

Report for Quarter Ended 31 December 2006

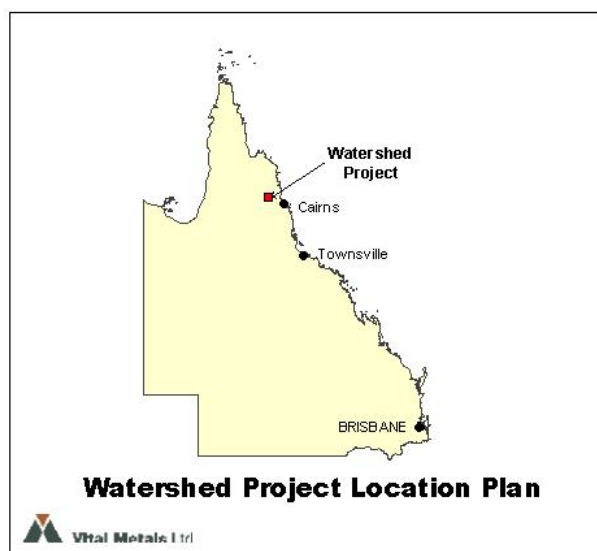
Highlights

- Rapid progress at Watershed with current drill program completed on schedule on 29 January 2007.
- Total of 15,430 metres of diamond core drilled in 60 new holes, covering about sixty percent of the deposit since July 2006.
- Results to date indicating WO₃ (tungstic tri-oxide) grades substantially higher than previous levels of 0.35 percent.
- Latest drilling confirms depth of mineralisation to at least 34 metres below any previous limits and still open.
- Surface indications plus some drill data confirm probability of lateral extensions to mineralisation to the north, south-east and south-west.
- Drilling shows consistency of scheelite mineralisation throughout the deposit with limits not yet defined.
- New resource estimation, based on all completed drilling, scheduled for completion mid-May 2007.
- Continuing strong interest from major tungsten consumers in Europe, North America and China for long-term supply contracts and equity participation.
- Global prices for tungsten concentrates stabilised at around US\$200 per metric tonne unit of WO₃ (US\$20,000 per tonne).
- Placement during the quarter raised \$4.4 million.

Corporate

At 31 December 2006 the company had approximately \$4.8 million in cash.

The company raised \$4,410,000 in November by placement of 10,500,000 shares at a price of 42 cents each to institutional and sophisticated clients of Melbourne Capital Limited. This money is needed to further progress the feasibility work on the company's flagship Watershed Tungsten Project and for general working capital purposes.



Watershed – North Queensland (100%)

Resource Definition

In-fill diamond drilling continued at the company's wholly-owned Watershed scheelite deposit in far North Queensland during the quarter. Since drilling resumed in July 2006, a total of 60 new holes have been completed for 15,430 metres. This in-fill program has been completed within budget and has now been suspended for the tropical wet season.

Level 1, 335 Hay Street, Subiaco WA 6008
PO Box 8243, Subiaco East WA 6008

telephone: 08 9388 7742 fax: 08 9388 0804
email: vital@vitalmetals.com.au www.vitalmetals.com.au

ABN 32 112 032 596

The drill-hole locations, an outline of the previous (Utah Development Company – UDC) resource area and the area drilled by Vital, plus the location of the potential lateral extensions to the UDC resource area, are shown in the plans attached to this report.

The analytical results from the drill core continue to be encouraging and, at the time of writing, the data for a further 30 holes have been received following those reported at the end of September.

Holes completed: MWD075 and MWD080 to MWD138
Analyses received for Holes: MWD075 and MWD080 to MWD111

The full results of these holes have been progressively reported elsewhere.

The results of the drilling campaign continue to confirm the pervasive nature of the scheelite mineralisation at Watershed and to demonstrate the presence of substantial thicknesses of scheelite-bearing material at what would be considered relatively high grades in a mining situation.

Amongst widespread mineralisation, some of the best mineralised intercepts are listed below:

- 34 metres at 0.50% WO₃ from 38m in MWD087
- 12 metres at 1.25% WO₃ from 121m in MWD091
- 19 metres at 0.55% WO₃ from 107m in MWD093
- 36 metres at 0.37% WO₃ from 213m in MWD095
- 13 metres at 0.65% WO₃ from 148m in MWD101
- 13 metres at 0.75% WO₃ from 32m in MWD104
- 13 metres at 0.62% WO₃ from surface in MWD106
- 1 metre at 5.23% WO₃ from 200m in MWD108

All remaining holes are being logged and sent for analysis.

