

REPORT FOR THE QUARTER ENDED 31 MARCH 2008

Highlights

- **Excellent progress achieved in the evaluation of the Watershed Tungsten Project in far North Queensland.**
 - **Metallurgical test work confirms X-ray Ore Sorting is ideally suited to low-cost pre-concentration of Watershed tungsten ore, with bulk trials confirming early laboratory results giving over 100 percent upgrade at very high recoveries.**
 - **Final results received for infill RC drilling campaign at Watershed, with close-spaced 58-hole reverse circulation drilling program confirming the presence of extensive high-grade tungsten intercepts in cross-cutting quartz-vein structures. The zones appear typical of the total of 17 such structures so far located within the bulk of the Watershed deposit.**
 - **Final results received for the last 8 in-fill diamond core holes drilled in the 2007 campaign at Watershed confirm the presence of good grade tungsten in the previously un-drilled area in the north-west zone of the deposit, extended the northern boundary of the deposit by 300 metres further north and increased the known depth extent in the south-west area to 500 metres below the high point of the ridge.**
 - **Results received from scout drilling at Watershed confirmed significant tungsten mineralisation well outside the current boundaries of the known resource.**
 - **Preliminary engineering design of process plant awarded to Lycopodium Engineering Pty Ltd.**
 - **Environmental Impact Study lodged with the Queensland EPA has proceeded to the Public Notification stage.**
 - **Indigenous Land Use Agreement signed with Traditional Owners.**
 - **Feasibility Study on track for completion at the end of the third quarter of this year.**
 - **Initial RC drilling campaign completed at Mt Mulgine; results awaited.**
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Corporate

Financial

Vital Metals Ltd now has on issue 106.65m shares, 5.75m listed options, exercisable at \$0.80 and 7.26m unlisted options exercisable at various prices. Cash at bank as at 31 March 2008 was \$6.1m.

Watershed Project

Metallurgical – Ore Sorting

The company has been conducting exhaustive X-Ray ore-sorting test work on bulk samples from the Watershed Project in far North Queensland.

These tests have verified the initial small-scale laboratory results whereby over 55 percent of total plant feed can be rejected as waste at a nominal grade of 0.027% WO₃. The effect of this is that the grade of material progressing to further downstream processing is more than doubled.

Utilising ore-sorting technology as a primary bulk pre-concentration stage yields overall scheelite recoveries in excess of 93% and a 55.2% reduction of feed tonnes to down-stream secondary processing.

Five large representative bulk samples totalling in excess of 85 tonnes have been processed at Nagrom's Laboratory facility in Perth using Vital Metal's XR3000 X-Ray ore-sorting unit. Five individual bulk samples were crushed, screened and fed through the Ore Sorter in six size ranges from + 5 mm up to a maximum size of 100mm.

An overall averaged rejection of 55.2% of the feed material was achieved at an extremely satisfactory 'throw-away' tailings grade of 0.027% WO₃.

The results are consistent with earlier, laboratory-scale trials and highlight the opportunity for substantial reductions in down-stream processing costs as well as a quantum reduction in the required capacity of both the beneficiation plant and the tailings storage dam.

Ore-sorting over this large size range has the benefit of greatly reducing secondary crushing requirements and subsequent elimination of excessive scheelite fines which could become problematic for gravity and flotation recovery.

Close-spaced RC Drilling of Quartz Vein Swarms

During the quarter Vital released the results of an important, close-spaced infill, reverse circulation drilling program which was conducted at the end of 2007 and which has clearly confirmed the presence of multiple, high-grade 'shells' of quartz vein swarms striking east-west across the trend of the deposit.

These data have verified the company's 2005 re-interpretation of the geology of the Watershed deposit and represent an important milestone in it's exploitation.

The shallow (50 to 80 metre) RC holes were drilled in three separate areas (the Northern, Central and Southern Zones) along the eastern boundary of the deposit on the top of the Watershed ridge.

