

## **Report for Quarter Ended 31 March 2006**

### **Watershed – North Queensland**

#### **Summary**

Work continued on the Watershed Project during the quarter with the completion of the last of four PQ/HQ size metallurgical drill holes and two in-fill holes which were drilled as 'twins' of previous Utah Development Corporation (UDC) holes to obtain a direct comparison of the new and prior results within the main Watershed deposit.

The metallurgical cores were not split nor assayed but were sent direct to Perth to be prepared for both ore sorting test work and conventional mineral dressing tests. The ore sorting work trials will be carried out in Hamburg, Germany in the second half of May under the direct supervision of Vital's metallurgical consultants, Promet Engineers Pty Ltd.

The mineral dressing work has begun at Lakefield Orestest in Perth, again under Promet's supervision.

The company has extended the environmental baseline program to include more detailed investigations, including flora and fauna field studies, to ensure all the required data is collected to enable the completion of a full environmental status report during the current season. This work will be completed during the June quarter.

Unsatisfactory performance by the previous diamond drilling contractor has led to a mutual termination of the contract. A new contractor has been engaged but the drilling program will be delayed for several weeks following the Easter break. Heavy rains and flooding following Cyclone Monica has prevented an immediate start to further field work with local highways and tracks currently impassable.

#### **Drilling**

Apart from the completion of the four metallurgical sampling holes, two smaller diameter (HQ/NQ) holes were drilled as twins to previous UDC holes to check consistency and assay reliability. The two new holes MWD077 and MWD078 replicated Utah holes MWD026 and MWD037 respectively. Location details are given in Table 1.

This two-hole program was designed, prior to Vital's re-interpretation of the Watershed geological model, to test two of the three major mineralised zones defined by UDC – the Central and Western Zones – in the north-western and central western sectors of the deposit.

Part of this overall exercise has been a comprehensive evaluation of assaying methods, consistency and reliability available from local laboratories. This has required a considerable amount of background work by Vital Metals, in conjunction with its geochemical consultants. The result has been the development of a comprehensive Quality Assessment and Quality Control (QA/QC) protocol (as required for full compliance with the JORC Code) for all assaying to be used in formal resource and reserve assessment. Both XRF and ICP assaying methods have been investigated during this program.

The mineralised sections of core from the two 'twin' holes have been assayed (and re-assayed) with some interesting conclusions. The best intercepts within the mineralised zones of the two new holes are given in Table 2. The intercepts are generated at a nominal 0.1% WO<sub>3</sub> cut-off grade and refer to down-hole lengths and, according to the UDC model, represent approximate true widths.

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In Vital Hole MWD077 the results included 8 metres at 1.138% WO<sub>3</sub> (from 232 metres), 7 metres at 0.389% WO<sub>3</sub> (from 189 metres) and a new zone of 12 metres at 0.182% WO<sub>3</sub> (from 144 metres) - an intercept that was not encountered in the equivalent UDC Hole MWD026. The MWD077 intercept for the whole of the Central Zone was 9 metres at an average grade of 1.028% WO<sub>3</sub> compared with the UDC grade of 0.253% in the equivalent position.

In Vital Hole MWD078 the significant intercepts were 4 metres at 0.863% WO<sub>3</sub> (from 61 metres) and 2 metres at 0.221% WO<sub>3</sub> (from 70 metres).

The intercepts in Vital's twin holes show some variation in detail when compared with the UDC data. While the results of just two holes cannot be interpreted as statistically significant at this stage, the comparison of all the intercepts within these holes, on a metre percent WO<sub>3</sub> basis, show a quantum of mineralisation 21 percent higher than the UDC figures.

Vital has yet to carry out re-sampling of the UDC cores for comparative analysis but such is planned for the future.

### **Metallurgy**

Ore sorting test work will be conducted at the equipment manufacturers premises in Germany during late May in what will be an important factor in the Watershed economic assessment. More conventional mineral dressing trials are in progress at Lakefield Oretest in Perth, with the results of both programs expected around mid year.

### **Environmental**

The current impact of Cyclone Monica on Cape York Peninsula has had an effect on operations and has extended the expected duration of the wet season. The conditions are such that there is an opportunity to expand the environmental assessment program to allow a more detailed and formal assessment of all of the environmental factors that any future mine development may impact. The full ambit of aquatic ecosystem investigations, flora and fauna field studies including identification and trapping and the like should be completed during the June quarter.

