

AUSTRALIAN

RESEARCH



Contents

This is an extract from the September 2007 Junior Resources Quarterly Review.

IMPORTANT NOTICE

Aegis has been commissioned to produce this report.

Disclaimer & Disclosure of Interests

This publication has been prepared by Aegis Equities Research Pty Limited (ACN 085 293 910, AFSL no. 225072) ('Aegis'), an Australian Financial Services Licensee. Aegis has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided Aegis with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Aegis believes are reliable, no responsibility or liability is accepted by Aegis for any errors, omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgment and assumptions of Aegis as at the date of publication and may change without notice. Aegis and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither Aegis nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. Aegis and/or each Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and the Participants, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Aegis, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. Aegis discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has Aegis been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.aer.com.au/disclaimer.asp>.

Vital Metals Limited (VML)



Sector Materials	Industry Group Materials	Industry Metals & Mining	Sub Industry Diversified Metals & Mining
----------------------------	------------------------------------	------------------------------------	--

Company Overview

VML is progressing along the path to become a major world producer of tungsten from its Watershed scheelite deposit in North Queensland. The size of the global resource is 21.8Mt at 0.26% WO₃. Drilling is extending the size of the deposit, along strike and at depth. Two shallow high-grade zones have the potential to enhance economics by lowering the payback period. VML owns 100% of the Alexander tungsten project and is earning 70% of the Mt Mulgine tungsten and molybdenum prospect, both in WA.

Strategy

The company intends to become a tungsten producer by late 2009 via its flagship Watershed scheelite (tungsten) deposit.

Aegis Comments

Outlook: Key uses for tungsten (W) are for hardening steel to make cutting, drilling and grinding tools. Global demand for W is growing at 4%, but industrial growth in China has accelerated demand for W to 10% per annum. Russia and America had significant strategic stockpiles of W, but these have been depleted. A shortfall in supply of 8,000t is expected by 2010. A feasibility study for Watershed is scheduled for completion in 3Q08. A 14-hole RC program will test targets at Mt Mulgine in December 2007.

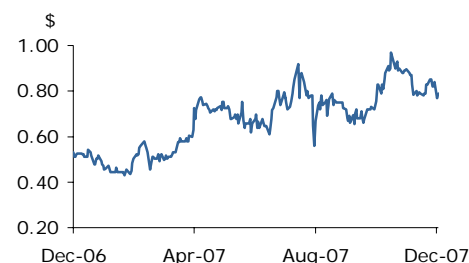
Catalysts: Drilling keeps expanding Watershed. Scheelite occurs in outcrop 500m north of the current resource and 250m south. Six new targets have been identified, including Central, between the West and East zones of the deposit; Deep High-Grade to the southwest; and North and South extensions. Recent infill drilling is confirming grade and is successfully testing between the West and East zones. A resource upgrade is scheduled for early 2008. A big increase is expected to increase shareholder value.

Risks: The deposit forms a 180m high ridge, ideal for mining. Mining risk is low, as is the ore processing route. Key risks or milestones that lie ahead are approval of an EIS and completion of an Indigenous Land Use Agreement. Marketing agreements should be in place in 4Q07. WO₃ is sold in USD per 1% of concentrate grade. A price guide is Ferro Tungsten that rose from US\$14,280/t in Dec-04 to US\$38,080/t in May-05. Since Sep-05, the price has exhibited a rising trend to US\$39,573/t in Nov-07.

Key investment information

Price:	\$0.79
Price as at:	18-Dec-07
Market Cap (\$M):	91.8
Equiv. Shares (M):	116.16
% Market:	0.00
12Mth Range (\$):	0.42 - 0.97
Shares Traded (\$M pa):	33.3
Listed since:	October 2005
Index:	n/a

Share price performance



Company contact



Bill Ryan
Executive Chairman
wjr@vitalmetals.com.au
61 8 9388 7742

www.vitalmetals.com.au

Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2005A	(0.2)	(0.2)	(8.6)	n/a	(9.2)	(0.4)	(0.4)	0.0	0.0	0	(382.7)
2006A	(1.1)	(1.1)	(1.9)	n/a	(40.7)	(2.0)	(2.3)	0.0	0.0	0	(43.7)
2007A	(1.5)	(1.5)	(2.0)	n/a	(39.4)	(2.2)	(2.4)	0.0	0.0	0	(26.4)

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Financial Stability

Balance Sheet (Y/E Jun)	06A	07A
Net debt (cash) (\$M)	(4.9)	(1.5)
Total assets (\$M)	11.0	14.1
Net debt/equity (%)	(48.0)	(11.5)
Net interest cover (x)	n/a	n/a
NTA per share (\$)	0.07	0.02
Current ratio (x)	7.4	1.8

As at 30-Jun-07

Net debt (cash) (\$M)	(1.5)
Net debt (cash) / shr (\$)	(0.01)
Net debt (cash) / MktCap (%)	(1.6)

Substantial Shareholders

Consolidated Minerals	13.5%
S A Macdonald	8.6%
Breamlea Pty Ltd	6.0%

Board

W Ryan (Chairman/Director)
D Kennedy (Non-Executive Director)
A Simpson (Non-Executive Director)
C Hunter (Non-Executive Director)

Differentiating Factors

The Watershed project in far-north Queensland is VML's main focus and key project. Watershed was discovered in 1978 by the Utah Development Company, which carried out extensive drilling and other work, leading to an inferred resource estimate of 13.9Mt at an average grade of 0.35% WO₃. The project is currently at the pre-feasibility stage.

Achievements

VML had the foresight to buy the Watershed tungsten deposit from BHP Billiton in 2005. VML has wisely acquired Mt Alexander WO₃ project and two low-grade prospects at Mt Mulgine. A recent placement and rights issue brought in \$13.5M and VML now has sufficient cash to explore in WA and finish the Watershed BFS. Two bulk sample audits were completed and 2 x 60t samples will provide ore for ore sorting and treatment trials. Flora and fauna surveys were completed and form the basis for the EIS.

Current Projects

Watershed Project: Watershed, a scheelite deposit purchased from BHP Billiton, is a major tungsten resource in pre-feasibility mode requiring confirmatory infill drilling and metallurgical development. Vital is continuing a two-rig 30,000m diamond drill campaign with metallurgical sampling. The mineralisation is suitable for shallow open-cut mining. Processing options include pre-concentration ore sorting using UV or X-ray fluorescence followed by gravity and flotation. Full feasibility is planned for 3Q08.

Mt Alexander Project: Mt Alexander deposits near the Nanutarra Roadhouse host scheelite in skarns surrounding a granite intrusion at Moodang Well. ANZECO drilled the area in the 1970s. Several scheelite shoots occur around the Kilba granite. At Love's Find, widespread surface evidence of scheelite awaits drilling.

Mt Mulgine Project: Vital Metals can earn 70% equity in the Mt Mulgine project by sole-funding \$750,000. Tungsten and molybdenum occur around the Mulgine granite. Previous drilling by several companies has outlined two large low-grade deposits: Hill for 5Mt @ 0.24% WO₃ and Trench for 83.4Mt at 0.136% WO₃ and 0.045% Mo. A gravity survey was completed during the quarter.

Capital Structure

VML has 105.43M ordinary shares listed. There are also 5.75M listed options (\$0.80, 31/08/2008) and 4.99M unlisted options. The exercise prices of unlisted options vary from 20 cents to 80 cents; all options are in the money as at 19/11/2007.



Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au