When all analytical data has been received and assembled, a new resource estimate will be compiled in accordance with the provisions of the JORC Code by consultants, RSG Global. This estimate is anticipated to be ready by end April/early May and will be a key point in the Project development schedule.

Current drilling has tested approximately sixty percent of the deposit as outlined by the Utah Development Company in 1978 – 1985 on fifty by fifty metre spacing.

Drilling is planned to resume after the wet, anticipated to be around early to mid-April.

Potential Extensions to the Watershed Resource

Depth Extensions

Very recent drilling and field work has revealed some most significant features of the Watershed deposit and potential extensions to the mineralisation.

Drill-hole MWD134, completed in mid-January 2007, has encountered deep, strong scheelite mineralisation between 376 and 395 metres. Analytical information on grades will not be available for several weeks but the mineralisation is typical of ore grade material intercepted throughout the campaign.

Importantly, the mineralised interval is some 160 metres deeper than the nearest Utah Development (UDC) intercept and 34 metres deeper than any previous mineralisation encountered by UDC.

The drill-hole (co-ordinates 73740E/92100N), located at the extreme southern edge of the deposit as delineated by the UDC drilling, was completed at a depth of 432 metres and was designed as part of the resource in-fill program and to test for possible depth extensions to the mineralisation.

The scheelite in MWD134 was identified by ultraviolet lamping at night and is typical of other strongly mineralised zones in other holes. While analyses of the core will not be available for several weeks, the mineralisation is consistent with that encountered on Section 73685E, fifty-five metres further to the west, and on Section 73810E, seventy metres to the east, but is substantially deeper.

Significant, high-grade scheelite was encountered on these Sections in Vital Holes MWD082 (31m at 0.59% WO₃ from 190m, 6m at 0.81% WO₃ from 293m, 6m at 0.75% WO₃ from 326m), MWD086 (9m at 1.09% WO₃ from 219m), MWD095 (36m at 0.37% WO₃ from 213m, 11m at 0.52% WO₃ from 320m) and MWD111 (11m at 0.69% WO₃ from 286m).

The deepest UDC intercept was in MWD027 which hit 7 metres at 0.61% WO₃ from 340 metres. It was drilled from west to east and was collared at 73638E/92250N, some 102 metres east and 150 metres north of MWD134. The intercept in UDC hole MWD027 is at a 34 metre higher level than that in MWD134.

Vital Hole MWD111 also intercepted a narrow interval (1m at 0.68% WO₃) at 411 metres depth (down-hole), which is a further 40 metres below that found in MWD134.

These mineralised zones confirm the continuity of the Watershed deposit at depth, with no depth limit yet having been established.

Lateral Extensions

Hole MWD132 located at 73900E/92150N and also completed in January, has intercepted coarse grained scheelite between 6 and 25 metres down-hole. This near-surface material confirms an extension to mineralisation on the southern extremities of the known resource and has yet to be tested by drilling.

Recent field work to the south and south-east of the deposit (as currently defined) has revealed that the host rocks for potential scheelite mineralisation extend to the south-east of the resource between the known mineralisation and a major granitic dyke which is probably one of the major feeders to the Watershed system.

An old exploration costean in the south-eastern area, not shown on any existing maps, has exposed outcropping quartz veining and visible scheelite mineralisation.

Field mapping and ultraviolet lamping has also found outcropping scheelite to the south-west of the resource. A single UDC exploration diamond hole, 250 metres south of the known resource limits, intersected significant tungsten mineralisation with 3m at 0.21% WO₃ from 4 metres, 4m at 0.17% WO₃ from 23 metres, 1m at 0.47% WO₃ from 69 metres, 2m at 0.59% WO₃ from 122 metres and 2m at 0.20% WO₃ from 146 metres.

This hole was not included in the original UDC resource figure of 13.9 million tonnes at 0.35% WO₃. This area has not yet been subject of any more drilling since that UDC hole was drilled.

Vital has previously reported strong surface indications of scheelite up to 600 metres north of the known northern limits of deposit but has not yet been able to follow this up due to both lack of availability of personnel and a suitable drill rig.

Planning is underway to test these multiple potential extensions to the Watershed resource to the north, south-east and south-west and at depth using both RC and diamond drilling following the imminent tropical wet season.

