

Vital Metals Ltd

ASX Code: VML

Recommendation:

Speculative BUY.

**Existing shareholders take up
Share Purchase Plan Offer**

Current Capital Structure

Price of Ordinary Shares (cents)	7.0
Shares on Issue (Million)	109.5
Current Market Capitalisation (undiluted) (A\$ Million)	7.7
Options On Issue (Million)*	2.7
Current Cash est. (A\$ Million)	1.0

*Options exercisable at 40 cents expiring at varying dates between 9/1/2009 and 31/6/2011.

Board of Directors

Mr. W. (Bill) Ryan	Non Exec. Chairman
Mr. Andy Haslam	Managing Director
Mr. Andrew Simpson	Non-Exec. Director
Mr. Peter Knowles	Non-Exec. Director

Top 5 Shareholders

Consolidated Minerals Ltd	13.0%
Stanley Allan Macdonald	7.8%
Breamlea Pty Ltd	5.4%
Rytech Pty Ltd	5.2%
Graham Riley Superfund	4.0%

Vital Metals Limited Project location Map



Mining Feasibility Results Continue to Provide Strong Encouragement at Watershed Despite Difficult Market Conditions. In our view, still one of the best undeveloped Tungsten Projects in the World.

Vital Metals Ltd ("Vital") or ("the Company") is a specialist metals resource company currently focused on advancing a Feasibility Study (FS) on the large, 100% owned Watershed tungsten deposit in Northern Queensland. The FS is nearing completion.

Work activities since listing in 2005 (Montagu was joint Sponsoring Broker to the IPO) have concentrated on progressing essential work required to assess the viability of developing a substantial sized tungsten mine at the property.

Despite setbacks in the current financial climate which has forced the Company's hand to review and reassess proposed mining operations at Watershed, the Company remains very confident that the deposit remains substantially robust enough to sustain a globally significant sized tungsten mining operation in the near term.

Share Purchase Plan Announced

On 1st December 2008 the Company opened a Non Renounceable Share Purchase Plan whereby existing shareholders are entitled to apply for shares up to the value of \$5,000 (83,333 shares) at an issue price of 6 cents per share. To allow the shareholders more time due to the intervening holiday period and to allow them to assess a soon to be completed new resource figure, the Company has decided to extend the open period to 23rd January 2009. **With the Company's share price now substantially over sold, the anticipated completion of the FS and 'decision-to-mine' expected in 2009, in addition to a still tight global tungsten market, Montagu Stockbrokers believes the offer to be very good value and recommends existing shareholders to take up the share offer.**

Key Company Highlights

- One of the strongest, most prospective tungsten project portfolios on the ASX. Vital currently holds majority or wholly owned interests in three quality Australian tungsten projects.
- Flagship, Watershed Deposit Indicated resource 15.1Mt grading 0.46% WO₃ (Stage 1 Measured and Indicated resources 6Mt grading 0.35% WO₃ at a 0.2% WO₃ cutoff) in Northern Queensland has an estimated in-ground tungsten metal value of >A\$2 billion.
- Recently revised FS results propose an initial Stage 1 throughput of 0.45Mtpa for 1,800 tonnes WO₃ concentrate. Capital cost is estimated at A\$50 million with A\$8.6 million Operating Expenditure over a minimum 6 year open cut mine life (>10 years anticipated).
- Simple processing technology with modular plant design to allow for future production upgrades to 4,000 tpa WO₃.
- With a market capitalisation now significantly sold down to only A\$7.1 million the Company is highly leveraged to any decision to mine, further exploration success or takeover offer.
- Vital has a strong experienced board and senior management team with a solid mix of technical, corporate and market expertise.

Overview & Background Information

Vital Metals is a resource company which listed on the ASX in October 2005. Montagu Stockbrokers was joint Sponsoring Broker to the Initial Public Offer (IPO) and has participated in further capital raisings since.

Vital was founded to take advantage of strong demand for minor strategic steel alloying metals, particularly tungsten and to a lesser extent molybdenum. The lack of upcoming tungsten mining projects globally as significantly advanced as Watershed which demonstrated potential to meet market demand was, at the time (and still is) of significant interest to Vital and a fundamental draw card to Montagu's involvement. Even following the recent global economic slowdown the tungsten market remains strong, reflecting further the continuing tightness of market supply for the metal.

Vital holds a portfolio of three highly prospective Australian tungsten projects: **Watershed** in Queensland, **Mt. Mulgine** and **Mt. Alexander** in Western Australia. At IPO Watershed was significantly advanced to warrant immediate feasibility study expenditure. Vital has remained focused on commissioning a FS on Watershed.

