

## **REPORT FOR THE QUARTER ENDED 30 JUNE 2009**

### **Highlights**

- **On 16 April 2009, the company announced a placement of 17,450,000 shares at \$0.025 each to Aragon Resources Limited raising \$436,250. Aragon also agreed to take a Convertible Note for \$500,000, which received shareholder approval on 3 July 2009.**
- **Mr Paul Benson, Managing Director of Aragon Resources was appointed to the Vital Board on 17 April 2009.**
- **Positive results from the Watershed Feasibility Study based on tungsten price of \$US215/mtu concentrate and \$Aust:\$US exchange rate of 0.65. Both tungsten commodity pricing and FX rates have since declined substantially and the viability of the Project must await an overall improvement in the \$Aust price for tungsten concentrates.**
- **Lodgement of large EPM application in far North Queensland covering 41 sub-blocks over a highly prospective area adjacent to the Watershed Project.**
- **Board approval received for commencement of large scale bulk ore-sorting trial of Mt Mulgine scheelite / molybdenum material. Testwork due for completion within third quarter 2009.**
- **Vital is reviewing its best course of action for the future of the Watershed and Mt Mulgine Projects in conjunction with the overall situation within the world tungsten industry and in context of its unique position in far North Queensland.**

### **Corporate**

#### **Financial**

As at 30 June 2009, Vital Metals Ltd had on issue 133,819,777 shares and 4.6m unlisted options exercisable at various prices. Cash at bank as at 30 June 2009 was \$865,000.

The sum of \$436,250, being the proceeds of the placement of 17,450,000 shares to Aragon Resources Limited was received on 15 April 2009.

The sum of \$500,000 has now been received following shareholder approval of the Convertible Note from Aragon Resources Limited which brings the cash as at 10 July to \$1,336,000.

## **Watershed Project**

### **Feasibility Study**

The initial results of the Feasibility Study for Vital Metal's 100 per cent-owned Watershed Tungsten Project (Project) in Queensland-based on a tungsten concentrate price of US\$207/mtu for year 1 followed by a constant US\$215/mtu thereafter and a \$Aust:/\$US exchange rate of 0.65, highlight an economic and robust long-term project.

The above concentrate pricing was based on discounted forecast APT prices projections of US\$270-280/mtu in 2010/2011.

Based on the above input criteria, a Stage One open pit operation with a 6.1 year mine life was investigated in detail. In this study ore would be mined and processed at a nominal 610,000 tonne per annum to produce 195,000 metric tonne units of contained WO<sub>3</sub> per annum, as a high-grade concentrate.

Capital Cost is estimated at A\$69.1m (including \$12m in working capital).

The projected Net Present Value of this first stage operation was estimated at \$32m with an IRR, at an 8 per cent discount rate, of 21 per cent.

Since completion of the study, two factors which have directly impacted the robust economics are the decline of tungsten APT pricing to below US\$200/mtu together with the strengthening of the Australian dollar.

Both factors have a significant adverse effect on the Project's viability which now must await the return of more favourable conditions.

The large body of work undertaken to date clearly indicates that Watershed is one of the best undeveloped tungsten projects in the world and as per other producing and prospective projects, both funding and positive economics are coming under increasing pressure from falling tungsten commodity pricing.

### **Environmental Compliance**

On-going environmental studies include the regular monitoring of ground water bores and establishment of sediment control measures. These stringent monitoring controls assist with the compliance of establishing base line data prior to project commencement and determine the regulatory conditions applied by Queensland EPA in the approval of the Environmental Management Plan and subsequent granting of Environmental Authority.

### **EPM Application**

To compliment MDL127 and EPM15064 held by Vital Metals, an additional EPM of 41 sub-blocks over an adjoining and prospective area alongside the Watershed Project has been applied for and lodged with Department of Employment, Economic Development and Innovation –

Queensland Mines and Energy.

An extensive geological review of this area has highlighted the prospect of extended mineralisation which on approval, will be followed up by a complete compilation of geological information, mineral occurrences data, geophysical data, geographical data (infrastructure, drainage, topographical), and historical reports.

## **Mt Mulgine Project**

A bulk X-ray ore-sorting trial will be conducted on mineralised material from Vital Metal's Mt Mulgine Project in Western Australia. Bulk samples will be derived from material excavated from the Trench tungsten-molybdenum deposit, and at grass on site, in a previous campaign to support feasibility investigations in the early 1980s.

Vital Metals considers the Trench deposit's mineralised material as having potential to support a contemporary mining operation. The Trench deposit has been estimated to contain 113,300 tonnes of tungsten trioxide (WO<sub>3</sub>) and 3,820 tonnes of molybdenum (Mo) according to an historic estimate of resources<sup>1</sup> **[see footnote]**.

Following the highly successful trials conducted on the Watershed material, it is envisaged that both the molybdenum and tungsten mineralisation will be pre-concentrated into a high grade product amenable to a conventional gravity and flotation circuit.

Sampling of stockpiled mineralised material will commence late July with sample preparation and testing to be undertaken at Nagrom, WA and conducted on Vital Metals XR3000 ore-sorting unit. It is envisaged that testwork will be completed within third quarter 2009.

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<sup>1</sup> **Footnote: The historic estimate of resources does not comply with the JORC Code (2004) but its disclosure is consistent with subsequent ASX-JORC Guidelines contained in Companies Updates 11/07 (dated 5 December 2007) and 05/04 (dated 25 March 2004) and cannot be classified as a Mineral Resource. The historic resource estimate was conducted by Union Carbide Corporation in 1981 by competent professionals using accepted industry practices.**

**The historic estimate is 83.4 million tonnes at 0.136% WO<sub>3</sub> (at a cut-off grade of 0.05% WO<sub>3</sub>). It includes 36.2 million tonnes of molybdenite-enriched material with an average grade of 0.046% Mo. Contained within the historic estimate is 46.6 million tonnes at 0.183% WO<sub>3</sub> at the higher cut-off grade of 0.1% WO<sub>3</sub>**

*The information in this report that relates to exploration results is based on information compiled by Mr Bruce Arthur Pertzelt, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Pertzelt is an employee of Vital Metals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Pertzelt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears*

For further details, refer to the company's website: [www.vitalmetals.com.au](http://www.vitalmetals.com.au)

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