

**STATUS UPDATE – WATERSHED TUNGSTEN PROJECT
NOVEMBER 2008****SUMMARY**

- Vital Metals is close to completion of a detailed Feasibility Study of the Watershed scheelite deposit in far North Queensland. The only outstanding items for completion include final pit optimisation, some defining flotation tests on ore treatment, finalisation of tails storage design and compilation of the final report at an estimated cost of A\$2.0 million over a period of three to four months.
- The study is based on an operation of 450,000 tonnes of ore per annum to produce some 1,180 tonnes per annum of high quality tungsten concentrates containing 118,000 units of WO_3 in the first stage, over a six year mine life. The potential to extend this mine life well past ten years is excellent.
- The capital cost of this proposed operation is estimated at A\$50 million including a working capital figure of A\$8.6 million.
- The cash cost of production (before capital repayments) is estimated at US\$168 per metric tonne unit, a figure which may improve with a resource modelling technique more relevant to the Watershed ore body. The objective will be to reduce the cash operating costs below US\$150/mtu.
- The mine plan designed in the current scenario involves the extraction of less than 20 per cent of the established global resource. There is ample in-built capacity in the infrastructure and other planning to increase the scale of the operation by up to four times.
- The company has very recently requested specialist resource consultants, McDonald Speijers, to re-model the Watershed deposit using their “Recovered Fraction Modelling” technique. The initial review of the applicability of this method to Watershed has been favourable and it may generate a new model with a legitimate higher-grade resource amenable to economic extraction by selective mining. This work is scheduled for completion in December 2008.
- The published price for APT, the upgrade form of primary tungsten concentrate has held firm at around US\$255/mtu with an inferred concentrate price for clean material of circa A\$215 per mtu. The future outlook for primary tungsten remains strong.
- The processing of the Watershed material is simple and incurs no difficulties in achieving an acceptable total metallurgical recovery estimated at 76 per cent throughout the deposit, and will yield a clean, saleable concentrate containing at least 65 per cent WO_3 with negligible penalty inclusions.

- **Vital Metals is cash restrained and is looking to raise some interim funding in the near future. The company is currently holding discussions with potential overseas investors.**
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Background

The following summarises the position, status and outlook for the Watershed Tungsten Project which has been the principal focus for Vital Metals Ltd since listing on the ASX in October 2005.

Vital Metals has spent approximately A\$18 million over the past three years in a comprehensive study of the Watershed deposit including:

- Completing 195 holes of diamond core drilling totalling 34,810 metres within a mineralised zone approximately 1,600 metres by 400 metres wide which remains open to the north, the south and at depth;
- Completing 5,465 metres of reverse circulation drilling in 77 holes including 58 holes in three specific targeted areas on a ten by ten metre pattern;
- Taken five large bulk samples for metallurgical development purposes, including the driving of two adits into two sections of the main mineralisation;
- Commissioned two separate estimates of the resources defined by this drilling from independent consultants' estimates. It has been difficult to adapt these resource models for mining studies for scenarios other than bulk mining and these aspects remain under review at this time (see below);
- Successfully developed an innovative ore sorting methodology which is able to reject about half of all the run-of-mine (ROM) material, thereby effectively doubling the grade of the material destined for further gravity and flotation concentration;
- Completed an exhaustive series of metallurgical tests of the gravity concentration portion of the downstream process for the mineralised material and while the flotation testing program is not complete, sufficient information has been gathered to enable realistic estimates and design parameters to be assembled;
- Prepared a full Environmental Impact Statement and Environmental Management Plan covering all aspects of the proposed mining and processing operation and submitted this to the Queensland EPA, whose approval process is at an advanced stage;
- Site based environmental and ground water monitoring is continuing on site;
- Reached agreement with the recognised Traditional Owners of the area, the Western Yalanji people in the form of an Indigenous Land Use Agreement (ILUA);
- Completed a full geotechnical assessment for the detailed mine design studies;
- Completed the detailed design of a 25km 132kV overland power line from the main grid, and a cost comparison with site base power generation;
- Completed detailed design and cost estimation on an initial 40 person camp and an upgrade of the 25km access road off the Mulligan Highway;
- Completed process plant design and capital costing and conducted estimates of operating cost based on an operating model;

- Completed mine design studies, 3 dimensional mining rock mass model for geotechnical evaluation, treatment plant design and costing, comprehensive environmental and monitoring studies all to an accuracy exceeding Preliminary Feasibility Study standards; and
- Studied the alternative benefits of a large mining and processing operation to produce 4,000 tonnes of WO₃ concentrate per year versus a smaller venture designed to produce 1,180 tonnes of WO₃ in concentrates per year.

The current levels of price for primary tungsten products, as measured by the standard of the London Metal Bulletin reported price for APT on a weekly basis, is stable at US\$250 to US\$260 per metric tonne unit (mtu) which, by inference, would suggest a price for concentrates of around US\$215 to US\$225 per mtu.

