

Report for Quarter ended 31 December 2007

Highlights

- Newly appointed Managing Director/CEO commenced in January 2008.
- Completion of in-fill drilling at Watershed prior to onset of heavy local rain.
- Detailed ore sorting trials are progressing on schedule in Perth test facility.
- Access road design completed by Mareeba Shire.
- Completion of tungsten market study.
- Marketing negotiations continuing.
- Drilling at Mt Mulgine currently underway.

Corporate

Management

Experienced mining professional Andrew (Andy) Haslam commenced as the Company's new Managing Director and Chief Executive Officer on the 3rd January 2008. Mr Haslam, (48), will take over day to day responsibility for the Company's activities from the Chairman, Mr Bill Ryan as the feasibility study of the Watershed project heads towards completion.

Financial

Vital Metals Ltd now has on issue 105.45m shares, 5.75m listed options, exercisable at \$0.80 and 8.46m unlisted options exercisable at various prices. Cash at bank as at 31 December 2007 was \$7.5m.

Completion of Tungsten Market Study

In September, Vital Metals Ltd commissioned metal marketing consultants, GBRM Ltd, to conduct a comprehensive update of the world-wide tungsten market. The study is intended to be used in the feasibility study for the Watershed scheelite Project.

The 50 page study is the most up-to-date and comprehensive review of the tungsten market at this time. The principal conclusions of the study are:

- An expected increase in global tungsten consumption.
- No new mine production, apart from the restart of CanTung (2005) has been realised.
- China has not only curtailed domestic mining, it is now a significant importer of tungsten concentrates and tungsten scrap.
- The forecast is for global prices for APT to reach and even exceed US\$300 per metric tonne unit.

A summary of the market study has been posted on the Vital Metals Ltd web page.

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Watershed Project

Resource Drilling

During the quarter two diamond core rigs and an RC rig were deployed on site at Watershed working around the clock to complete the latest campaign of resource in-fill diamond drilling prior to the onset of the wet season. The drilling was undertaken to add additional data for a new resource model and to confirm that zones extend across the previously untested 'gap' between the eastern and western sectors of the deposit at its southern end and to gather further metallurgical information.

A total of 103 new holes were drilled for an aggregate of 9,523 metres during the quarter. Diamond drilling (5,651m) comprising 10 resource infill holes, 16 exploration holes, 13 metallurgical holes and 6 groundwater monitoring bores. A total of 58 reverse circulation holes were drilled on a 10 metre by 10 metre pattern in selected areas to define local grade variations, aggregating 3,872 metres. This range of drilling activity reflects the concurrent project work being undertaken for the Feasibility Study. This extensive program was completed in the week prior to Christmas.

Details of the holes drilled, for which results of analyses were received during the quarter, are included in the Tables attached to this report.

Metallurgical

Trials conducted on bulk samples of the Watershed tungsten deposit produced its first concentrate during the quarter. During trials on the primary gravity section of the Watershed concentration circuit, a large scale test using a spiral concentrator, on a bulk sample of Watershed ore, has demonstrated the amenability of the tungsten present in this deposit to conventional methods of recovery.

The primary spiral concentrate, produced from material which was not subject to preliminary X-ray sorting, was upgraded further over a conventional shaking table. An extremely high table concentrate grade of 78.4% WO₃ was achieved.

Further to this work, Vital has purchased its own Ore Sorting prototype to undertake X-ray ore sorting trials using bulk sample ore from the two adits in the ore deposit. Trials are being undertaken at Nagrom, who have a large test facility in Perth. The trials are approximately 30% complete.

The overall cost of the metallurgical program from the start of the Project study to completion of the Feasibility study is estimated at \$2.7 million.

Aboriginal Heritage

Negotiations with the Western Yalanji People on an Indigenous Land Use Agreement (ILUA) are progressing in relation to land associated with the Watershed project.

Infrastructure

The company has made significant progress on the overall assessment and design of the various parts of the infrastructure which will form part of any overall mine development.

