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December 2007 Quarterly Review

USA teetering, commodities roaring

EXTRACT

Contents

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

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Vital Metals Limited (VML)



Sector Materials	Industry Group Materials	Industry Metals & Mining	Sub Industry Diversified Metals & Mining
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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 as at February 2008.

Outlook: Key uses for tungsten are hardening steel to make cutting and drilling tools. The commissioned market study concluded a number of interesting things. The global consumption of tungsten metal is expected to increase from its current level of 82,200t to 109,328t over the next 5 years. This will involve an increase of about 22,000t of 'new' production. Rapid increases in mine development and OPEX indicate a need for supporting price structures. Further drill results from Watershed are awaited.

Catalysts: Drilling keeps expanding Watershed. If VML continues to achieve good results the Company will be in a good position to take advantage of the current and future market for tungsten. Market conditions are expected to remain robust for at least the next five years. Recent drill results at Watershed are providing a platform from which to build a business. Further test results are awaited. Good results will interest potential investors and add value to current shareholders.

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.

Earnings Summary

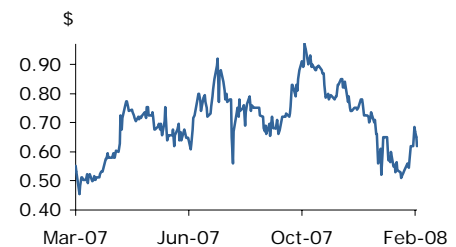
Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2005A	(0.2)	(0.2)	(8.6)	n/a	(7.1)	(0.3)	(0.3)	0.0	0.0	0	(382.7)
2006A	(1.1)	(1.1)	(1.9)	n/a	(31.4)	(1.7)	(1.8)	0.0	0.0	0	(43.7)
2007A	(1.5)	(1.5)	(2.0)	n/a	(30.4)	(1.8)	(1.8)	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.

Key investment information

Price:	\$0.62
Price as at:	29-Feb-08
Market Cap (\$M):	68.9
Equiv. Shares (M):	110.19
% Market:	0.00
12Mth Range (\$):	0.47 - 0.97
Shares Traded (\$M pa):	30.8
Listed since:	October 2005
Index:	n/a

Share price performance



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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 (%)	(2.2)

Substantial Shareholders

Consolidated Minerals	13.5%
Palmary Enterprises	13.5%
S A Macdonald	8.6%

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.

Recent Events

24 January 2008 – Tungsten Market Study: VML has commissioned a report for a comprehensive world-wide market update for primary tungsten production in the form of ores, concentrates and intermediate products. This report has been completed and will be used in the Feasibility Study for the Watershed scheelite Project. It investigates the current and developing uses of tungsten, new technologies, existing and planned production in China. The report puts VML ahead in terms of market knowledge.

21 January 2008 – Quarterly Report Mt Mulgine Project: Vital Metals holds 70% equity in the Mt Mulgine project. Drilling has commenced after lengthy delays involving Aboriginal Heritage and Botanical surveys. 1 rig will be used on the 14-hole RC drill program. 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.

14 December 2007 – Results from Watershed: A total of 40 new diamond drill holes have been completed in the Watershed tungsten resource area. It brings the total number of completed holes to 155. The grade and thickness are modest at a reasonable depth. Continuity is needed. A large number of RC and diamond core results of analyses remain outstanding. Samples from most of the holes have been despatched for testing. Wet weather hindered progress with focus on critical targets.

Capital Structure

VML has 105.95M ordinary shares listed. There are also 5.75M listed options (\$0.80, 31.08.08) and 8.46M unlisted options. The exercise prices of unlisted options vary from 20 cents to 133 cents.



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