

Report for Quarter Ended 31 December 2005

Highlights

- Vital Metals Ltd listed on the ASX on 11 October 2005 after raising \$8 million and closing oversubscribed.
- Development program commenced at Watershed, North Queensland, with access road opened, camp facilities established at site and commencement of diamond drilling.
- Very encouraging preliminary metallurgical results.
- Environmental baseline study in progress.
- The tungsten price remains extremely strong, and a new plateau above US\$200 per metric tonne unit for both concentrates and APT (ammonium paratungstate) now established for the past three months.
- Continuing interest from major international consumers, with requests for long-term supply agreements.
- Head office established in Subiaco, Western Australia.

Watershed Project

1. General

The Watershed Project area is located to the east of the Peninsula Development road, at the southern end of Cape York Peninsula, about 30 km north-east of the township of Mt Carbine. Access is via a 23 km track, originally opened by the Utah Development Company (UDC) in 1978.

Since completion of the acquisition of the tenements at listing, Vital has re-opened and graded the access road and established a fully functional 20 person camp at site with appropriate support personnel.

Contact has been made with the Aboriginal group listed as the local traditional owners to facilitate cultural heritage clearance over the appropriate areas under investigation.

Vital Metals considers the information obtained from the previous drilling (1978-1984) and the quality of the database available for the Watershed deposit fully justifies that the company progress immediately to an advanced stage technical and economic investigation. Such work will be conducted to a standard, and in sufficient detail, for use in a comprehensive feasibility study adequate for submission to a financial institution (i.e. a 'bankable' study).

Level 1, Churchill Court, 335 Hay Street, SUBIACO WA 6008
PO Box 8243, SUBIACO EAST WA 6008

telephone: 61 8 9388 7742 fax: 61 8 9388 0804
email: vital@vitalmetals.com.au www.vitalmetals.com.au

ABN 32 112 032 596

Almost all of the planned work program will be dedicated to this purpose with the work to be carried out as rapidly as is commensurate with sound engineering practice.

2. Resources

In 1983, based on some 14,000 metres of diamond core drilling, UDC estimated an Inferred Resource for the Watershed scheelite deposit to be 13,900,000 tonnes at an average WO_3 content of 0.35 percent, for a contained tungstic trioxide (WO_3) content of 48,600 tonnes. There is significant potential for extensions to this tonnage at depth and, particularly, to the north.

All UDC drill core, acquired between 1978 and 1984, remains stored at site.

The deposit outcrops near the top of a prominent ridge, suggesting a simple open-cut would be most suitable for ore extraction.

With the establishment of the operational camp facility at site, a first-stage diamond drill contract, comprising 5000 metres, has been let to the Townsville-based, Radial Drilling Company. Two Longyear drill rigs commenced work on the Project during the quarter.

The purpose of the drilling is twofold:

- (a) To obtain an initial 1500 kg of large diameter core for metallurgical purposes prior to the 2005/06 "wet season".
- (b) To infill between the previous holes drilled by UDC, where and if required, to allow an upgrade of the JORC Classification of the (Inferred) Resource to a standard suitable for Project Development and Financing.

A modest portion of the future program will involve drill investigation of extensive surface indications of scheelite located several hundred metres north of the currently defined resource.

To date, some 237 metres of PQ (83 mm), 372 metres of HQ (63.5 mm) and 295 metres of NQ (47.6mm) core has been drilled but none of this has been cut or assayed (the PQ core will be sent 'as is' direct for metallurgical studies).

It is probable that the drilling program will need to be suspended if the normal wet season conditions are experienced – notionally from end January to end March.

3. Metallurgy

Promet Engineers of Perth have been commissioned to undertake the initial metallurgical investigations on the recovery from the Watershed scheelite ore.

Following the lead of UDC, the intention is to incorporate into the treatment flow sheet, a low-cost pre-concentration stage involving coarse crushing and ore sorting based on the unique property of the scheelite ore to 'fluoresce' (spectacularly) in ultraviolet C light. The majority of the contained scheelite is coarse grained and the material appears to be ideal for such a simple pre-concentration stage.

