



REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010

Highlights

- **Signing of Shareholder Agreement with Ampella Mining provides greater certainty over Doulnia Gold Project in Burkina Faso**
 - **Successful fund raisings demonstrate confidence in Vital's projects; \$2m placement closes oversubscribed and \$500,000 Share Purchase Plan expanded to \$1.35m**
 - **Doulnia Gold Project:**
 - **Phase 2 drill programme expanded to 12 000m following encouraging results in Phase 1 confirming the prospectivity of the Project**
 - **Phase 2 drilling underway**
 - **Appointment of Patrick O'Sullivan as Exploration Manager Burkina Faso to oversee and coordinate Phase 2 of the Drilling Programme and on-going exploration activities.**
 - **Tungsten prices reach near record highs, Watershed Tungsten Project (Queensland Australia) attracting new international attention**
 - **Graeme Smith of DWCorporate appointed Company Secretary**
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Corporate

During the quarter **Ampella Mining** and **Vital Metals** signed and executed the *Ampella – Vital Metals Shareholder Agreement*, formalising Vital's farm-in arrangements and the future ownership structure for the Doulnia Project assets. The Earn-In terms and conditions of the Farm-In agreement have been carried over without changes from the original letter Agreement and both parties have agreed on "allowable expenditure" for calculating the Earn-in milestones.

The signing of the Shareholders agreement further demonstrates Vital's commitment to the Doulnia Project and allows for a smooth process of ownership transfer as milestones are met.

Vital Metals CEO and Managing Director, Howard Carr, held a number of investor presentations in Perth, Melbourne, Sydney and London to increase the Company's profile in general and to demonstrate the prospectivity of its projects, current work plans and progress.

As a result of this promotion, London based investment house Fairfax IS Plc was appointed in December to assist with a capital raising, along with Patersons Securities Ltd and Williams De Broë Ltd. As a measure of strong investor support in Vital Metals, the \$2m share placement closed oversubscribed and the \$500,000 Share Purchase Plan was expanded to \$1.35m.

This latest successful fundraising provides adequate capital for the Company to accelerate and expand the Phase 2 drilling campaign at the Doulnia Gold Project in Burkina Faso. The Phase 2 drill programme has been doubled in size to 12 000m.

During their last trip to Burkina Faso, Howard Carr and Company Chairman David Macoboy met with Burkina Faso Dept of Mines to provide an update on the Doulnia Project. Vital Metals and the Dept of Mines agreed that closer cooperation between the two parties would be valuable. In this regard Vital submitted a progress report and planned work programme and agreed that an Executive should meet with the Director of Mines during field visits to Burkina Faso.

Graeme Smith of DWCorporate has been appointed company secretary. DWCorporate have also assumed the high level accounting role for the Company.

A new website has been operational since 16 December to keep shareholders informed on a continual basis. Additionally, a newsletter email list has being updated with more than 450 contacts.

Patrick O'Sullivan has been appointed Exploration Manager Burkina Faso to oversee and coordinate Phase 2 of the Drilling Programme and on-going exploration activities.

Cash Balance

Vital Metals Ltd had a cash balance of \$4.7m at 31 December 2010 and a Market Capitalisation of \$25m.



Operations

Doulnia

The majority of the Doulnia Project area (Doulnia and Campala Exploration Licences) has now been soil sampled (Figure 1), with around 9 000 samples being collected in a concerted effort up to the commencement of Phase 2 drilling in mid December. Samples are in the laboratory and results are due back in February.

