

SPITFIRE RESOURCES LIMITED

Near surface (Woodie Woodie style) manganese deposits remain lucrative mineral exploration targets. Spitfire has the hallmarks of one in an unexplored field. Drilling begins in April 2009.

INVESTMENT DATA

Share price (last trade 27 Feb 2009): \$A0.064
ASX Code: SPI

ISSUED CAPITAL

FPO shares (issued): 80.2M*
Options 10-12.5c, 2014 expiry 1.0M
Options 20-25c exerc, 2010-2013 expiry: 34.7M
Market capitalisation (fully diluted): \$A7.4M

*Does not include 10 million shares to be issued conditional on Tasmanian coal resource delineation.

MAJOR SHAREHOLDERS

Churchill Mining Plc: 31%
Eralloys Holding (Eramet): 11%

DIRECTORS

James Hamilton: Chairman, Managing Director
Christopher Daws: Non Exec. Director
Russell Hardwick: Non Exec. Director

MANAGEMENT

Nat Cull: Exploration Manager

John Macdonald
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KEY POINTS

- Spitfire believes its drilling at Tally Ho has clipped a Woodie Woodie style manganese deposit.
- Tally Ho is 70 km south of Woodie Woodie in previously unexplored terrain. The relationships between a manganese ridge line, drill intercepts of up to 7m at 22% Mn, silica hardcap, and altered host dolomite all inform Spitfire's interpretation.
- Tally Ho is a shallow target, under less than 15 metres of overburden.
- Drilling is due to recommence at Tally Ho in April 2009.
- In 2008 manganese ore producers enjoyed the best conditions in over 50 years due to growing manganese use in steel and supply constraints in South Africa and China. The shortage highlighted the importance of Australia's high grade, siliceous manganese ores.
- Although demand uncertainty has since enveloped the market, Woodie Woodie style manganese ore is a premium product that can be produced at a very low relative cost. A shallow discovery will have an excellent chance of commercial viability.
- Manganese ore development requires relatively light investment in capital equipment.
- Norwegian manganese consumer Tinfos AS subscribed to a placement in Spitfire, becoming 14% shareholder in March 2008. Eramet of France, also a manganese alloy producer with plants around the world, acquired a majority stake in Tinfos in April 2008.
- Spitfire agreed to buy a portfolio of Tasmanian coal projects in May 2008. Initial consideration of 10 million shares was issued in November 2008.
- Spitfire had \$5.4 million in cash at the end of December 2008.

1. COMPANY BACKGROUND

South Woodie Woodie, then comprising three exploration licences in Western Australia's Pilbara region, was acquired by Churchill Mining Plc for an equity consideration in February 2005. The exploration target at South Woodie Woodie is manganese ore. Churchill gained admission to London's AIM market in April 2005 and diversified into thermal coal in Kalimantan in 2006. The South Woodie Woodie interests were floated off into Spitfire Resources Ltd in 2007. Public subscriptions raised \$6 million for Spitfire and Churchill was issued with 25 million shares or 41% of Spitfire's shares upon ASX listing in December 2007. Churchill director James Hamilton assumed Managing Directorship of Spitfire.

In January 2008 Spitfire appointed Nat Cull as Exploration Manager. Nat Cull held senior geological positions at the adjoining Woodie Woodie manganese mine, where he developed a thorough understanding of the district's mineralisation controls from 2000 to 2007.

In March 2008 Spitfire placed 8.65 million shares at 20 cents each with Norwegian based metals trading group Tinfos AS. The placement raised \$A1.73 million and Tinfos became the second largest shareholder in Spitfire with 14%. The operations of Tinfos AS include silico-manganese manufacture at a facility in Norway, which consumes up to 300,000 annual tonnes of manganese ore per year. In April 2008 Tinfos merged with French metals group Eramet. Eramet's two manganese alloy plants in Norway were cited as the main assets complementing those of Tinfos. Eramet representatives reaffirmed its interest in Spitfire's activities after the merger.

Spitfire's field exploration, including drilling, began at South Woodie Woodie in 2008.

