

Report for Quarter Ended 30 September 2006

Highlights

- Over six thousand metres of diamond drilling completed at Watershed since resumption of drilling in late July
- Multiple high-grade scheelite intersections in resumed in-fill drilling
- Verification of new model for the Watershed mineralisation
- Encouraging results from X-ray Ore Sorting tests

Watershed – North Queensland

Resource Drilling

Diamond drilling resumed at the company's Watershed tungsten project in far North Queensland on 10 July with one rig and with a second rig on 24 July. Drilling has continued round the clock since those times. As at 30 September (less than one year after listing on the ASX) Vital has completed a total of 7100 metres of diamond core drilling in 28 holes (including 986 metres drilled in the November 2005 to January 2006 period).

With the exception of one hole of this new series (Holes MWD075 and 080 to 102), all holes have been drilled with an azimuth (orientation) of 342 degrees magnetic, which is south to north in local grid co-ordinates. This is in direct contrast to the previous Utah Development drilling, the majority of which was drilled from grid west to grid east (nominally at 72 degrees in local grid).

The purpose of this change in direction is to verify Vital's new interpretation of the geological model of Watershed which postulates that the mineralisation is sourced principally from or through an extensive network of quartz vein swarms which occur with an east/west orientation and dip steeply to the south. The overwhelming evidence from the new drilling to date supports this model which will have important implications as regards the grade of the deposit.

At the current rate of progress it is anticipated that some 48 holes of this new campaign will be completed prior to a Christmas pause and perhaps a further 10 holes in January before the arrival of the customary 'wet' season when drilling would become too difficult and dangerous to continue. The company expects that some more drilling will be needed after the wet season in 2007, but that an important re-evaluation of the tonnes and grade of the deposit will be possible in the first quarter of next year.

The highlights of the drill analysis from the 7 holes for which results have been received are given in Appendix A. The best intercepts from these 7 holes are:

Hole MWD075:	15 metres at 0.47% WO ₃ from 57m down hole 11 metres at 0.60% from 83m 9 metres at 1.47% from 194m (incl. 2m at 2.219%)
Hole MWD080:	4 metres at 0.565% WO ₃ from 85m down hole 21 metres at 0.86% from 103m (incl. 2m at 2.837%)

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Hole MWD082: 5 metres at 0.401% WO₃ from 97m down hole
 31 metres at 0.591% from 190m (incl. 13m at 0.947%)
 6 metres at 0.808% WO₃ from 293m
 6 metres at 0.755% from 326m

HoleMWD083: 10 metres at 0.436% WO₃ from 126m down hole
 4 metres at 0.564% from 171m

HoleMWD084: 9 metres at 0.419% WO₃ from 86m down hole
 3 metres at 0.421% WO₃ from 201m

HoleMWD085: 7 metres at 0.397% WO₃ from 68m down hole
 3 metres at 0.449% WO₃ from 95m

Metallurgy

The results of X-Ray Ore Sorting trials carried out in Wedel (Germany) earlier this year have been received. The purpose of these Ore Sorting trials is to develop an automated system of pre-concentration whereby at least 30% of the run-of-mine rock can be rejected with a high recovery of any contained scheelite, with a corresponding increase in the grade of the 'accept' material.

These tests were carried out on three crushed and closely-sized core samples from four PQ diamond holes drilled at the end of 2005 and were conducted under the supervision of Vital's metallurgical consultants, ProMet Engineers Pty Ltd. The program followed up the promising results achieved in Perth in early 2006 in hand sorting, using an ultraviolet illumination source.

The test machine available for these trials utilised a single beam X-ray source only and was found to be suitable for the medium and higher grade samples (0.31% to 1.63% WO₃), but the lower-grade, disseminated samples, were not tested. Future test work will utilise more advanced X-ray sorting techniques to improve discrimination in low grade ores.

Table 1 - Results of Ore Sorting Trials

Core ID	Sample*	Head Grade % WO ₃ **	Mass Rejection % Total Weight	Accept Grade % WO ₃	Recovery % of WO ₃
12702	A	0.49	38.6	0.76	95.5
	B	1.40	58.7	3.30	97.1
	C	0.42	52.3	0.78	88.6
12703	1	0.31	35.5	0.45	91.6
	2	0.40	44.8	0.67	92.6
12716	A	0.94	11.8	1.06	99.0
	B	0.90	33.9	1.30	95.4
	C	1.63	38.6	2.55	96.2

* A = minus 40mm plus 25mm; B = minus 35mm plus 15mm; C = minus 25mm + 10mm.

** Head Grades quoted are calculated figures.

Each core sample was split into specific size ranges (between 40mm and 10mm) and fed through the mechanical/electronic sorting device separately. The results achieved were most encouraging and are detailed in Table 1.

The results demonstrated scheelite recoveries of over 88% in all tests with rejection, in 7 of the 8 samples, of over one third of the raw feed. These results signify an excellent outcome and justify further work to confirm the viability of the process for the Watershed Project.

