.7	15.6	16.8	20.8
Return On Equity	%	9.6	24.8	22.6	18.8
Eff Tax rate	%	0.0	0.0	2.7	28.5

Reserves Modeled (closing)		2007	2008	2009	2010
Gold					
Nullagine (100%)	koz	314	223	131	33

Production		2007	2008	2009	2010
Gold					
Nullagine (100%)	koz	25.2	78.7	80.3	85.0

Unit Analysis		2007	2008	2009	2010
Nullagine (100%)					
Revenue	A$/oz	810	795	801	808
Total cash costs	A$/oz	534	512	502	473
Non-cash costs	A$/oz	100	100	100	100
EBIT	A$/oz	176	183	199	235

Appraised Valuation	A$M	A$/share (fully dil)
Nullagine	89.6	0.39
Net Debt/Net Cash - EOP	-25.0	-0.11
Administration	-8.0	-0.03
Other (tax, interest, etc)	-0.4	0.00
Exploration (risk-adjusted)	33.8	0.15
Total	**90.0**	**0.39**
Price/App. Value.		0.65

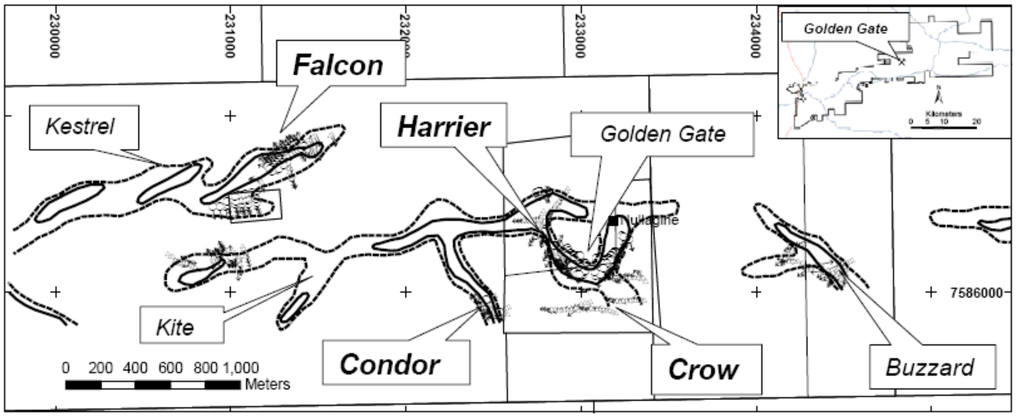
Operations NPV WACC: 10.0%

Resource/Reserve Upside

In conjunction with the development of the Nullagine gold project WTE plans to focus on converting a number of recent high grade discoveries made in the Golden Gate area into reserves.

The cost of reserves ounces delineated to date is $10/oz.

The locations and some recent intersections of these high grade vein structures are outline below.



Crow
12m @ 2.0 g/t Au from 28m
8m @ 9.6 g/t Au from 12m
8m @ 6.2 g/t Au from 20m

Buzzard
8m @ 2.7 g/t Au from surface
12m @ 3.7 g/t Au from 12m
16m @ 2.5 g/t Au from 24m

Harrier
11m @ 3.9 g/t Au from 16m
4m @ 9.9 g/t Au from 6m
20m @ 1.6 g/t Au from 4m
8m @ 5.5 g/t Au from 16m
4m @ 10.0 g/t Au from 32m
20m @ 12.9g/t Au from surface

Falcon
11m @ 5.7 g/t Au from 37m
4m @ 13.0 g/t Au from 12m
12m @ 6.8 g/t Au from 54m
9m @ 4.1 g/t Au from 58m
14m @ 3.1 g/t Au from 6m
4m @ 18.1 g/t Au from 42m
4m @ 14.4 g/t Au from 2m

Condor
16m @ 4.9 g/t Au from surface
8m @ 3.9 g/t Au from 40m
20m @ 1.6 g/t Au from 24m
8m @ 4.7 g/t Au from surface
8m @ 7.2 g/t Au from 4m
8m @ 6.2 g/t Au from 24m

Key Attributes of the Nullagine Gold Project

- Undeveloped goldfield with minimal previous modern exploration
- Shallow oxide exploration targets
- Simple open cut mining operation
- Standard plant technology
- Production up side due to conservative parameters used and recent high grade discoveries
- Exploration and ore body delineation to continue during construction – no quiet period
- Undervalued on base case assumptions