Watershed Held Previously by a Major Mining House

Watershed was discovered in 1978 and drilled subsequently extensively by Utah Development Company (now part of BHP Billiton). That drilling resulted in the establishment of a substantial historical resource estimate of 13.9Mt grading 0.35% WO₃. Despite exploration success Utah did not develop the project at that time largely due to low tungsten prices. In 2004 Vital acquired the project and following listing immediately commenced work on the FS. The resource estimate at the time, though pre-JORC, was considered a solid base on which Vital could build.

Since acquisition, Vital has spent approximately A\$18 million on feasibility work including: drilling, resource modelling, bulk metallurgical sampling, infrastructure development, mining studies and making significant progress towards obtaining environmental, native title and mining permitting. The scale of expenditure to date, bolsters our view of the Board's confidence of the project being able to host a near term tungsten mining operation.

Recognising the significance of the Watershed deposit from a global perspective from the outset and Vital's highly experienced management, Mid-tier miner Consolidated Minerals Limited took a substantial stake in the Company on the IPO which it has maintained and built on to the present time. Currently Consolidated Minerals has a 13% stake in the company.

New Share Purchase Plan Announced: Existing Shareholders Recommended to Take-up Offer.

On 1 December 2008 Vital announced a non renounceable Share Purchase Plan (SPP). The SPP provides existing shareholders an opportunity to purchase a minimum of \$2,000 (33,333 shares) to a maximum \$5,000 (83,333 shares) at a share price of 6 cents per share. Monies raised will be to provide interim working capital whilst the FS is completed and funding partners secured. The offer has been extended to Friday, 23^d January 2009 to allow shareholders time to decide over the holiday period and also to assess a new resource estimate. **Montagu Stockbrokers recommends to existing shareholders to take up the offer.** We believe the Company which is in its final throws of a detailed, extensive FS is well placed to achieve its goal of developing a globally significant tungsten operation in the near future at Watershed. With shares now heavily over sold, down to less than 8 cents per share (less than half of the company's IPO price) we believe the SPP provides shareholders with an inexpensive chance to 'top up' prior to announcements on the completion of the FS and plans on developing an operation.

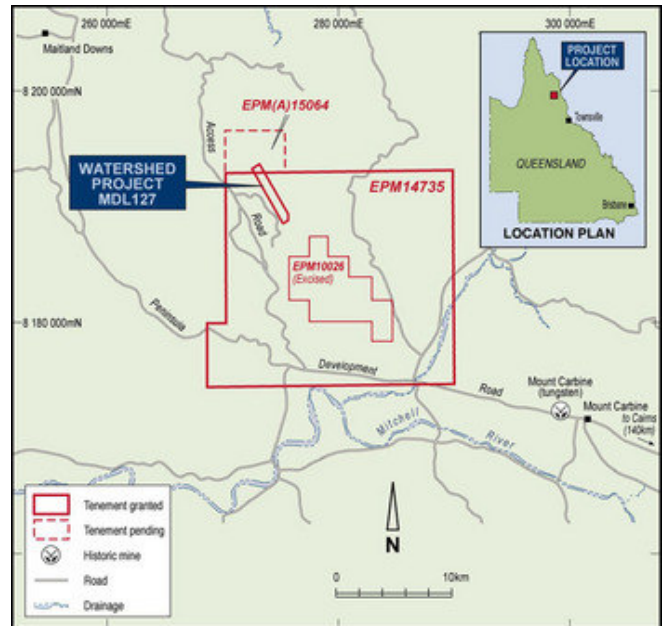
Overview of Watershed Project, North Queensland (Vital 100%)

Location & Tenure

The Watershed Project is located 150km NW of Cairns in northern Queensland. The 100% owned tenements consist of one mining lease, one Exploration Permit and one Exploration Permit Application. The district is known historically to be highly prospective for tungsten mineralisation with the one of the best examples of this being the historical open cut tungsten mine at Mt Carbine (mothballed) located only 25km south east of the main mineralisation at Watershed.

New Resource Estimate Expected

Arguably the largest challenge facing Vital has been estimating with confidence and adequate definition the mineral resource at Watershed.



Whilst without doubt the project hosts a significantly large tungsten resource by global standards its 'poddy' pervasive nature has proven challenging to define using standard drilling patterns and resource modelling methods.

In addition to Utah's original 43 drill holes Vital has drilled to date a further 195 core holes and 77 reverse circulation holes (58 of which were drilled for bulk metallurgical samples). Drilling now extends over an area of 1,600 metres by 500 metres to a depth of 500 metres. The mineralisation is not confined to this area however and remains open in more than one direction.