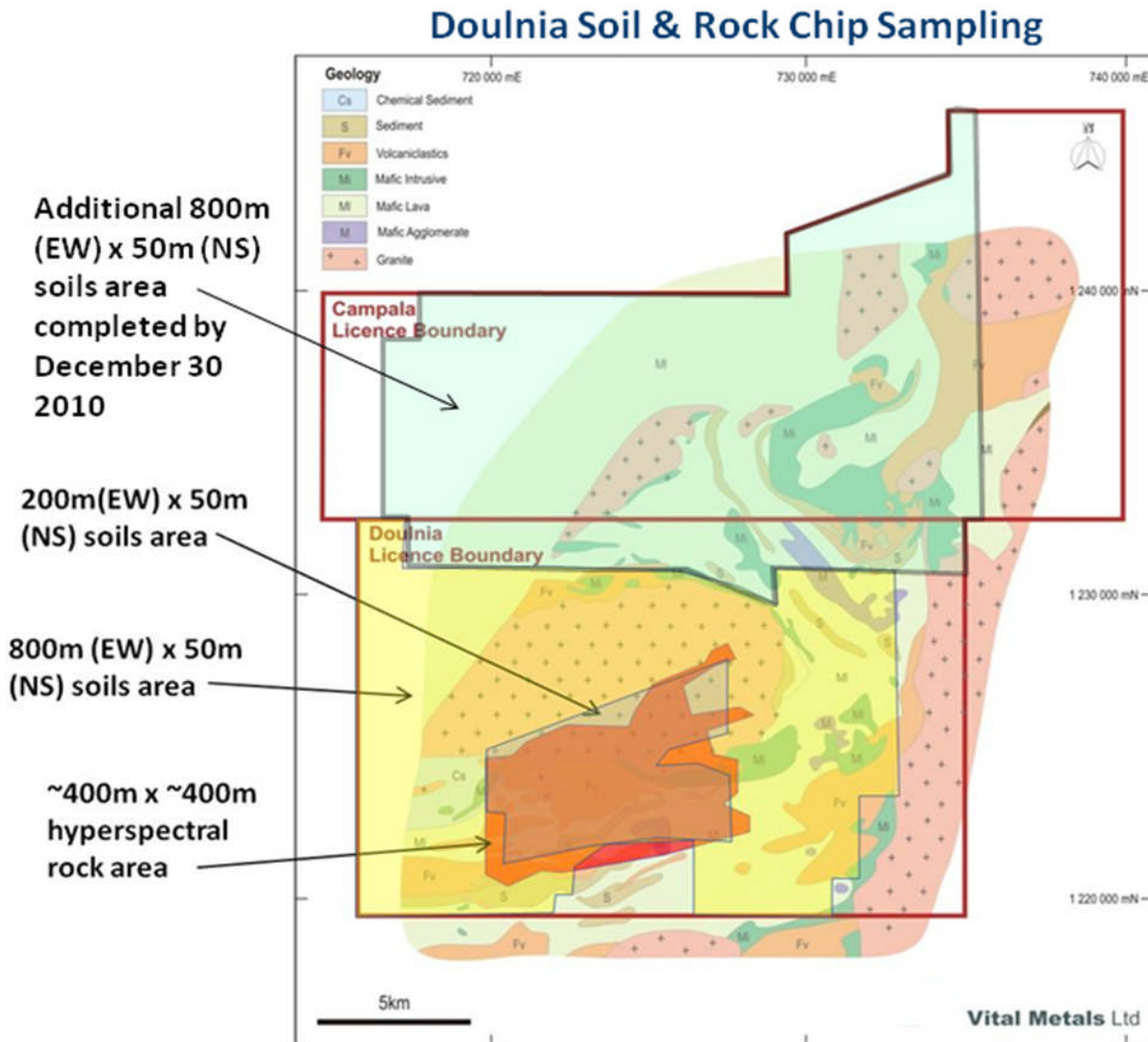