In May 2008 Spitfire acquired a portfolio of thermal coal projects in Tasmania.

2. SOUTH WOODIE WOODIE

Spitfire owns 80% of the South Woodie Woodie project and has an option to acquire (from Churchill) the remaining 20% for \$A3 million by December 2009. Churchill also retains a royalty of 1.5% to 3% of manganese revenue according to the received manganese price.

MANGANESE IN THE PILBARA

Manganese has been intermittently mined in the Woodie Woodie area since 1954. The deposits at Woodie Woodie are geologically unique among the world's manganese mines. Manganese at Woodie Woodie is a replacement mineral within a highly complex hydrothermal process, forming generally higher grade ore with fewer contaminants than competing supplies. Woodie Woodie ore is also more competent than ore from chemical sedimentary deposits. Lump ore is the staple industry product although fines have more recently attracted comparative prices. In the year to June 2008 about 900,000 tonnes of ore grading 48% manganese were mined from a single project operated by Consolidated Minerals at Woodie Woodie.

Massive manganese ore occurs at Woodie Woodie in an altered dolomite beneath hard silica caps. Historical discoveries of Woodie Woodie deposits have relied heavily on conspicuous manganese outcrops in a terrain scoured by Permian glaciers after the manganese deposits were formed. Spitfire's South Woodie Woodie tenements are 35 to 70 kilometres south of the Woodie Woodie mines in an area with no past glacial action to remove the silicic caps and expose manganese outcrops.

The pre-Spitfire exploration at South Woodie Woodie, which included a single drill program in 2006, was conducted with limited knowledge of the geological model, relying entirely on surface manganese occurrences and geophysical anomalism. By recognising the mineralisation controls, and placing greater emphasis on geological mapping, Spitfire is bringing the evident manganese potential at South Woodie Woodie into sharper focus.

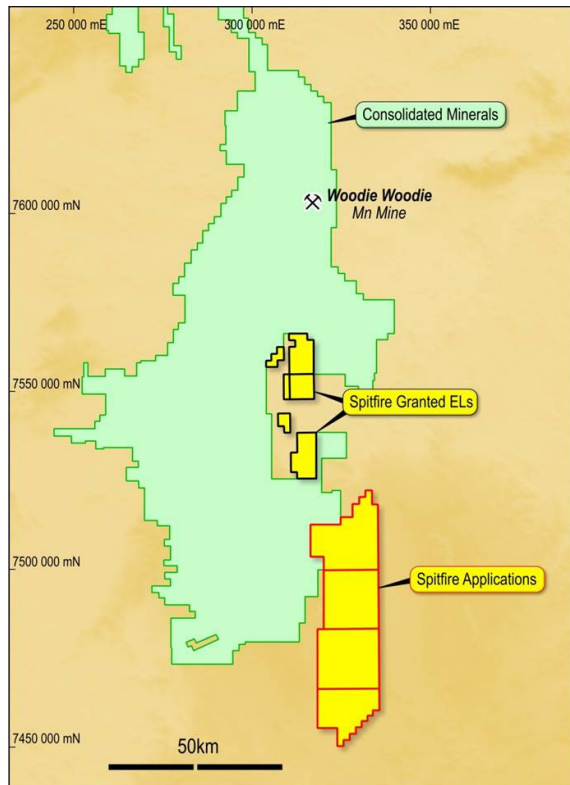


Figure 1. Tenement location South Woodie Woodie

SPITFIRE'S EXPLORATION

In a January 2008 Spitfire began mapping selected areas at South Woodie Woodie, selecting drill targets with the aid of previous geophysical surveys and surface manganese occurrences.

The initial drilling program of 16 holes concentrated on a set of prospects in the north of the project. Numerous manganese intersections in prospective geological settings were marked for follow up in the second drill program, which began in November 2008. Spitfire also added a new prospect area to the drilling program following the discovery of an extensive ridge line of high grade manganese outcrop, 20 km to the south of the northern prospects.

In January 2009 Spitfire announced the results of the second phase campaign at South Woodie Woodie. The first fifteen holes, drilled into the northern prospect area, intersected anomalous manganese grades (from surface in one instance) and established the regional trend of cover sequence depth.

