

Report for Quarter Ended 30 June 2006

Highlights

- Re-commencement of resource drilling at Watershed
- Completion of first stage metallurgical test work for Watershed
- Completion of environmental field survey at Watershed
- Completion of detailed gravity survey at Mt Mulgine

Watershed – North Queensland

Resource Drilling

Work on the Watershed scheelite project in far North Queensland has continued as rapidly as possible during the quarter.

The previous drilling program, which began in late November 2005, continued until the end of January 2006. During this period four PQ diamond core, metallurgical sampling holes and two HQ/NQ exploratory holes (twinning two of the previous holes drilled by Utah Development) were completed. However, the drilling performance was generally unsatisfactory and new contractors were sought. As a consequence, there has been no drilling activity for the past five months.

The company's technical personnel have used this interim period to re-log much of the original Utah Development core and to become more familiar with the detailed geology of the deposit.

Diamond drilling re-commenced on 10 July with one rig and a second rig began work on 24 July. Each rig is contracted for a minimum of 4000 metres and some extension to these meterage figures is anticipated.

The commitment is for these rigs to operate on two ten-hour shifts, every day, with the objective being to drill a series of some 50 in-fill holes. These will complement the Utah database to attempt to convert the current Inferred Resource of 13.9 million tonnes at 0.35% WO₃ to Measured and Indicated Status, commensurate to that required for a Feasibility Study suitable for an independent financier. Drilling is also planned to investigate defined tungsten targets which are located to both the grid north and south of the currently defined limits of the Watershed deposit. A few of the in-fill holes will be extended to probe the depth extensions of the known deposit.

Given reasonable expectations of the drilling rates, the bulk of this work should be completed by the end of 2006, although it is likely that drilling will continue until the start of the 'wet season' in 2007.

It is the directors' intentions to release the results from groups of completed holes once all assay data has been received and verified.

EPM14735

In addition to the work on the main deposit (which is located on MDL127) described above, the company will also conduct a program of geochemical sampling and target verification on EPM14735 (owned by Republic Gold Limited), which surrounds and adjoins the MDL mainly to the south. Vital purchased the rights to any tungsten mineralisation on this EPM from Republic Gold, prior to Vital's listing and has an obligation to a minimum expenditure of \$75,000 before the end of 2006. Preliminary investigations have suggested several promising targets for tungsten mineralisation within EPM14735.

Metallurgy

The first stage of the metallurgical test program, being managed by our consultants, Promet Engineers Pty Ltd, is essentially complete. This has included the following:

- Mechanised ore sorting tests on 5 Watershed samples at the equipment manufacturers test facilities in Hamburg, Germany, under Promet's supervision. These tests, visually, were very promising on the high and medium-grade samples but no assay data is yet available. On the low-grade material, it was not possible to gain an impression of the effectiveness of the separation without analysis.
- Conventional mineral dressing work was carried out at the Lakefield Oretest facilities in Perth. Five samples were tested, with grades varying from 0.07% WO₃ up to 0.81% WO₃. The characteristics of each sample determined included in-situ density, UCS (Uniaxial Compressive Strength), Abrasion Index, Crushing Work Index and Bond ball mill Work Index. The UCS and abrasion indexes were high and the two Work Index numbers were medium to high.
- Heavy Liquid Separation tests, using methylene iodide, at various crush sizes indicates excellent liberation of the scheelite particles at the coarse size of 0.3mm. Some of the assay results for this work are still pending. Flotation tests on the fine fraction will commence shortly.
- A preliminary metallurgical treatment route involving gravity separation for the coarse fraction and flotation for the fines has been proposed and the second stage of development work will be based around this scheme. The metallurgical process route has been designed to operate both with and without pre-concentrating via ore sorting, depending on results yet to come.

Environmental

A comprehensive series of field surveys to assess the status of the local water drainages and flora and fauna occurrences was carried out under the supervision of Vital's environmental consultants during May and June. The purpose of this work was to facilitate the compilation of a thorough Environmental Baseline Study which will be essential in the future assessment of the effect of a mining operation on the local and regional environment.

Mt Mulgine – Western Australia

A representative suite of both mineralised and un-mineralised core samples from the Hill and Trench deposits was tested for physical properties to help choose appropriate geophysical exploration methods. Ground gravity surveying was determined to be the most effective technique to assist mapping of lithologies and to discern potentially mineralised granite bodies and apophyses underlying mafic units.

A ground gravity survey was completed over the project area, with detailed coverage in the central portion of the tenement package. Preliminary interpretation has identified several gravity lows and interpretation and modelling of the data is continuing with an infill program of closer spaced gravity surveying planned in the next quarter. Integration and reinterpretation of geophysical data collected by previous explorers was also completed.

Compilation and verification of the geological and geochemical database is continuing and will facilitate interpretation of the geophysical data and assist in exploration targeting.

Mt Alexander – Western Australia

A field visit was conducted by the company's geological team in the company of a world authority on skarn deposits who also compiled a mineralogical report. The main conclusions of the report are that: (a) that at Moodang Well, three types of ore assemblages occur in outcrop. The most common scheelite-bearing skarn assemblage is dominated by vesuvianite, because the original rock was a dolomitic marble; (b) that at Love's Find, mineralisation is hosted by a tactite (garnet-rich skarn).

An exploration and drilling program is at the planning stage.

Corporate

At 30 June 2006 the company had approximately \$4.9 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 18 million escrowed for 1 year from 4 October 2005) and 6,480,000 options on issue (including 4.5 million escrowed for 2 years from the date of listing).

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

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27 July 2006

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

VITAL METALS LTD

ABN

32 112032596

Quarter ended ("current quarter")

30 JUNE 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(388)	(1,563)
(b) development		
(c) production	(325)	(927)
(d) administration		
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	76	236
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Net Operating Cash Flows	(637)	(2,254)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c) other fixed assets	(36)	(322)
1.9 Proceeds from sale of: (a)prospects		
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material) Bonds	0	(60)
Net investing cash flows	(36)	(382)
1.13 Total operating and investing cash flows (carried forward)	(673)	(2,636)

+ See chapter 19 for defined terms.

Appendix 5B – Vital Metals Ltd
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(673)	(2,636)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		7,184
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows		7,184
	Net increase (decrease) in cash held	(673)	4,548
1.20	Cash at beginning of quarter/year to date	5,592	371
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	4,919	4,919

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	114
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

The Company continued exploration activities during the quarter.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	N/A	
3.2 Credit standby arrangements	N/A	

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,800
4.2 Development	
Total	1,800

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	32	76
5.2 Deposits at call	4,887	5,516
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,919	5,592

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B – Vital Metals Ltd
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	70,050,003	46,100,003		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

+ See chapter 19 for defined terms.

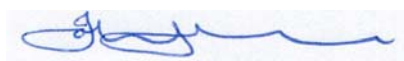
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7.7	Options <i>(description and conversion factor)</i>	2,830,000 options over fully paid shares 1:1		<i>Exercise price</i> 20 cents	<i>Expiry date</i> 30 June 2008
		2,000,000 options over fully paid shares 1:1		20 cents	30 June 2008
		800,000 options over fully paid shares 1:1		20 cents	9 March 2008
		850,000 options over fully paid shares 1:1		20 cents	1 June 2008
7.8	Issued during quarter	850,000		20 cents	1 June 2008
7.9	Exercised during quarter	Nil			
7.10	Expired during quarter	Nil			
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX](#) (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



(Company secretary)

Date: 27 July 2006

Print name: John Sobolewski

Notes

+ See chapter 19 for defined terms.

Appendix 5B – Vital Metals Ltd
Mining exploration entity quarterly report

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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