The company is in the process of sourcing a 30 tonne bulk sample of mineralised rock from Watershed for use in this work and also to be used for more conventional mineral dressing tests within Australia.

The use of Ore Sorting is an innovative approach, which could lead to substantial savings in both capital and operating costs. However the viability of the Watershed Project, under current price structures, is not dependent on its utilisation.

The development of a conventional mineral dressing flow sheet suitable for the concentration of the ore using both gravity and flotation methods (whether pre-concentrated or not) is continuing but it is premature to report any conclusions at this stage.

Mining Lease Applications

Vital Metals Ltd has now applied for four Mining Leases covering the Watershed deposit and the proposed surrounding infrastructure. Total area of these MLA's is 1315 hectares. The now-completed environmental baseline study of the area will need to be extended during the early part of the coming wet season to cover the entire area at a cost estimated at a further \$32,000.

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This area, which is held by Republic Gold Limited, but in which Vital holds the rights to any tungsten mineralisation, is the subject of a comprehensive stream sediment survey which began at the end of the quarter and will continue into the December quarter.

Mt Mulgine – Western Australia

The geophysical (gravity) survey over the entire Mt Mulgine project area was completed in the June period and an extension in the form of detailed infill work on this survey was planned. Unfortunately the contract personnel are not available until late 2006/early 2007.

A drilling program to test new anomalies generated by this survey and to investigate mineralisation marginal to the known Mulgine tungsten/molybdenum is planned for the first half of next year.

Corporate

At 30 September 2006 the company had approximately \$3.4 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 6,480,000 options on issue (including 4.5 million escrowed for 2 years from the date of listing).

Note: "The information in this report that relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Bruce Arthur Pertzelt, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Pertzelt 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 Pertzelt 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 information refer to the company's website at www.vitalmetals.com.au or contact:

Mr Bill Ryan - Office: 08 - 9388 7742
Or - Mobile: 0417 172 923

19 October 2006

Appendix A - Analytical Results Summary

Hole No.	From (m)	To (m)	Interval (m)	Analysis (% WO₃)
MWD075	21	31	10	0.266
MWD075	38	40	2	0.353
MWD075	57	72	15	0.470
including	58	63	5	0.767
MWD075	83	94	11	0.601
including	89	92	3	1.404
MWD075	99	101	2	1.053
MWD075	194	203	9	1.471
including	194	196	2	3.581
and	200	202	2	2.219
MWD080	51	53	2	0.523
MWD080	56	60	4	0.252
MWD080	65	70	5	0.318
MWD080	76	78	2	0.233
MWD080	85	89	4	0.565
MWD080	103	108	5	1.468
MWD080	110	124	14	0.753
including	113	115	2	2.837
and	118	121	3	1.114
MWD080	139	144	5	0.167
MWD081	39	42	3	0.263
MWD081	48	50	2	0.217
MWD081	68	71	3	0.183
MWD082	30	34	4	0.426
MWD082	97	102	5	0.401
MWD082	190	221	31	0.591
including	200	213	13	0.947
MWD082	293	299	6	0.808
MWD082	310	315	5	0.275
MWD082	326	332	6	0.755
MWD083	127	136	9	0.477
MWD083	171	175	4	0.564
MWD084	46	47	1	0.340
	53	56	3	0.282

	59	60	1	0.706
	64	65	1	1.840
	75	76	1	1.000
	82	84	2	0.284
	86	95	9	0.419
	178	181	3	0.227
	201	204	3	0.421
	212	213	1	0.517
MWD085	6	7	1	0.302
	68	75	7	0.397
	87	88	1	0.151
	95	98	3	0.449
	160	162	2	0.321
	184	185	1	0.164
	202	203	1	0.479

- 1. Analyses quoted are a mix of XRF and ICP (Inductively Coupled Plasma) methods.**
- 2. All samples are of full one metre intervals.**
- 3. Intercepts are down-hole, not necessarily true widths.**

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 SEPTEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(1,128)	(1,128)
(b) development		
(c) production		
(d) administration	(408)	(408)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	62	62
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Net Operating Cash Flows	(1,477)	(1,477)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c) other fixed assets	(35)	(35)
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	(31)	(31)
Net investing cash flows	(66)	(66)
1.13 Total operating and investing cash flows (carried forward)	(1,543)	(1,543)

+ 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)	(1,543)	(1,543)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		
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		
	Net increase (decrease) in cash held	(1,543)	(1,543)
1.20	Cash at beginning of quarter/year to date	4,919	4,919
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	3,376	3,376

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	108
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	32
5.2 Deposits at call	3,344	4,887
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	3,376	4,919

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	64,100,003		
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.

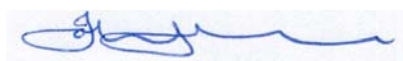
Appendix 5B - Vital Metals Ltd
Mining exploration entity quarterly report

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	Nil		
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: 19 October 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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