### **Outlook**

Whilst the important infill drilling program will be delayed by several weeks, the work is expected to resume in the June quarter, initially with one rig; probably expanding to two soon thereafter, and the company is confident of recovering lost time before the end of 2006. The remainder of the work and development program is on or ahead of schedule.

## **Mt Mulgine – Western Australia**

Evaluation of the Mt Mulgine tungsten-molybdenum project continued during the period. A representative suite of samples of mineralisation (5 samples) from the Trench and Hill tungsten/molybdenum deposits, and their host rocks (6 samples) was collected from core generated in historical drilling campaigns of the 1960s and 1970s. This rock suite was subjected to physical measurements to assist in the selection of appropriate geophysical methods that could be applied in the evaluation of the mineralisation potential of the project area, outside of the known deposits. Physical properties of Induced Polarisation (IP) effect (chargeability), electromagnetic conductivity, galvanic resistivity, magnetic susceptibility, bulk density and short wavelength Ultra violet fluorescence responses were determined.

Vital's consultant geophysicists supervising this work have recommended a detailed ground gravity survey be conducted and planning is in train for this survey to be implemented during the June 2006 quarter.

The conversion of all previous exploration data into a digital format, whereby database compilation and manipulation by computer software that will aid interpretation can be undertaken is well advanced. This will be the first time that the comprehensive historical exploration data for the Mt Mulgine project has been compiled into a digital format database. This process is being assisted by the compilation of an interim database by Vital's joint venture partners, Gindalbie Metals Ltd. Vital will now undertake the task of establishing the veracity of the database and initiate the construction of a three dimensional representation of surface and sub-surface exploration results. This will produce an invaluable aid to further evaluation of the project area and the generation of new exploration targets.

## **Mt Alexander – Western Australia**

Planning has commenced for the conduct, commencing in the June 2006 quarter, of field work in the Mt Alexander group of tenements. Exploration Licences E08/1410 and E08/1411 were granted on 21 March 2006 and field work will commence within these tenements once track access can be re-established.

There has been an extended wet season in the region that has included the passage of two cyclones over the Mount Alexander prospect which brought extensive rainfall and associated access problems.

**Table 1 Details of Utah and Vital's Check Drill Holes**

Twin Hole Details - Vital (2005-2006) vs UDC (1981-1982)					
Hole ID	Northing	Easting	Azimuth magnetic	Declination degrees	Total Depth (m)
Vital MWD077	92357.35	73639.70	072	-60	250.7
UDC MWD026	92350.00	73635.50	072	-60	253.0
Vital MWD078	92790.10	73741.25	075	-55	306.9
UDC MWD037	92791.50	73743.00	075	-55	302.1

Notes: *Drill hole collar details are based on local grid  
Intercepts are down hole lengths and approximate true widths  
Intercepts generated by application of a nominal 0.1% WO3 grade cut-off*

**Table 2 Intercepts of Scheelite Mineralisation**

Vital Metals Holes (2005-2006)				
Hole ID	Downhole Interval (m)		Intercept (m)	Average Grade %WO <sub>3</sub>
	From	to		
MWD077	130.0	131.0	1.0	0.240
MWD077	144.0	156.0	12.0	0.182
MWD077	189.0	196.0	7.0	0.389
MWD077	232.0	240.0	8.0	1.138
MWD078	61.0	65.0	4.0	0.863
MWD078	70.0	72.0	2.0	0.221

Notes: *Intercepts are downhole lengths and approximate true widths  
Intercepts generated by application of a nominal 0.1% WO<sub>3</sub> grade cut-off*

## Corporate

At 31 March 2006 the company had approximately \$5.6 million in cash.

The company has 70,050,003 ordinary shares on issue (including 5.95 million escrowed for 2 years from the date of listing) and 5,630,000 options on issue (including 4.5 million escrowed for 2 years from the date of listing).

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For further information refer to the company's website at [www.vitalmetals.com.au](http://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 William James Ryan, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Ryan is a full time employee of Vital Metals Limited 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 Ryan consent to the inclusion in the report of the matters based on his information in the form and context in which it appears."*

27 April 2006