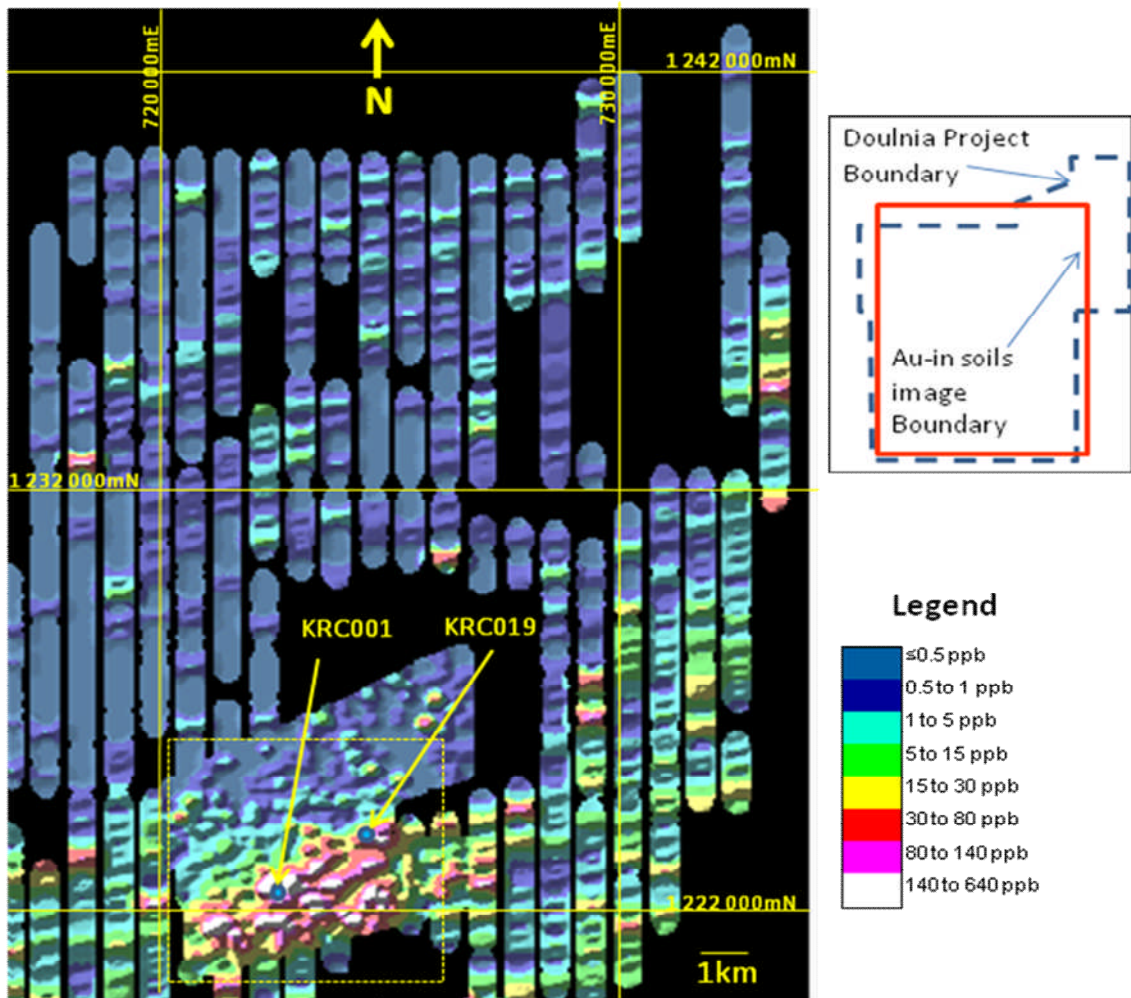