Of 58 holes drilled in three separate areas, high-grade scheelite mineralisation was widespread. Amongst this widespread strong tungsten mineralisation, some of the best intersections in the Northern target zone included: **7m at 0.56% WO₃** from 19m; **13m at 0.42% WO₃** from surface and **7m at 1.59% WO₃** from 29m in the same hole; **37 metres averaging 0.72% WO₃** from 2m; **13m at 1.94% WO₃** from 23m; **15m at 1.08% WO₃** from 36m; and **12m at 1.37% WO₃** from 46m.

In the Central zone, some 300 metres to the south, hits included **22m at 1.08% WO₃** from 19m; **42m at 0.46% WO₃** from 12m; **24m at 0.61% WO₃** from 27m and **3m at 1.42% WO₃** from 65m.

In the Southern zone, a further 100 metres south, the quartz-vein swarms were somewhat more erratic but still yielded **8m at 0.43% WO₃** from 13m and **8m at 0.56% WO₃** from 8m.

Each area was selected so that drilling took place across strike of one or more of the east-west trending quartz-vein swarms. The hole-spacing was nominally ten metres in both an E/W and N/S direction.

The objective of this program was to define, in detail, some of the cross-cutting, quartz-vein swarm zones which have been interpreted within the global resource and to test the continuity and tungsten grade within these structures.

These analytical results have confirmed that the Watershed deposit contains substantial zones of high-grade scheelite, hosted within the overall multi-million tonne body of pervasive, lower-grade disseminated tungsten mineralisation.

Confirmation of this model now transforms the Company's understanding of the deposit and is likely to greatly enhance the economics of the proposed mining operation.

A revised resource estimate is planned, the outcome of which should be available around the end of April 2008.

Vital has also commissioned a team of mining engineers to undertake detailed mine planning and design on the basis of the new resource, the conclusion of which should coincide with the finalisation of the metallurgical flow sheet and preliminary engineering design of the process plant.

Final Results for Last Eight In-Fill Diamond Core Holes

The last 8 of the in-fill diamond core holes drilled in the 2007 campaign have now been received. These resource infill holes completed the 50 by 50 metre spaced drilling within the known area of mineralisation and comprised holes MWD199, 202, 203, 205, 207, 209, 217 and 222.

The 2007 drilling campaign has confirmed the presence of good grade tungsten in the previously un-drilled area in the north-west zone of the Watershed deposit, extended the northern boundary of the deposit by 300 metres further north and increased the known depth extent in the south-west area to 500 metres below the high point of the Watershed ridge.

The results for holes MWD209, 217 and 222 are particularly encouraging as they demonstrate that the tungsten (scheelite) mineralisation is present in significant amounts in the previously un-drilled north-west sector of the deposit and that this same mineralisation remains open at depth in this area - as it is along the remainder of the western hanging wall contact zone.

The best intercepts in these 3 holes were:

- **MWD209** - 2 metres at 0.94% WO₃ from 39 metres down-hole
- **MWD209** - 3 metres at 0.75% WO₃ from 83 metres
- **MWD217** - 4 metres at 1.08% WO₃ from 54 metres
- 5 metres at 0.74% WO₃ from 78 metres
- 12 metres at 0.54% WO₃ from 169 metres
- **MWD222** - 16 metres at 0.25% WO₃ from 66 metres
- 5 metres at 1.24% WO₃ from 116 metres

Hole MWD199, in the south-west area of the deposit, is the deepest hole drilled at Watershed to date with a total depth of 476.2 metres, penetrating to 500 metres below the highest point on the ridge in the area of the deposit. The best intercepts in this hole occur between RL 500m and 400m, 280 to 380 metres below the surface at this position and include:

- **13 metres at 1.14% WO₃ from 311 metres (down-hole) - including 2m at 4.17% WO₃ from 311 metres**
- **5 metres at 0.67% WO₃ from 405 metres**
- **1 metre at 1.45% WO₃ from 448metres**

Drill Hole MWD207 (on Section 73950E) is the most northerly hole drilled by Vital in the known deposit area. The higher grade portions of this hole - 3 metres at 0.71% WO₃ from 29 metres and 1 metre at 0.59% WO₃ from 74 metres - are situated 300 metres north of the northern limits of the May 2007 resource estimate.