Clearly the effect of the dramatic fall in the comparative value of the Australian dollar to the US dollar has had a most favourable influence on the economics of the Project, although it is difficult to draw any long-term conclusions as to what exchange rate should be used until the situation has stabilised for some time. For the purposes of this update an exchange rate of 0.70 AUD per USD has been used.

Resources

The company has very recently requested specialist resource consultants, McDonald Speijers, to re-model the deposit using their "Recovered Fraction Modelling" (RFM) technique. The initial review of the applicability of this method to Watershed has been favourable and it may generate a new model with a legitimate higher-grade resource amenable to economic extraction by selective mining. Pit optimisation based on a selective mining scenario will also be completed. This model will be completed in December.

The existing kriged models are not suitable for studies of selective mining of the Watershed deposit where higher grades are confined to volumes smaller than the block sizes and the distribution of higher grade mineralisation shows strong variability over short distances.

In an attempt to overcome this, the company has recently engaged specialist mineral resource consultants McDonald Speijers as noted above. The RFM technique was developed by McDonald Speijers in-house in the 1980s for use in open cut gold mines in Western Australia. Its pedigree is operational rather than theoretical and the method has been successfully applied to numerous mining situations - to gauge if extraction of individual parcels of mineralisation, for which the cost of conventional delineation by exploration and development drilling would have been prohibitive, was viable – where strong short-range variability of metal grades occur, such as is the case at Watershed.

Mining / Geotechnical

A total of seven geotechnical holes have been drilled at strategic locations across the deposit to assess the overall rock quality. This work was designed by geotechnical and mining consultants, Dempers and Seymour in mid 2008. A mining rock mass model was generated from a study from Vital's drilling. This work and data have been used in the design of a series of open pits.

The pit optimisation studies, based on the Hellman & Schofield resource model of measured and indicated resources at a 0.2% WO₃ lower cut-off grade, generated a mining program that initially will target an annual mining rate of 450,000 tonnes of mineralised material. This will support an initial six year mine life and have a Run of Mine (ROM) grade of 0.35% WO₃.

This mining scenario generated an average strip ratio of 9:1 and the current work using Recovered Fraction Modelling is looking to achieve a better situation.

This mining scenario involves a series of four pits, designed at the crest of the Watershed deposit, with the associated waste dumps designed to encapsulate the tailings from the process plant.

The mine plant designed in the current scenario involves the extraction of less than 20 per cent of the established global resource of contained WO₃. With improved knowledge of the deposit and improved tungsten prices, there is ample capacity to increase the overall scale of operation by several multiples of the planned 450,000 tonnes per annum.

Much of the inherent planning (infrastructure, power supply, tailings disposal and environmental considerations) has been conducted on the basis of an operation of up to four times the scale.

Metallurgy

The processing of the Watershed material is simple and should incur no difficulties in achieving an acceptable total metallurgical recovery of approximately 76 per cent throughout the deposit, and will yield a clean, saleable concentrate grade better than 65% WO₃ with very minor penalty inclusions.

Vital Metals has conducted a very thorough metallurgical development and testing program on both drill cores and five large bulk samples of the Watershed material under the management of metallurgical consultants, John W. MacIntyre and Associates. This has included exhaustive test work on the development of an X-Ray ore sorting ore pre-concentration method, using standard equipment, which is ideally suited to the Watershed mineralisation.

Consistent and reproducible results of the Ore Sorting process has led to the decision to commit to this innovative pre-concentration stage in which approximately 50 per cent of the ROM material is removed from the process flows while achieving a stage recovery of 93 per cent, with a consequent doubling of the grade for further wet concentration.

Treatment of the reduced tonnage 'accept' product from the ore sorting is best achieved by a simple gravity process, involving passing quite coarse minus 600 micron material over rougher and scavenger spirals. The spiral concentrates are then passed over three stages of shaking tables producing a high-grade (67% WO₃) saleable concentrate, containing half the final recoverable scheelite. The spiral tailings are screened thereby producing two fractions, namely, a coarse tailings fraction and a fines fraction for further treatment by fatty acid flotation. Grinding costs have been reduced significantly because only half the ore needs to be ground to the quite coarse grind size of 600 microns. The flotation feed contains only 22 per cent of the total mass, thus reducing the flotation costs quite significantly. Thus the proposed flow sheet is quite innovative and extremely cost effective.

Although the final trials on the flotation portion of this process have not been completed, sufficient information available from sighter tests predict an overall metallurgical recovery of the contained WO_3 of approximately 76 per cent; a satisfactory and acceptable norm for the tungsten industry.

The company is confident that an overall saleable product containing greater than 65% WO_3 as per standard concentrate specifications can be produced with negligible penalty inclusions and should be a most desirable product on world markets.

Environmental

The company has completed a full Environmental Impact Statement (EIS) and Environmental Management Plan covering all aspects of the proposed mining and processing operation, both of which have been submitted to the Queensland EPA. The Watershed environmental approval process was initiated by Vital Metals in 2007 and the EIS was submitted in February 2008. The full environmental approval process can take between 12 to 18 months with Watershed at an advanced stage with Project Environmental Authority (EA) approvals expected by early March 2009.