The last eleven holes of the second program were drilled at the southern prospect area. Spitfire intersected manganese (6 metres at 21% Mn, 7 metres at 22% Mn, 4 metres at 16% Mn and 7 metres at 15% Mn) within 35 metres of the surface, in altered dolomites beneath a siliceous cap. The holes were collared within a 200 metre by 200 metre area north of the ridge line. Spitfire had arranged heritage clearance to only portions of the prospect, leaving large sections between holes undrilled.

From the evidence of the drilling and surface geology the southern prospect (now called Tally Ho) has the principal features of a classic Woodie Woodie style manganese deposit. Spitfire interprets the late 2008 Tally Ho drill holes as being peripheral to a hydrothermal pipe structure that typically hosts massive manganese mineralisation.

Spitfire plans to recommence drilling at Tally Ho as soon as possible. Heritage clearance is sought to enable follow up drilling by as early as April 2009.

The location of the host dolomite formation and siliceous capping so near the surface at Tally Ho is an unexpected bonus for Spitfire. The depth of overlying sequence was probably the single greatest project risk. Any discovery at Tally Ho will most likely be well within open pit access. The apparent potential for open pit manganese discoveries elsewhere in the project is also greatly enhanced.

Consolidated Minerals applied for the tenements surrounding South Woodie Woodie late 2004. In February 2008 Spitfire lodged applications for a 900 square kilometre block, stretching from 13 kilometres south of the South Woodie Woodie project.

DEVELOPMENT CONSIDERATIONS

Manganese ore from open pit mines at Woodie Woodie is crushed, screened and subjected to dense media separation before being trucked 400 kilometres to Port Hedland for export. Mining at Woodie Woodie contends with variable depth of overburden and high rates of pit water flows (pumping costs are a significant proportion of total operating costs).

Deposits discovered so far at Woodie Woodie range in size up to 5 million tonnes grading 48%

manganese. The average yield of reserve to product is 60%. Woodie Woodie's operating costs averaged about \$A67 per tonne of product delivered to Port Hedland in 2007 (unit costs may have increased by up to 20% in 2008). Mining and haulage account for at least two thirds of operating costs. Required capital equipment includes crushing, screening and heavy media separation, built at Woodie Woodie at a (2007 equivalent) cost of about \$A15 million for 1.1 Mtpa capacity (including a truck fleet for haulage).

Apart from the extra 30-50 kilometres of road construction and trucking distance, the logistics of development at South Woodie Woodie are similar to those at Woodie Woodie. Port space at Port Hedland and trucking capability are accessible.

The main deposit factors apart from size and grade are strip ratio (or depth) and water flows. The 10-15 metres of interpreted cover at Tally Ho is much less than the Woodie Woodie average. Many Woodie Woodie deposits transect prolific aquifers requiring expensive pumping costs. The same aquifers are not necessarily present at Tally Ho or anywhere at South Woodie Woodie.

3. THE 2008 MANGANESE SHORTAGE

About 93% of the manganese consumed each year is used to improve the properties of various grades of steel. Between 1950 and 2000 the intensity of manganese use in steel halved in a steady decline to less than 9 kg/tonne, presaging a difficult fifty years for manganese ore producers. The decline corresponded with the advent of basic oxygen furnace and electric arc furnace technologies, which pushed steel production towards grades with lower manganese content. From 2000 to 2008 however extraordinary growth in both steel manufacture (6% annual growth rate 2000-2006) and the intensity of manganese use (up to 11 kg/t by 2006) made manganese one of the fastest growing metal markets of the period. In the course of 2007 and 2008 contract prices for manganese ore leapt from \$US2.60 to \$US17.00/dry metric tonne unit.