The factors and those parties involved are summarised in the list below:

- **Access Road:**
Survey, design, specifications and preparation of tender documents: Civil Engineering Division, Shire of Mareeba has been completed.
- **Power Supply:**
Routing and design of transmission line and associated transformers etc, Hill, Michael & Associates, concept design 55% complete.
- **Tailings storage:**
Coffey Geotechnics, concept design 65% complete.
- **Accommodation village:**
Universal Sodhexo, Decmil and Ausco – concepts and estimates pending.
- **EIS:**
Environmental & Licensing Professionals and Muddyboots – 85% complete.
- **Metallurgical Flowsheet Development:**
John McIntyre & Associates.
- **Overall Co-ordination:**
Vital Metals Ltd – in-house.

Mt Mulgine WA (Vital earning 70%)

Following lengthy delays involving completion of Aboriginal Heritage and Botanical Surveys, with associated Government permitting, drilling has commenced using one drill rig on a 14-hole RC drill program at the Mt Mulgine Project. One of these targets is located within the current limits of the huge 'Trench' tungsten/molybdenum deposit, with the rest designed to test new prospective areas.

Table 1 Details of Watershed Diamond Drill Holes:

Drill Hole ID	Easting	Northing	Azimuth (Magnetic)	Declination (degrees)	Total Depth (Metres)
MWD150A	73855	92451	342	-60	210.1
MWD163A	73860	92090	342	-60	380.8
MWD166	73582	92086	344	-60	440.3
MWD182	73865	92200	342	-60	380.8
MWD185A	74030	92337	342	-60	209.2
MWD187	74005	92025	342	-60	177.2
MWD189	73860	92150	342	-60	384.0
MWD192	74062	92115	342	-60	250.0
MWD193	74070	92185	337	-60	251.7
MWD194	73844	92602	342	-60	171.1
MWD195	73864	92300	342	-60	303.1
MWD196	73858	92400	342	-60	240.1
MWD197	74005	92580	342	-50	285.0
MWD198	74005	92750	342	-60	294.7

Co-ordinates are expressed in local grid

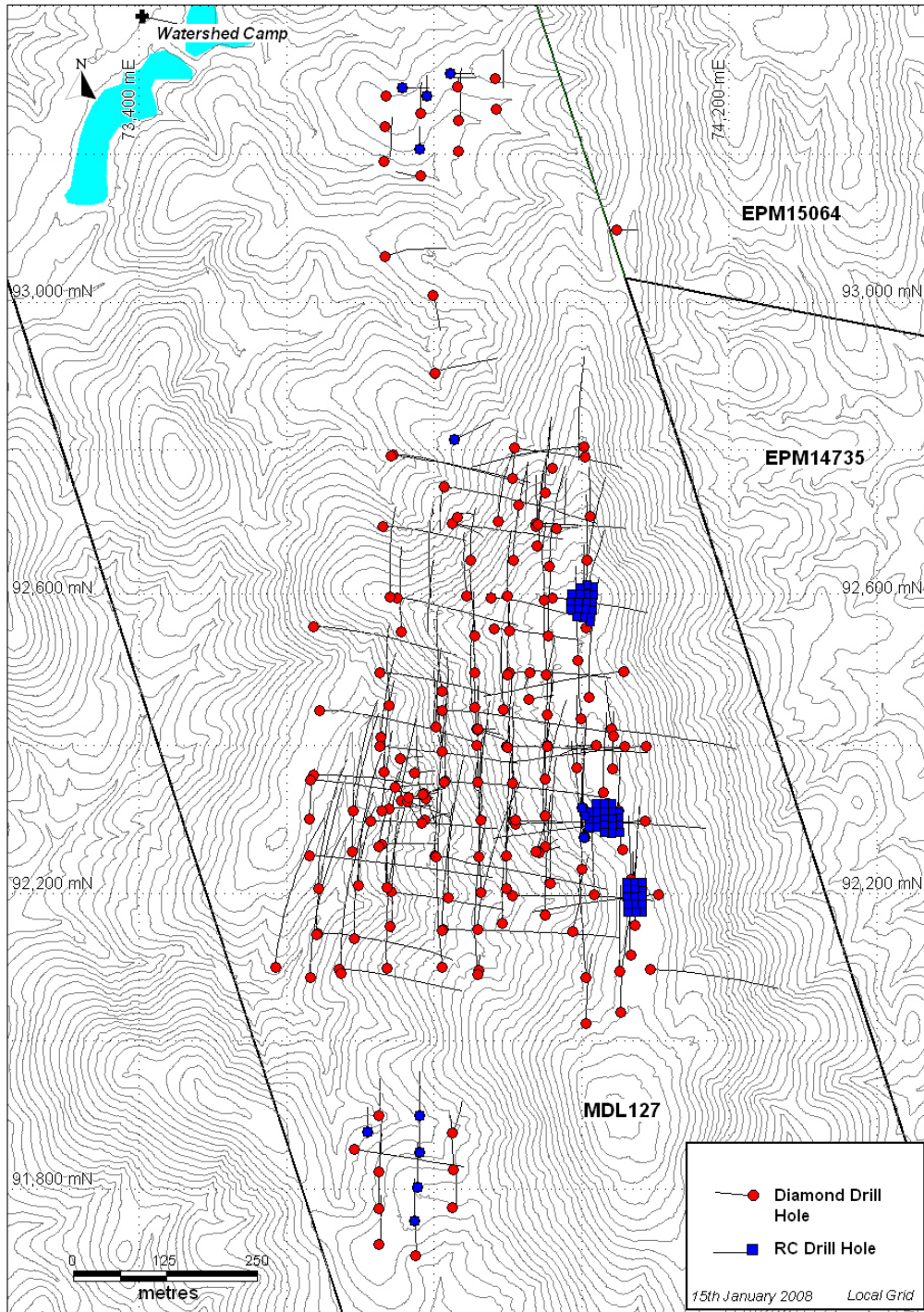
Table 2 Summary of Mineralised Intercepts Watershed Diamond Core Drilling:

Hole	From (m)	To (m)	Interval (m)	% WO3
MWD150A	91	92	1	0.20
MWD163A	6	8	2	0.18
MWD163A	14	16	2	0.15
MWD163A	295	297	2	0.57
MWD163A	335	368	33	0.48
includes	343	346	3	1.60
and	360	362	2	2.06
MWD166	156	158	2	0.20
MWD182	1	3	2	0.27
MWD182	199	200	1	0.43
MWD182	205	208	3	0.11
MWD182	216	222	6	0.26
MWD182	228	230	2	0.38
MWD182	236	241	5	0.21
MWD182	253	258	5	0.21
MWD185A	174	179	5	0.17
MWD185A	183	184	1	0.67
MWD185A	191	199	8	0.26
MWD187	29	30	1	0.23
MWD187	109	110	1	0.26
MWD187	138	139	1	1.82
MWD189	15	16	1	0.28
MWD189	132	134	2	0.41
MWD189	237	238	1	2.16
MWD189	251	263	12	0.67
MWD189	273	277	4	0.66
MWD189	294	295	1	0.34
MWD189	310	311	1	0.24
MWD189	319	322	3	0.15
MWD192	208	210	2	0.12
MWD193	3	10	7	0.24
MWD193	14	19	5	0.32
MWD194	105	106	1	0.29
MWD194	114	115	1	0.20
MWD194	120	122	2	0.17
MWD194	142	144	2	0.22
MWD195	150	151	1	0.74
MWD195	159	161	2	0.18
MWD195	192	195	3	0.13
MWD195	198	202	4	0.38

Hole	From (m)	To (m)	Interval (m)	% WO3
MWD195	215	233	18	0.79
<i>includes</i>	215	217	2	1.25
<i>and</i>	231	233	2	3.16
MWD195	249	253	4	0.35
<i>includes</i>	249	251	2	0.65
MWD196	89	92	3	0.13
MWD196	104	108	4	0.12
MWD196	114	119	5	0.44
MWD196	175	176	1	0.30
MWD196	195	196	1	0.28
MWD196	201	204	3	1.16
MWD197	35	38	3	0.13
MWD197	42	48	6	0.51
MWD197	50	54	4	0.42
MWD197	57	59	2	0.30
MWD197	206	208	2	0.37
MWD197	214	217	3	0.40
MWD198	16	18	2	0.26
MWD198	39	40	1	0.10
MWD198	47	56	9	0.51
MWD198	135	141	6	0.91
<i>includes</i>	136	138	2	2.26
MWD198	172	174	2	0.15
MWD198	189	191	2	0.18
MWD198	195	198	3	0.34

NOTE: Only intercepts that are either greater than 1 metre or 0.20% WO₃ are listed
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.

Watershed Drilling Completed to 31st December 2007



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 information refer to the company's website at www.vitalmetals.com.au or contact:

Mr Andy Haslam : 08 - 9388 7742

30 January 2008