

REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2008

Highlights

- **Initial results were received from the first holes of the 2008 Watershed drill program, which confirmed further extensions to the tungsten mineralisation to the south-west and north, outside the defined resource. See Table 1 which sets out Watershed Deposit Resource Estimate dated July 2008.**
 - **The Watershed conceptual process flow sheet was completed.**
 - **Results were received from another seven diamond drill holes in the 2008 Watershed drill program confirming extensions to scheelite mineralisation outside the defined resource.**
 - **The Company decided to reduce the pace of the work being undertaken by external contractors on the Watershed Feasibility Study in order to conserve cash during the current period of significant volatility in world financial markets.**
 - **Results were received from 3D inversion modelling carried out on the Moodang Well prospect, which forms part of the Mt Alexander Project.**
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**Table 1: Watershed Deposit Resource Estimate
(Hellman & Schofield July 2008, MIK resource estimate)**

%WO ₃ cutoff	Category	Mtonnes	Grade WO ₃ %	Contained WO ₃ (tonnes)
0.05	Measured	4.7	0.17	
	Indicated	24.3	0.15	
	Measured + Indicated	29.0	0.15	43,500
	Inferred	15.9	0.16	
	Total	44.9	0.16	71,800

0.10	Measured	2.8	0.23	
	Indicated	12.9	0.21	
	Measured + Indicated	15.7	0.21	33,000
	Inferred	9.0	0.23	
	Total	24.7	0.22	54,300

0.15	Measured	1.8	0.29	
	Indicated	7.7	0.28	
	Measured + Indicated	9.5	0.28	26,600
	Inferred	5.7	0.30	
	Total	15.2	0.29	44,100

0.20	Measured	1.2	0.35	
	Indicated	4.8	0.34	
	Measured + Indicated	6.0	0.34	20,400
	Inferred	3.9	0.36	
	Total	9.9	0.35	34,700

Corporate

Financial

Vital Metals Ltd now has on issue 109.54m shares and 4.38m unlisted options exercisable at various prices. Cash at bank as at 30 September 2008 was \$2.0m.

Board Structure

Mr Peter Knowles was appointed as a non-executive director on 20 August 2008. On 1 September 2008, well respected non-executive director Ross Kennedy retired due to personal health reasons.

Watershed Project

First Results from 2008 Watershed Drilling

Results were received for the first five diamond drill holes in the 2008 Watershed drill program.

Three of the four holes situated in the south-west extension area contain high-grade intercepts of scheelite and further define the westward extension to the shallow mineralisation in this area. The fourth, most southerly hole (MWD226), contained no significant mineralisation.

The fifth hole (MWD228) is situated north of the defined resource and further extends the mineralisation beyond the current northern limits of the deposit. Drill hole MWD228 is the most northerly hole drilled by Vital to date in the main area of the deposit. It also hosts one of the Project's best-ever intercepts, with 6 metres at 2.55% WO₃.

- Best results – south-west extension:

MWD223 - 3m at 1.08% WO₃ from 132m
MWD224 - 4m at 2.13% WO₃ from 79m
 - 12m of 0.77% WO₃ from 85m
MWD225 - 2m at 0.79% WO₃ from 99m
 - 7m at 0.41% WO₃ from 103m

- Best results - northern area

MWD228 - 7m at 0.44% WO₃ from 114m
 - 6m at 2.55% WO₃ from 143m

Drilling continues to show high-grade tungsten mineralisation over an expanding area and further verifies the potential long-term value in persisting with the progressive, staged, development of Watershed, designed to extract full benefit from this world-class resource.

Further 2008 Watershed Drilling Results

Results from another seven diamond drill holes in the 2008 Watershed drill program were received. The results confirm that widespread scheelite mineralisation persists outside the known limits for the previously announced resource estimates.