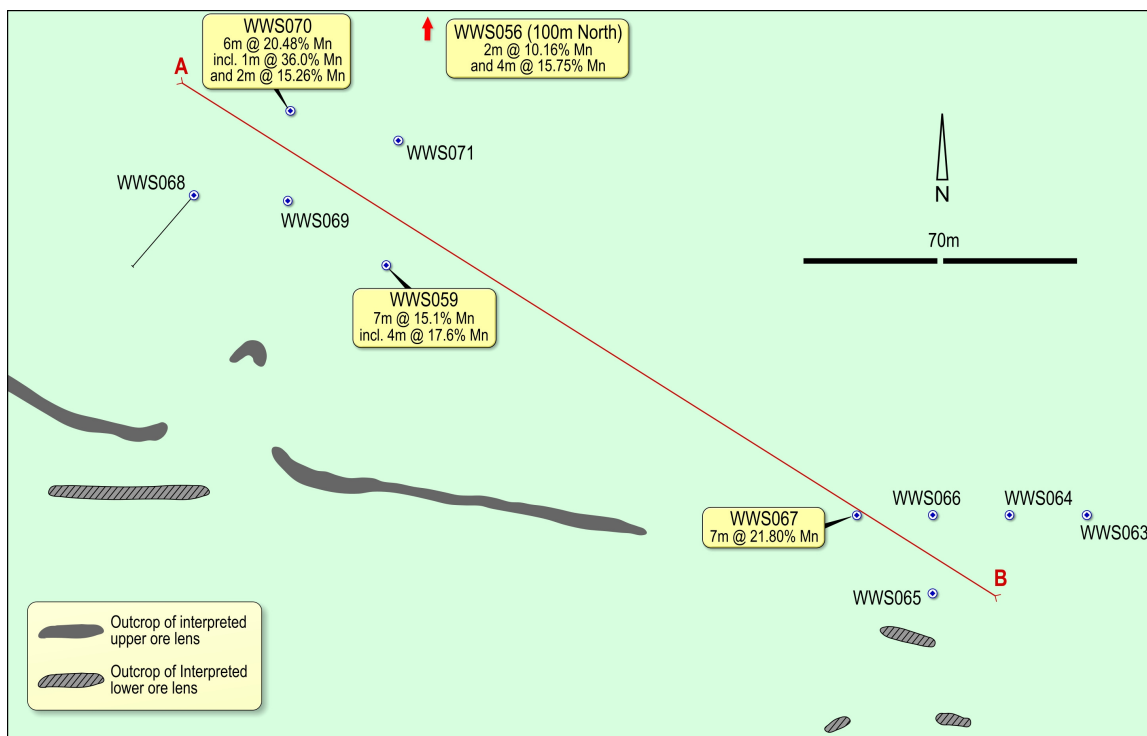


Figure 2. Drill collar plan at Tally Ho prospect, South Woodie Woodie.

The market conditions leading to the manganese price run up included the following;

1. Manganese ore typically requires minimal processing before shipment, and hence supply gaps are usually filled quickly by a swing producer. The Kalahari manganese field in South Africa, the only producer of high grade manganese ore outside of Australia and holder of 80% of the world's known manganese resources, has traditionally performed the swing producer role. However output from the relatively deep and remote underground mines is constrained by South Africa's intractable power and infrastructure restrictions.

2. High nickel prices drove demand for series 200 and austenitic manganese stainless steels, each containing between 12-14% manganese, at the expense of high nickel bearing stainless grades. Manganese costs remained a relatively minor component of stainless steel production costs even at peak 2008 prices.

3. China consumed about 45% of the world's manganese in 2007 and 2008. Part of this consumption was met by domestic mines which also faced energy and infrastructure constraints. China imported 2.7 million tonnes of manganese ore in 2003 and 6.6 million tonnes in 2007, including 2.0 million tonnes in the December 2007 quarter alone (TEX Report). Australian producers (Cons Min and GEMCO at Groote Eylandt) were the main benefactors, shipping 3.1 million tonnes of manganese ore to China in 2007.

4. Manganese ore supplies are segmented according to ore grades and impurities. The high grade, siliceous Woodie Woodie ore type is favoured for manufacture into silico-manganese, which is feedstock for long product steel commonly used in construction. Most of the recent Chinese growth is accounted for by this sector of the steel market.