Holes MWD202, 203 and 205 were collared around MWD145, which encountered 47 metres of 0.71% WO₃ from 73 metres. High grade mineralisation is not as widespread as in hole MWD145. The best intercept is 4 metres at 1.38% WO₃ from 89 metres in MWD202, which correlates with a zone in MWD145 of 5 metres at 1.10% WO₃ from 28 metres and is approximately 40 metres vertically below it.

Scout Drilling Intersected Significant Tungsten Mineralisation

Recent scout drilling intersected significant tungsten mineralisation well outside the current boundaries of the known resource at Watershed.

Mineralised veins outcropping at surface in two target areas, one some 150 metres south-west of the southern limits and another about 300 metres north of the northern boundary, outside of the current limits of the known tungsten resource at Watershed, have been the subject of two small and shallow drilling campaigns during the 2007 dry season.

A total of 25 shallow diamond and reverse circulation drill holes have been drilled to test possible significant extensions to the main deposit, both north and south-west.

Significant tungsten mineralisation has been encountered in the target areas and, although the implications are not yet understood, both will require more drilling during 2008.

The exploration holes in the South-West Extension area, for which results have not previously been reported, are MWD200, 201, 204, 206, 208, 210, 211 and 214.

The holes in the Far North Extension area, for which results have not previously been reported, are MWD212, 213, 216, 218, 220 and 221.

South West Extension Area

Best intercepts from the South-West Extension zone were:

- **MWD200** - 2 metres at 0.47% WO₃ from 5 metres down-hole and 4 metres at 0.88% WO₃ from 40 metres.
- **MWD201** - 2 metres at 1.37% WO₃ from 29 metres.
- **MWD204** - 2 metres at 0.40% WO₃ from 70 metres.
- **MWD210** - 3 metres at 0.93% WO₃ from 171 metres.
- **MWD211** - 9 metres at 0.73% WO₃ from 27 metres, 3 metres at 1.49% WO₃ from 56 metres and 5 metres at 0.56% WO₃ from 62 metres.
- **MWD214** - 2 metres at 0.83% WO₃ from 35 metres.

Multiple high-grade but narrow zones of mineralisation are present in this South West Extension area close to surface and are better developed towards the regional hanging wall argillite (shale) contact. Their westerly extent will need to be determined by additional drilling on section line 73675E in the first drilling campaign for 2008.

The drill holes in this area are on 50 by 50 metre spacing and results to date, combined with results of scout RC drill holes, reported in the September 2007 quarterly report, will enable the mineralised material encountered to be considered for inclusion in the revised resource estimate currently in progress. There is a 150 metre gap between this area and the southern limit of the known resource and this gap is earmarked for drill testing in the 2008 campaign.

Far North Extension Area

A total of eight diamond drill holes were drilled in this area, which is situated between 400 and 800 metres north of the northernmost known limits of the Watershed deposit.

Scheelite mineralisation was encountered in six of the eight holes drilled. A total of eight intercepts were recorded (see Table 3 below). The most significant are **4 metres at 0.40% WO₃ from 22 metres down-hole in MWD212 and 4 metres at 0.22% WO₃ from 54 metres in MWD220.**

The geology and mineralisation requires further detailed study prior to any additional drilling but an early conclusion is that the main mineralised host rocks are at a depth of at least 150 metres below surface in this area, because of the northerly plunge on an anti-form structure and the mineralisation located in the drill holes is from minor sporadic quartz veins hosted in less favourable rock units for the development of stronger mineralisation. Deeper drilling is required.