Metallurgy

A bulk sample of 30 tonnes of typical scheelite 'ore' from an outcrop at the top of the ridge has been sampled and about 12 tonnes of this has been sent to Perth to facilitate the metallurgical development program.

Environmental

Consultants ELP of Brisbane have been commissioned to supervise a full Environmental Impact Study. As part of this exercise, a team will spend the first portion of the wet season to complete the baseline field surveys over a portion of the MLA area that was not covered in the 2006 survey.

Marketing

Continuing interest in the Watershed Project is being shown by a number of overseas groups interested in the output of any proposed operation at Watershed.

The price of tungsten as either concentrates or ammonium para-tungstate (APT) has now stabilised at or above US\$200 per metric tonne unit of WO_3 (US\$20,000 per tonne of contained WO_3) for the past 18 months and the outlook is strong.

Mt Mulgine – Western Australia (Earning 70%)

A number of field activities were completed at Mt Mulgine during the December quarter.

Hyper-Spectral Survey

An airborne hyper-spectral survey was flown over the Mt Mulgine Project during the quarter. This technique maps the spatial distribution of responsive surficial minerals and can indicate the presence of hydrothermal alteration in certain circumstances. Vital's objective in conducting this survey is to delineate previously unrecognised areas of potential mineralisation. Data processing is continuing and results are due in early 2007.

Mag-lag Geochemical Survey

A surface geochemical survey was completed over the central part of the project area to test for mineralisation principally in the lag fraction of the surficial soil. This technique has not previously been used in the project area. A total of 550 samples were collected on a 400 metre by 80 metre spacing. The magnetic lag fraction at each site was collected using a patented magnetic sampling device. Results of analyses are expected in early 2007.

Geological and Geophysical Compilation and Interpretation

The compilation and verification of the diamond drill-hole database from previous exploration conducted in the project area mainly in the 1960's and 1970's was completed. This database was used to generate a three-dimensional model of the geology and mineralisation of the area. Correlation with geophysical data comprising the ground gravity survey and re-merged aeromagnetic surveys is

currently being undertaken. The resultant composite 3-D model will be used to assist with drill hole targeting in early 2007, in an attempt to delineate previously unrecognised zones of mineralisation.

A litho-geochemical study of a two square kilometre section of the project area for which multi-element data is available has been completed with the objective of defining specific geochemical indicators to tungsten-molybdenum mineralisation.

The results from the mag-lag geochemical survey, the litho-geochemical survey and hyper-spectral survey will be incorporated into the 3-D model in the early part of the next quarter, to further define drill-hole targets to be tested during the next field season.

Mt Alexander – Western Australia (100%)

Previous exploration at Mt Alexander, in the area to the north of Moodang Well, has delineated three scheelite-bearing skarn prospects, Mortgage, White Lightning and Camp. The first two prospects have been incompletely tested by drilling and some surface sampling was conducted at all three prospects. The average tenor of mineralisation indicated by previous sampling is of the order of 0.5 to 0.7% WO₃ over widths of up to 1.5 metres. Some base metal (Cu, Pb/Zn) mineralisation occurs in association with scheelite mineralisation of the Camp Prospect. Skarn units occur at numerous stratigraphic horizons throughout the succession of rocks in the Mt Alexander area and strike lengths of up to 4 kilometres have been noted in previous mapping.

Vital intends to re-establish access to the area in the forthcoming quarter (March 2007 Quarter) and conduct investigations of the known scheelite-bearing skarn prospects and environs.