Best results include:

- MWD227 - 1m at 4.30 % WO₃ from 69m
- 3m at 0.67% WO₃ from 84m
- MWD229 - 25m at 0.70% WO₃ from 7m
- 9m at 0.52% WO₃ from 44m
- 3m at 0.70% WO₃ from 56m
- 3m at 1.78% WO₃ from 97m
- 1m at 5.23% WO₃ from 168m
- MWD231 - 6m at 0.62% WO₃ from 62m
- MWD233 - 5m at 0.41% WO₃ from 120m
- MWD235 - 6m at 0.48% WO₃ from 34m

The results for MWD227 confirm extensions to known mineralisation in the northeast of the estimated resource.

The significant extension to mineralisation encountered in drill hole MWD228 north of the estimated resource limits has been confirmed by the results of MWD229, collared 50 metres to the south.

The results for diamond drill holes MWD232, MWD233 and MWD235 confirm that scheelite mineralisation extends into the previously undrilled 200 metre gap between the southern limit of the main resource area and the south-western extension area.

The results for MWD230 and MWD231 confirm that scheelite mineralisation extends outside the north-western limits of the estimated resource.

Conceptual Process Flow Sheet Completed

The Company has completed the major metallurgical test program components required to finalise the tungsten process plant flow sheet for the Watershed Project in far North Queensland.

These detailed technical parameters and costs relate to an initially 'reduced scale' operation as announced in the June Quarterly Report.

The plant has been designed to initially process 450,000 tonnes per annum of scheelite ore, with flexibility to expand both the mining and process plant at a later time.

According to initial calculations, the total cost per tonne processed has been estimated at A\$40.96 (final mining costs pending final pit designs) or A\$156.03/metric tonne unit (US\$134/mtu) while revenue per tonne processed will be approximately A\$61.05 or A\$233.00mtu.

The calculations are based on an Australian Dollar exchange rate of US\$0.86, and assume a head grade of 0.35% WO₃ with 75 per cent metallurgical recovery.

Ore-sorting continues to play an important role in both up-grading the feed to downstream secondary processing, as well as eliminating approximately 50 per cent of the ROM feed as a reject waste product.

Down-stream processing of the ore-sort accept product follows conventional tertiary crushing and screening, with rod mill product feeding a bank of spirals producing rougher and scavenger concentrates. Spiral tails are screened with coarse product reporting direct to tailings while ore fines are subjected to fatty acid flotation in a scavenger role.

Scheelite concentrates from both the gravity and flotation process circuits are further upgraded by means of multiple tables, thereby producing an on-specification, 'plus' 65% WO₃ concentrate product.

Pace of External Contracting Work Reduced

It was decided to reduce the pace of the work being undertaken by external contractors on the Watershed Feasibility Study in an endeavour to conserve cash during the current period of significant volatility in world financial markets. The scale back is in relation to current work being undertaken on the tails dam, plant and pit design work.

The Board of Directors believes it prudent to slow down expenditure in relation to external contractors and to concentrate on refining the current resource model for the Watershed tungsten project.

The final hurdle to project start-up is dependent upon Queensland Government EPA approval, which is not expected until March 2009. Such approval is the basis upon which mining leases are granted and as such, this prudent approach is not expected to alter the current timelines for the Watershed project.

Mt Alexander WA

Results have been received from 3D inversion modelling carried out on Mt Alexander Resources Pty Ltd's (a wholly owned subsidiary of Vital Metals Ltd) Moodang Well prospect, which forms part of the Mt Alexander Project.

Moodang Well prospect is located in the southern part of the Mt Alexander Project area, approximately 280 km south of Karratha. Tungsten, in the form of scheelite mineralisation, was discovered here in the early 1970s by Australia and New Zealand Exploration Company (ANZECO).

The mineralisation is hosted within skarn and calc-silicate units in the carapace of an apparently discrete granite intrusion. ANZECO completed various exploration programmes in the 1970s including rock chip sampling, costeaning and drilling. Five separate prospects were delineated, as Zones 8, 9, 10, 11 and 12, and all, except Zone 9, were tested by shallow diamond drilling. Most drilling was within Zones 8 and 11.