Figure 1. Soil and Rock Chip Sampling progress at Doulnia

Assay results for more than 5 000 soil samples are shown in Figure 2. Contiguous gold anomalism (>25ppb) has been identified across the entire 15km ENE strike extent of the survey area, defining an area of approximately 22km² centred on the Kollo Prospect.

Highest gold-in-soil (>75ppb) anomalism is generally coincident with ENE trending, foliation-parallel, structures. Best drill intersections from Phase 1 drilling are enveloped by a contiguous, >75ppb gold-in soil anomaly which remains largely untested by drilling.





Phase 1 Drill Results

Hole	Width	Au (g/t)	From (m)
KRC019	31	3.19	34
(inc:)	2	16.91	41
KRC001	18	2.95	37
(inc:)	4	4.28	45
(and:)	2	9.56	53
KRC001	5	3.55	60
KRC001	4	18.71	76

Figure 2. Doulnia soil sampling results and location of best drill intersections from Phase 1 Drill Programme. (Inset referred to in Figures 3,4,5).

Vital collected a suite of some 550 surface rock-chip samples from the Kollo Prospect area for hyperspectral analysis (Figure 1). Hyperspectral analysis has been shown to effectively map regional-to-local alteration haloes around large gold deposits and significantly increases the understanding of critical ore-forming fluid flow.

Strong phengite (Fe-rich mica) alteration envelopes the contiguous 25ppb Au-in-soil and discrete 75ppb Au-in-soil anomalies (Figure 3). Intense phengite alteration is commonly



located at, or close to, the core of well mineralised mesothermal gold deposits. It is interpreted that identified mineralisation at Kollo is centrally located within a large alteration cell, similar to other well studied, multi-million ounce mesothermal gold deposits.