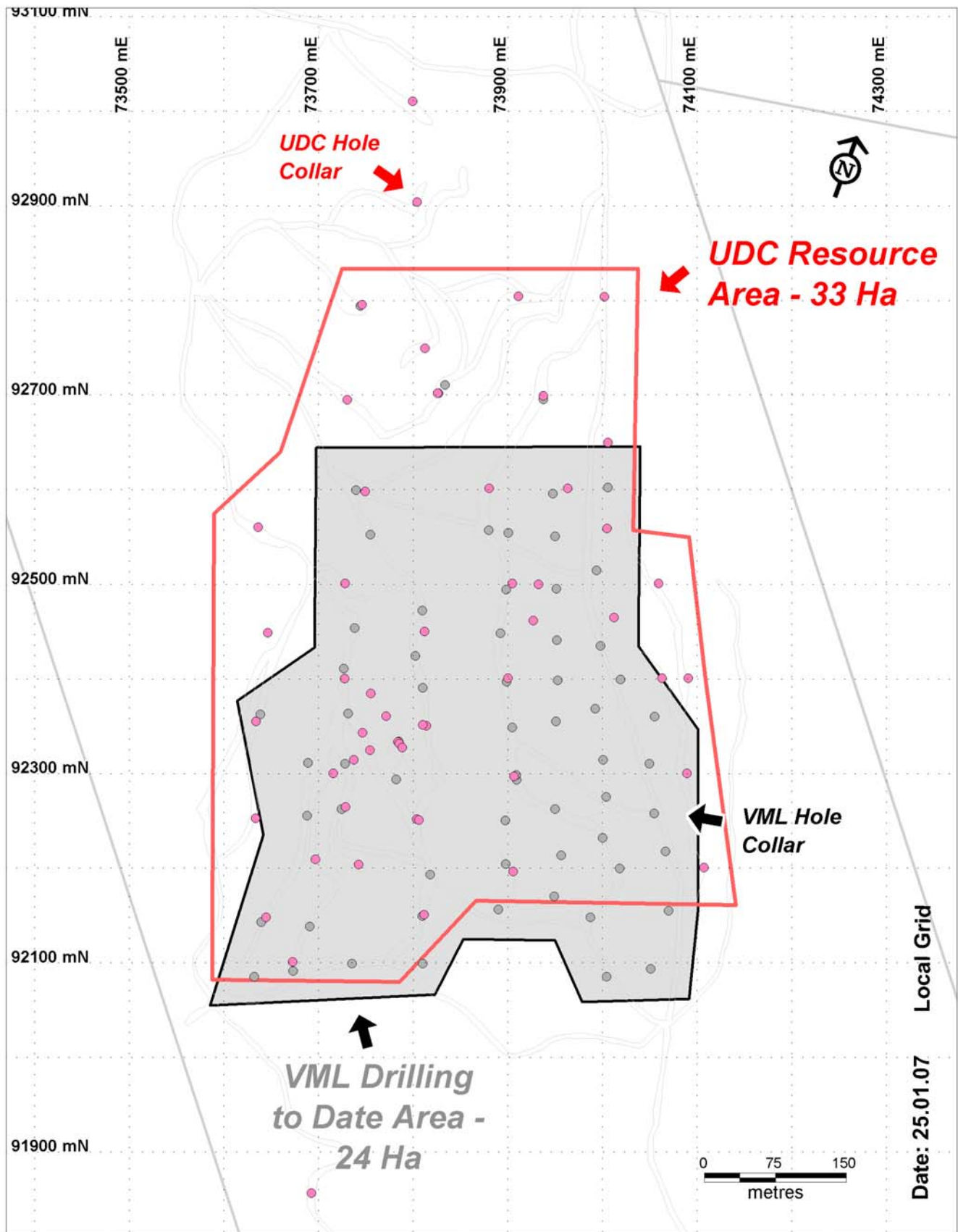
Note: "The information in this report that relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Bruce Arthur Pertzel, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Pertzel is an employee of Vital Metals Ltd and has sufficient 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 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