Site based environmental and ground water monitoring is continuing on site.

Reduced Scale of Operation

From the outset of this Feasibility Study, the company envisaged a mine that would have a mine output of 4,000 tonnes per annum of tungstates (WO_3) concentrate. From the extensive investigative work, it is apparent that a mine of this size would require initial capital expenditure of an estimated A\$150 million, which in the current credit market would be a difficult proposition for the company.

Much of the inherent planning for the Watershed venture has been conducted on the basis of the larger operation, including power supply, waste rock and tailings storage and the whole Environmental Impact Study. The process plant also has been designed with modular units suitable for progressive increases in capacity up to 400 per cent of the scale studied here. This will serve the company well for future expansion.

Due to the recent credit crisis, the directors believe it prudent to design a mine that has a lower throughput and lower capital cost, but is designed in such a way that it is easily expandable to a higher production capacity.

By planning the mine for an annual throughput of 450,000 tonnes per annum and annual concentrate production of 1,180 tonnes, the capital cost is lower, at approximately A\$50 million, yet the operation would have the flexibility to increase production relatively simply, for moderate capital cost should the opportunity arise.

Capital Cost

It is now the company's intention to design a mine that will produce approximately 1,180 tonnes per annum WO_3 concentrate and design a process plant that is expandable and extendable. The plant will be designed to process 450,000 tonnes of ore per year, which can be constructed in modules and the capacity increased with minimal disruption.

Estimated costs for the major capital items are as follows:

Access road upgrade	\$ 6.5m	(Includes floodways and road upgrade)
Accommodation village	\$ 5.0m	
Power installation	\$ 2.0m	(Power generation by on-site plant)
Fuel storage	\$ 1.0m	
Process Plant	\$11.5m	
Tails storage facility	\$10.0m	(Co-disposal with waste rock material)
Contingency 15%	\$ 5.4m	

Sub Total	\$41.4m	
Working Capital	\$ 8.6m	

Total	(AUD) \$50.0m	

Thus the total capital cost for the reduced scale operation at 450,000 tonnes per year is A\$50 million, including working capital of A\$8.6 million.

Operation Economics

The published price for APT, the upgraded concentrate product, has held up to be remarkably firm at between US\$250/mtu to US\$260/mtu. The tungsten market has been very resilient in this period of financial market volatility. The outlook remains strong.

The decline of the AUD/USD exchange rate from 0.98 to approximately 0.70 has significantly improved the project viability. The study has been based on a 0.70 exchange rate, a ROM grade of 0.35% WO₃ and a stripping ratio of 9:1 (which may improve under application of the RFM method).

The cash cost of production (before capital repayments) is estimated at US\$168 per metric tonne unit, a figure which may improve with an alternate resource modelling technique, more applicable to the Watershed ore body. The objective will be to reduce the cash operating costs below US\$150/mtu, which will ensure that the project is globally competitive throughout the life of the mine.

Vital has looked at the viability of constructing a high voltage power line on the access road corridor from the Mulligan Highway, a total of 25 kilometres away. The cost of the transmission line and switch gear was estimated at A\$16 million. While the operating cost for this grid power was relatively low in comparison to on-site generated power, the company has decided to generate on-site power to reduce the front-end capital expenditure.

Conclusions

Building on the exploration work undertaken by Utah Development Corporation, Vital Metals is close to completing the Feasibility Study for the Watershed Tungsten Project. The Company has spent a large amount of shareholder funds on additional drilling to further define the resource and over A\$3 million on metallurgical testing and on project design work.

The large body of work collated to date clearly indicates that Watershed is one of the best undeveloped tungsten projects in the world. The tungsten price has held up very well despite extreme volatility of financial markets. There are no new large supply sources coming on-stream in the immediate term, a situation which should continue to underpin strong tungsten prices.

Watershed can produce high quality tungsten concentrates at a cash cost of US\$168 per metric tonne unit, a cost which may be reduced significantly if the current re-assessment of the resource model proves successful. The proposed operation scaled at 450,000 tonnes of ore per annum, has an estimated capital cost of A\$50 million, including a working capital allowance of A\$8.6 million.

Much of the planning is adequate for a much larger scale operation (4,000 tonnes per annum of contained WO₃) should economic circumstances improve and justify such an expansion.

The concentrates produced will be very clean, with negligible penalty inclusions and should be a most desirable product on world markets.

The only work remaining for completion of the full Feasibility Study is to complete the final pit optimisation, some defining flotation tests on ore treatment, finalisation of tails storage design and compilation of the final report. This work is in abeyance at present due to cash restrictions but could be completed for an estimated A\$2.0 million over a period of three to four months.

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For further details, refer to the company's website, www.vitalmetals.com.au or contact:

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Note: "The information in this report that relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Bruce Arthur Pertzel, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Pertzel 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 Pertzel consents to the inclusion in the report of the matters based on his information in the form and context in which it appears."