The result of the first estimation work undertaken has been the establishment of large bulk tonnage resources using standard geostatistical methods. Estimates include: 32.75Mt grading 0.20% WO₃ (0.1% WO₃ cut off using Ordinary Kriging estimation methods) and 24.7Mt grading 0.22% WO₃ (0.1% cut off using Multiple Indicating Kriging (MIK) methods), or 15.2 million tonnes at 0.29% WO₃, at a cut-off grade of 0.15% WO₃, for a contained 44,100 tonnes of WO₃ also using MIK.

What Does This Mean for the Company and Shareholders?

First and foremost, the methodical careful approach Vital is taking towards resource estimation should be acknowledged and we welcome this. The Company has resisted temptation to make a hasty decision to commit to mining before full confidence in resource estimates is achieved. What has emerged out of the resource estimation exercises so far is that the previous estimates have provided the Company with large bulk tonnage estimates which is sufficient to get a feel for the size of the project and its overall potential. However, to optimise the projects economics using selective mining techniques (initially shallow open cut, low strip methods) which is what Vital wish to achieve then, these overall estimates were considered insufficient in detail to mine on. An exception to this is an extensively tight pattern drilled area within the overall estimate which is estimated to contain 6Mt grading 0.35% WO₃ (0.2% WO₃ cut-off). This area which has had assigned an *Indicated* and *Measured* category status has been sufficient to undertake some initial pit design work.

Acknowledging this issue the Company has engaged the services of a third consulting group who specialise in a third estimation technique called 'Recovered Fraction Modelling' (RFM). This specialist estimation technique, utilised in numerous mining situations globally, relies on operational rather than theoretical inputs. It is now considered more suitable at Watershed as it can handle the large short range fluctuations in metal content which is typical of the mineralisation encountered at the project. Interim results of this estimation are promising with a new estimate of 15.1Mt grading 0.46% WO₃ for 69,300t (0.1% cutoff) reported. This should allow the company to better assess selective mining of the higher grade parts of the deposit with confidence. Additionally the higher grade should bode well for improved project economics.

It is important to point out that the resource modelling is encompassing a large amount of data. In a recent presentation released by the Company

the estimation exercise is said to be taking into consideration 997 mineralised intercepts, of which 304 exceed 5 metres grading 0.5% WO₃ and 160 exceed 1.0% WO₃ with an average intercept length being 5.4 metres.

Watershed Feasibility Study Close to Completion

In recent announcements Vital has indicated that it is close to completing its detailed FS with only some final open pit optimisation and ore flotation tests to be completed in addition to the finalisation of tailings dam design and compilation of a full FS report, (anticipated release date April 2009).

To date, the Company has completed an extensive drilling campaign, completed work on 5 bulk samples, including the excavation of an exploration adit into the hillside to extract a representative sample and geologically understand the mineralisation better. Two krige resource models have been estimated with a third RFM exercise close to completion. RFM should give the Company a selective mining resource which will be tied in with the outstanding open pit optimisation estimates. In addition, all metallurgical testwork is now completed satisfactorily. All essential paperwork has been signed and submitted including the project's Environmental Impact Statement (submitted), Environmental Management Plan (submitted), Indigenous Land Use Agreement (signed).

Revised Mine and Processing Plan

With recent global market conditions providing unwelcome uncertainty in global markets, it has been prudent that Vital reassess the original mine design and processing plan. To keep CAPEX an OPEX costs to a minimum whilst maintaining flexibility for future production increases, the Company has decided to opt for a smaller Stage 1 production base of 0.45Mt of ore per annum. This production, it is proposed, will produce 1,800tpa of high quality tungsten concentrates (118,000 mtu of WO₃) over an initial six year mine life, though the potential of Stage 1 extending past 10 years is highly probable.

With Capex estimated at around A\$50 million including Opex (i.e. Cash Costs) of around A\$8.6 million (A\$168 per mtu) the Company is confident that it should be able to produce and sell all of its 118,000mtu of >65% concentrate at a significant margin. The new resource modelling which should assist in providing more selective mining is targeting A\$150 mtu cash cost. The Company is opting for a modular style of plant design which will allow for upgrading production to up to 400,000 mtu annually. The only downside of opting for a smaller plant in Stage 1 initially is the plant will run on diesel power generated on site rather than run on power off the grid which is less expensive and less open to fluctuating oil prices. This is in our view unfortunate but an acceptable trade off.