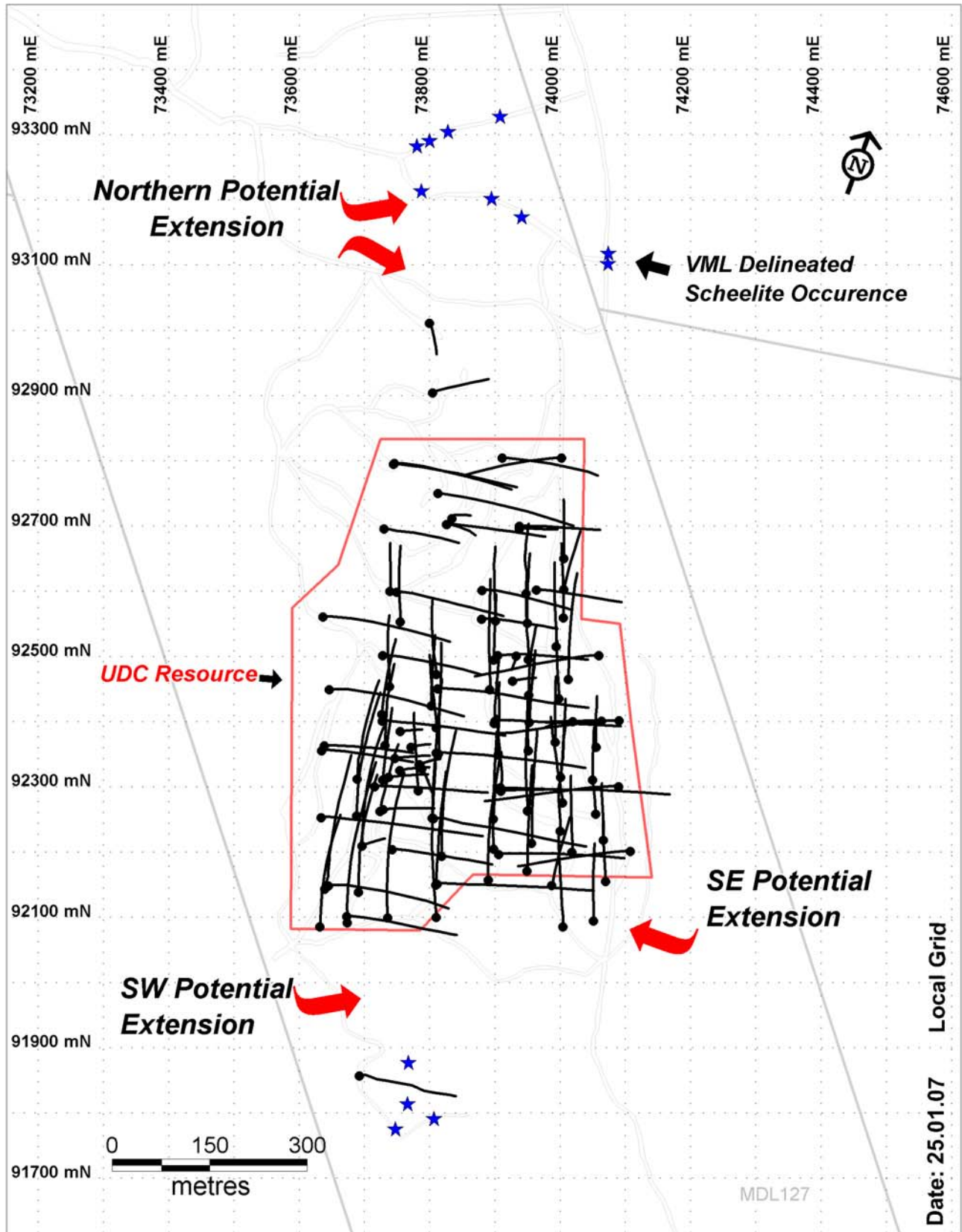
30 January 2007

Watershed Project - Drilled Areas



Date: 25.01.07 Local Grid

Watershed Project Potential



Local Grid
Date: 25.01.07

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")

31 DECEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(2,328)	(3,456)
(b) development		
(c) production		
(d) administration	(463)	(871)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	54	116
1.5 Interest and other costs of finance paid	(3)	(6)
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Net Operating Cash Flows	(2,740)	(4,217)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c) other fixed assets	(31)	(66)
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)
Net investing cash flows	(31)	(97)
1.13 Total operating and investing cash flows (carried forward)	(2,771)	(4,314)

+ 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)	(2,771)	(4,314)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	4,244	4,244
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	4,244	4,244
	Net increase (decrease) in cash held	1,473	(70)
1.20	Cash at beginning of quarter/year to date	3,376	4,919
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	4,849	4,849

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	136
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

--

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

--

+ 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	61	32
5.2 Deposits at call	4,788	3,344
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,849	3,376

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	80,850,003	74,900,003		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	10,500,000 300,000	Share placement Exercise of employee options	\$0.42 per share \$0.20 per share	\$0.42 per share \$0.20 per share
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.

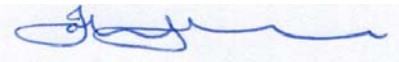
Appendix 5B - Vital Metals Ltd
Mining exploration entity quarterly report

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
		550,000 options over fully paid shares 1:1		20 cents	1 June 2008
		150,000 options over fully paid shares 1:1		55 cents	14 November 2008
7.8	Issued during quarter	150,000 options over fully paid shares 1:1		55 cents	14 November 2008
7.9	Exercised during quarter	300,000 options over fully paid shares 1:1		20 cents	1 June 2008
7.10	Expired during quarter	Nil			
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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: 30 January 2007

Print name: John Sobolewski

Notes

- 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.

== == == == ==

+ See chapter 19 for defined terms.