Earlier this year, consultant geophysicists, Southern Geoscience Consultants were commissioned to conduct 3D inversion modelling of aeromagnetic survey data, collected in 2007, of the Moodang Well prospect.

A total of eleven target areas (as shown in Figure 1) were delineated. The target areas are zones of low magnetic responses interpreted to be attributable to granite intrusions that may be related to tungsten mineralisation. They are based on the geological model of a carapace of prospective rock units overlying shallow, volatile granite bodies. Four of these target areas are coincident with prospects delineated by ANZECO's exploration in the 1970s and their drilling of two prospects (Zone 8 and Zone 11) delineated the presence of significant tungsten mineralisation.

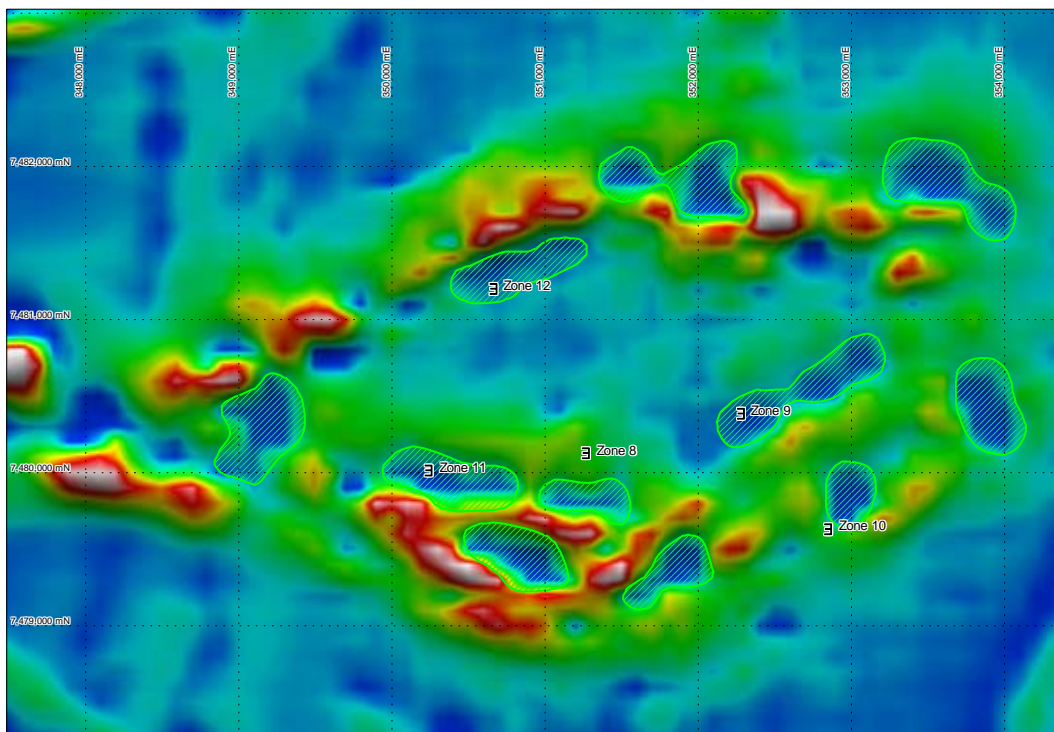


Figure 1. Moodang Well magnetic inversion (-75 m depth slice), prospects and targets (green hatching). MGA Zone 50 GDA94).

Planning is currently well advanced to enable some of these target areas to be tested by drilling in the future.

Inversion, a technique often applied to geophysical data modelling, is the determination of parameters whose calculated response match observations within a specified tolerance. The inversion modelling for the Moodang Well airborne geophysical survey was completed at a resolution of 100 m x 100 m x 50 m in the east, north and vertical directions respectively.



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Note: "The information in this report that relates to exploration results 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.

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

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