Using mineralised portions of the original UDC drill core, Promet conducted a preliminary ore sorting trial in late 2005, involving crushing and hand sorting under ultraviolet light.

The results were encouraging.

At a crush size of 20 mm – well within the size capability of conventional equipment – the trial eliminated approximately 68 percent of the feed material as waste and produced two higher-grade product streams;

1. An upgraded, coarse pre-concentrate comprising 15 percent of the total mass and,
2. A fines component, also containing about 15 percent of the total feed weight.

These two streams, when combined, contained over 98 percent of the total tungsten. It is significant that the overall recovery was not improved by reducing the crush size to 10 mm.

During this sorting process the WO_3 grade of the coarse product was improved by a factor of 3.8 while the fines graded 2.9 times the tungsten level of the original feed.

While this test was conducted under optimal conditions, and on a small sample, the results are consistent with those achieved by UDC in the early 1980's, on modest size samples, using a prototype commercial ore sorting machine in Melbourne. Their multiple tests yielded recoveries of plus 90 percent with coarse fraction grade improvements of between 3.5 and 4.

There are very substantial potential economic benefits inherent in the successful application of ore sorting technology for this deposit although some conventional development work will need to be completed to facilitate its use on scheelite ore at a commercial scale. Promet Engineers, on behalf of Vital Metals, are pursuing this internally and with various equipment manufacturers throughout the world.

4. Environmental

Environmental and Licensing Professionals of Brisbane (ELP) have been commissioned to undertake a detailed environmental baseline study of the Watershed area, including areas likely to be affected by any mining operation. The purpose of this work, which has already commenced, is to facilitate the assessment of any effects a future mine at Watershed may have upon the local environment.

It is necessary that such a study includes conditions prevalent in the wet season and such studies will be conducted, as much as possible during the early months of 2006.

Mt Alexander Project

With the high level of activity at the Watershed property in North Queensland, no meaningful work has yet commenced at Mt Alexander in north-west Western Australia, although the company has progressed the grant of two key Exploration Licence Applications through consultation and agreement with the relevant Native Title Claimant Group.

The company expects to carry out an RC drilling program on established targets at Moodang Well and Love's Find before mid-2006.

Mt Mulgine

As for Mt Alexander, there has been insufficient time in the period since listing to begin field work at Mt Mulgine but geological assessment and interpretations of the newly available aerial geophysics will begin in the first quarter of 2006.

The Tungsten Market

The market for tungsten concentrates and the upgraded intermediate product, ammonium paratungstate (APT), remains extremely strong and the long-term outlook remains excellent.

Major international consumers and industry reports have confirmed that exports from China continue to decline and new Western production is urgently required to meet ongoing increases in demand.

These major international consumers continue to indicate a strong interest in entering into long-term supply agreements with our company, and once the production program at Watershed is fully confirmed.

During the past three months, the price has stabilized above US\$200 per metric tonne unit (mtu) of WO₃ (A\$26,500 per tonne) with the Metal Pages reporting current levels of over US\$220 per mtu for concentrates and US\$260 per mtu for APT.

Corporate

At 31 December 2005 the company had approximately \$6.5 million dollars in cash.

The company has 70,050,003 ordinary shares on issue (including 5.95 million escrowed for 2 years from date of listing) and 4,830,000 options on issue (including 4.5 million escrowed for 2 years from date of listing).

Vital moved into to new office facilities at the beginning of 2006. The company's new contact details are:

Level 1, 335 Hay Street, Subiaco WA 6008

P O Box 8243, Subiaco East WA 6008

Telephone: 61 8 9388 7742

Facsimile: 618 9388 0804

E-mail: vital@vitalmetals.com.au

Contact Details: Mr W (Bill) Ryan
Telephone: 61 8 9388 7742