Preliminary Plant Design

The company has commissioned Lycopodium Engineering Pty Ltd to undertake the process plant design work for the Watershed Project in far north Queensland as part of the feasibility study for the project.

Lycopodium Engineering Pty Ltd won the work on a competitive tender basis which builds on its current experience in the processing of tungsten ores. Lycopodium is currently undertaking an EPCM contract with Queensland Ores Limited at its Wolfram Camp mine, located north-west of Dimbulah in north Queensland.

The design of the tungsten (scheelite) processing plant includes a crusher capable of 2.5 million tonnes annual throughput, discharging to a coarse ore stockpile. The ore will then flow to a five deck screen in preparation for ore sorting using X – ray ore sorters. At this point, approximately 55% of the material will be rejected to waste, which will in effect double the ore grade going into the plant.

The ore will then be processed using spirals and shaking tables or with a possible small fatty acid flotation process. The target production level is 4,000 tonnes of WO_3 concentrates, which represents approximately 5% of world demand.

Vital Metals remains on schedule to complete the Watershed Project feasibility study by September 2008.

Environmental

The company has lodged its Environmental Impact Statement (EIS) document for the Watershed Project with the Chief Executive of the Queensland Government's Environmental Protection Agency (EPA), under Section 49(5) of the Environmental Protection Act 1994 and has been informed that it is to proceed to public notification stage.

The 30-day submission period commenced on the 3rd of March 2008 and concluded at close of business on the 15th of April 2008.

Vital Metals has undertaken a range of base line studies at the Watershed tungsten project in north Queensland over the past 12 months and has been working with numerous stakeholders, culminating in the lodgement of the EIS with the EPA.

This is yet another important step towards development of the Project into a producing mine. The EIS process, from this point on is expected to take approximately 9 to 12 months for a Project of the size being envisaged by Vital.

The operating mine will involve open cut mining, straight forward mineral processing using ore sorting, a spiral gravity circuit and small flotation section, reporting to a tails dam. The mine is expected to have a mining life in excess of 10 years.

Agreement with Traditional Aboriginal Owners

The company has finalised an Indigenous Land Use Agreement (ILUA) with the Traditional Owners, the Western Yalanji People, over the land affected by the proposed mining and processing operation at its Watershed Tungsten Project.

The ILUA covers a total area of 6,348 hectares, being the full area encompassing the seven Mining Lease Applications over Watershed plus an additional buffer zone surrounding the MLA's.

The Agreement was negotiated directly between Vital Metals and the Traditional Owners, with facilitation by the representative body, the North Queensland Land Council. It was signed by authorised representatives of the Western Yalanji after wide consultation with the group throughout Queensland and will now be submitted to the National Native Title Tribunal for formal registration.

The package includes training and education bursaries, employment and small contracting opportunities and the co-operative application of the local knowledge and experience for the establishment of a dedicated nursery for native trees and vegetation, in preparation for planting and rehabilitation of affected land as an operation progresses.

Both parties have been pleased by the outcome of the negotiations which have been conducted in good spirit throughout and which augur well for the success of the Project and for the ability of the Traditional Owners to reap significant benefits from the exploitation of the mineral resources present.

The finalisation of this Agreement is a key milestone in the progress of the Watershed Project.

Mt Mulgine WA (Vital earning 70%)

Vital Metals completed a RC drilling program at Mt Mulgine testing 8 geophysical and geological targets generated by 3D modelling in 2007. The program comprised 12 holes for 1776 metres testing to nominal depths of 150 metres with holes varying between 95 and 179 metres. Due to drilling delays and budgetary constraints, two planned holes were not completed. Three of the holes targeted known mineralisation in the Trench area, while the remaining holes were regional targets. Visible scheelite mineralisation was encountered in 8 holes, (including 5 of the regional targets) and is associated with quartz veins in greisenised granite, ultramafic and mafic rocks. Samples have been submitted for analysis and results are pending.

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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