4. MANGANESE IN 2009

In early 2009 the outlook for steel manufacture, in China and elsewhere, remains cloudy. Major manganese ore and alloy producers announced substantial output cutbacks in December 2008, reflecting a steep drop in demand. By February 2009 manganese ore was being traded in the range of \$US6-8/dmtu to Chinese buyers ex Australian ports. An Australian producer (OM Holdings) reported a recovery in Chinese demand for its siliceous manganese ore in the first quarter, albeit in a volatile and uncertain market. The high grade end of the manganese ore market has reportedly remained tight, as steelmakers have shifted demand into the better grades. This dichotomy in manganese ore supplies helps explain continued corporate conflict over control of Australia's high grade manganese ore supplies. Ukrainian group Palmary Enterprises completed its contested takeover of Woodie Woodie owner Consolidated Minerals in January 2008. The Palmary group acquired a 12% stake in OM Holdings in November 2008; a move interpreted as hostile.

The effect of the downturn on manganese ore suppliers will be uneven. The manganese ore supply cost curve is a relatively steep one and lower grade suppliers are likely to feel immediate price and volume pressure. The higher grade suppliers (principally in South Africa and Australia) occupy the lower end of the cost curve. They will have the flexibility of curtailing marginal output to maintain profitability.

The implication for Spitfire is that new discoveries of good quality Woodie Woodie style deposits will still find a ready market. High grade siliceous manganese ore is likely to remain in short supply. Hence subject to size and strip ratio, any discoveries made at South Woodie Woodie have a high likelihood of commercial viability.

At a price of \$US6/dmtu CIF China (January 2009 reported spot price minimum) and 0.64 AUDUSD, the average revenue for 48% manganese ore loaded on the ship at Port Hedland is \$A400-450 per tonne, implying a healthy margin of over \$A300 per tonne for median Australian manganese ore production. There is not yet sufficient volumes traded to infer much about the price applicable to new manganese ore contracts.

5. TASMANIAN COAL

From early 2008 Spitfire's board stated its intention of acquiring new projects not necessarily related to South Woodie Woodie or manganese.

In May 2008 Spitfire agreed to acquire a portfolio of coal projects in Tasmania from an unrelated party. In November 2008 Spitfire issued 10 million shares to the vendors as full consideration for the acquired assets. A further 10 million shares (or at Spitfire's election \$2 million cash) must be issued to the vendors upon delineation by November 2011 of 25 million tonnes of bituminous coal.

Spitfire is assessing the optimum strategy for advancing its Tasmanian coal portfolio and is currently in discussion with a number of potential joint venture partners. The Company will make a decision on the scope of its exploration commitment in the coming months subject to other exploration priorities at its South Woodie Woodie manganese project, discussions with potential partners and the current financial and economic environment.

6. FINANCE

At the end of December 2008 Spitfire had cash on hand of \$5.4 million. Issued options include 24.4 million exercisable at 20 cents each by June 2010.

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JOHN MACDONALD BSC (GEOLOGY) HAS 15 YEARS EXPERIENCE AS A MINING ANALYST WORKING FOR SHARE BROKING FIRMS, EYRES REED LIMITED AND CIBC WORLD MARKETS, FOR WHOM HE WAS HEAD OF RESEARCH IN AUSTRALIA FROM 2000-2001. GREEN LEADER EQUITIES RESEARCH IS A PRIVATE CONSULTANCY WHICH IS A DIVISION OF CRAIGMILE RESEARCH PTY LTD, HOLDER OF AUSTRALIAN FINANCIAL SERVICES LICENCE NUMBER 313238. GREEN LEADER EQUITIES RESEARCH MAKES NO REPRESENTATION AND GIVES NO WARRANTIES AS TO THE ACCURACY OR RELIABILITY OF ANY INFORMATION CONTAINED IN THIS DOCUMENT AND DOES NOT ACCEPT ANY LIABILITY (EXCEPT INsofar AS STATUTORY LIABILITY CANNOT BE EXCLUDED) FOR ANY LOSS CAUSED BY REPRESENTATIONS, ERRORS OR OMISSIONS IN THIS DOCUMENT.

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