Brief Highlights of Other Projects in the Vital Portfolio

Mt Mulgine Project Western Australia (Vital 70%, Gindalbie 30%)

Mt Mulgine is located in the Mid West region of Western Australia approximately 500km NNE of Perth. The project hosts extensive occurrences of tungsten and molybdenum in skarns which overlie and surround the large Mulgine granite. Exploration by several companies between 1965 and 1980 resulted in the discovery of two large low grade tungsten deposits known as 'Trench' and 'Hill' deposits in addition to several other significant tungsten occurrences. Despite historical exploration success the project remains lightly explored. In 2008 Vital undertook reconnaissance drilling on several targets identified by geophysics. The drilling successfully confirmed the mineralisation tenure at Trench and Hill deposits (149 metres grading 0.13% WO₃ from surface and 52 metres grading 0.10% WO₃ from 12 metres respectively) and identified a further 6 prospects which warrant further investigation.

Mt Alexander Project Western Australia (Vital 100%)

Mt Alexander is located 300km SSW of the town of Karratha in the Pilbara region of Western Australia. The project contains several historic tungsten mineralisation (scheelite) finds at Moodang Well, Mt Alexander and Love's Find. The mineralisation which is found in relatively small occurrences is of significant interest because of its very high grade. Drilling has intersected several high grade (+1% WO₃) intercepts the highest of which includes 17.2% WO₃ over 1 metre. Following aeromagnetic and radiometric surveying undertaken in 2007 which defined targets, drilling is planned soon to test for mineralisation in the skarns along strike of existing high-grade drill intercepts.

Director Profiles

Mr. W. J. (Bill) Ryan, M.Eng F. AusIMM, FAICD Executive Chairman

A Chemical Engineer with over 40 years of experience in mining, metallurgy

and management; Prior to founding Vital metals in 2005 Bill was managing Director of Titan Resources for 17 years. Prior to joining Titan, Bill spent 4 years in metallurgical research work with Amdel, 11 years at Endeavour Resources Limited and 2 years at Bond Resources, President of AMEC for 5 years, Councillor of the WA Chamber of Minerals and Energy for 2 years as well as an inaugural Councillor of the Australian Gold Council. In addition to being Non executive chairman for Vital Metals, Bill is also non executive Chairman of Brumby Resources Limited and Ampella Mining Ltd.

Mr. Andrew (Andy) Haslam, Grad Dip Min MAICD Managing Director

Andy has over 25 years of wide ranging experience in mining operations, the past 18 of these in open cut contracting roles. He has held several senior executive roles including Mine Superintendent for Dominion Mining Limited, Operations Manager AWP Contractors (7 years) and Henry Walker Eltin (8 years) Project Manager and Registered Mine Manager for BHP Yandi Iron Ore mine (2000-2002). Andy's most recent appointment prior to joining Vital was Mining Manager of Thiess Pty Ltd's Western and South Australian operations which included the BHP-Thiess Mt Keith nickel operation in WA and Oxiana Ltd's Prominent Hill copper gold mine in SA.

Mr. Andrew Simpson, Grad. Dip. Bus, MAICD Non Executive Director

Mr. Simpson is a senior marketing executive with over 30 years of international global marketing experience in the mining and metals industry and has served in a range of senior executive marketing roles throughout Asia and Europe. Mr. Simpson is Non Executive Chairman of Territory Resources Limited, India Resources Limited and Swick Mining Services Limited and a non executive director of ABM Resources Limited and founding director of Resource and Technology Marketing Services (RTM) Pty Ltd which is now a leading Australian mining market research consultancy specialising in strategic and business planning, resource project assessment and marketing.

In the past three years he was previously a director of Windimurra Vanadium Limited (20 June 2007 to 29 February 2008) and Consolidated Minerals Limited (16 September 2005 to 30 June 2007).

Mr. Peter Knowles B.Econ, Non Executive Director

Mr. Knowles has a background in finance and strategic planning. He has held several senior executive roles including Manager Corporate Planning, and General Manager Projects for Hamersley Iron, Group Projects Manager for Wesfarmers and was Managing Director of Wesfarmers CSBP Limited 1994-2001. He currently consults to several clients in the resource and infrastructure sectors.

Risks Associated with Investment in Vital Metals Ltd

Potential Investors need to be aware that investment in Vital Metals Ltd, like all investments in mineral exploration and development companies, is of a speculative nature. Normal share market risk conditions apply including commodity price, currency fluctuations, sentiment, supply and demand and general economic outlook. Normal exploration, development, mining and processing risks also apply as well as operating, native title and environmental risks.

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ENQUIRIES about investing in Vital Metals Ltd can be directed to Mr. Peter Aaron, Senior Equities Adviser, Montagu Stockbrokers on Tel: (08) 92252857.