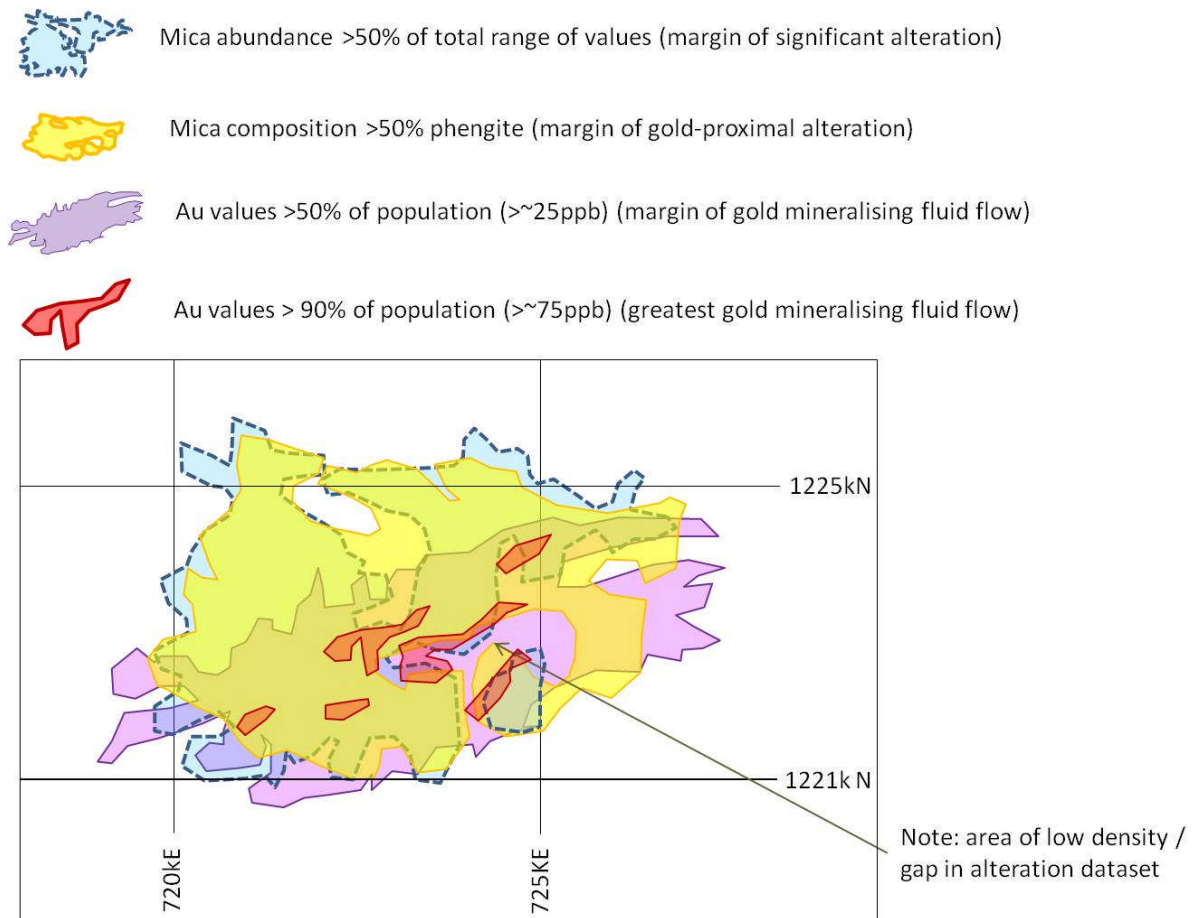
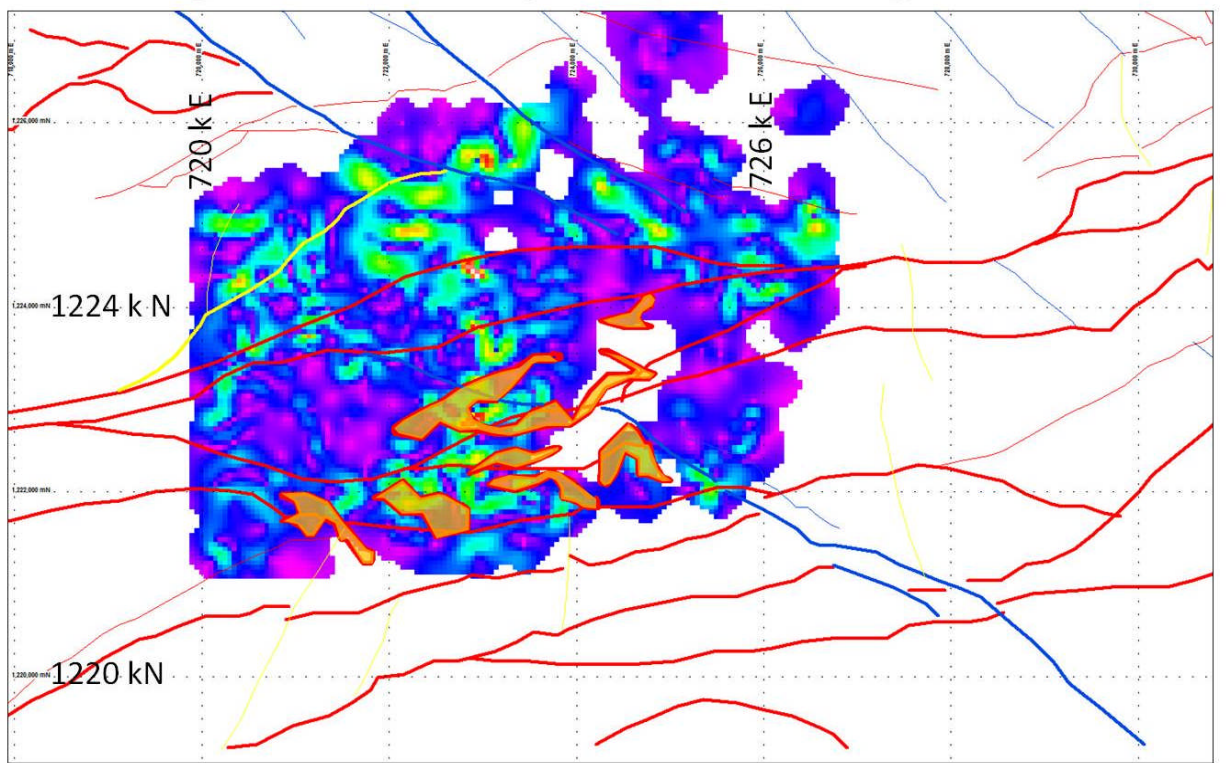


Figure 3. Kollo Prospect gold-in soil anomalies and white mica alteration mapping (for location within tenements refer to inset in Figure 2)

Areas of most rapid change in mica composition are often interpreted to represent the mixing of disparate fluids within (gold-mineralisation) controlling structures. At Kollo, mica composition rapidly changes within narrow, elongate zones which intersect the dominant ENE structures, at a high angle (Figure 4). These intersection zones envelope the majority of strong gold-in-soil anomalies and one of the areas of shallow, wide, high grade gold intersections from the Phase 1 drill programme. These intersection zones are interpreted to be highly prospective for gold mineralisation and will likely be the focus of exploration activities for the immediate future.