A Comparison with a Similar Company

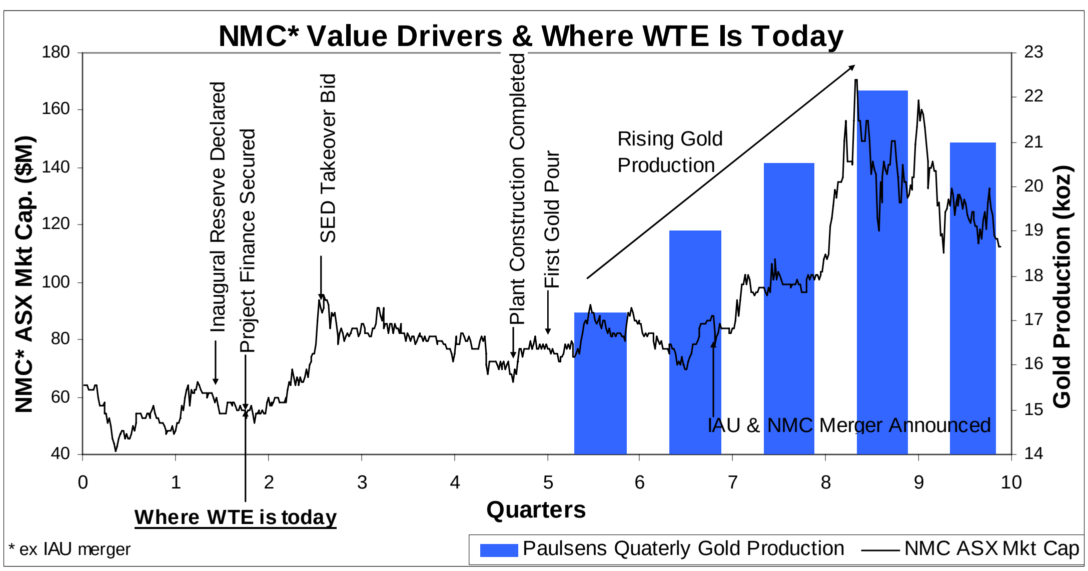
WTE has many comparable characteristics to where Intrepid Mines (IAU) was 2 years ago. Back then IAU was known as Nustar Mining Corporation and traded under the ASX code NMC. The similarities include:

- Market Capitalisation around $60m
- Forecast production of around 80kozpa
- Project location in the relatively unexplored Pilbara-Ashburton region
- Approximately 5 year's mine life

There are differences in that IAU's Paulsens operation is a high grade higher unit cost underground mine whereas WTE's Nullagine operation will be a lower grade low unit cost open cut operation. The main difference are the per ounce costs, however, is worth noting that WTE has significant resource/reserve upgrade potential as outlined on the previous page and costs could be reduced by A$50/oz with the proportion of high-grade feed increasing from 15% to 25%. Some of the technical parameters are outlined below:

	Paulsens	**Nullagine**
Mining & milling rate	300ktpa	1.2mtpa
Average grade	9g/t	2.4g/t
Recoveries	95%	87%
Gold production	80kozpa	80kozpa
Operating cost per tonne milled	A$110/t	A$33/t
Operating cost per ounce produced	A$360/oz	A$500/oz
Reserve at commissioning	400koz	343koz
Resource at commissioning	519koz	716koz

The chart below outlines the drivers that resulted in IAU's ASX market capitalisation rising from $60m to a high of $160m before settling around $120m (all ex merger). WTE's market capitalisation post the recent placement is also approximately $60m. We currently value WTE at $90m or 39cps and see a potential upside market capitalisation of $130m or 55cps based on the proportion of high-grade feed increasing from 15% to 25%.



Post placement we see 3 phases of uplift in WTE's share price:

Post placement and debt funding - With project funding completed ($40m debt, $17.5m equity) development can proceed immediately as major lead items have already been secured. We understand the banks are offering to lend $40m which is a strong indication of the Nullagine gold project's robustness and that the Bankable Feasibility Study is A grade.

Periodically exploration results and resource upgrades - Exploration drilling will accelerate during the construction period. A whole raft of high grade gold intercepts reported from the Golden Gate area is yet to be included in resources. These deposits remain open ended so further delineation of high grade material should continue.

Commissioning - The Nullagine gold project is standard open cut mine with a simple CIL plant which means lower risk. Our experience with these stock standard oxide gold mining operations is that they ramp up to full capacity with in a few weeks of commissioning. Given the conservativeness of the BFS there is a strong chance the operation will outperform on both tonnage and grade.