Rainbow colour ramp on rate of change of white mica composition (ie violet = low, red = high)

 Gold-in-soil anomaly (~75ppb Au)
  Interpreted dilation structures
  Interpreted compression structures

Figure 4. Kollo Prospect interpreted elements of gold-mineralising fluid flow architecture (for location within tenements refer to inset within Figure 2)

The integration of these disparate exploration datasets, delivering a consistent strong indication of gold prospectivity has increased confidence in, and desire to expedite Vital's Phase 2 drill programme (Figure 5).

The first RC rig started drilling on 14 December 2010, with a second RC rig due to commence drilling in late February 2011.

Initial results are expected at the end of February, and drilling will continue with both drill rigs on site until completion of the 12 000m programme.



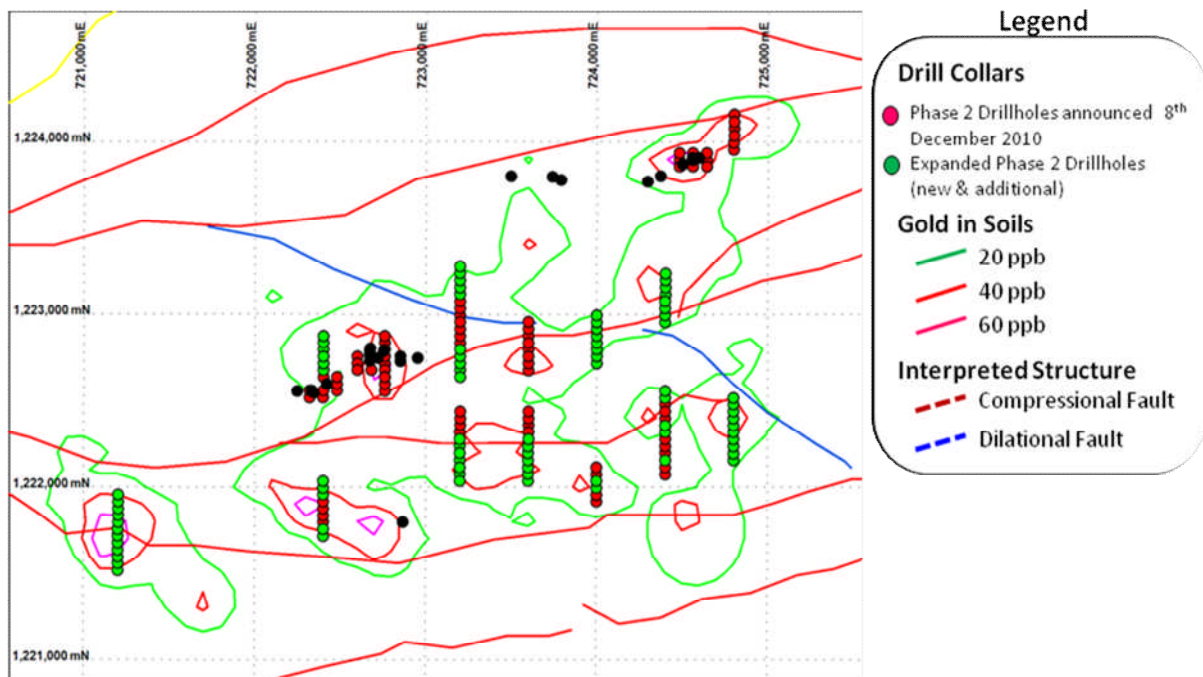


Figure 5. Expanded Phase 2 Drill Programme collars (for location within tenements refer to inset within Figure 2)

During November Howard Carr and Chairman David Macoboy met with General Director of BUMIGEB (Burkina Faso Geological Survey) to discuss a proposal for BUMIGEB to conduct a review of the zinc potential of Doulunia and to conduct a ground magnetic survey within the Kollo Prospect area. Zinc is a base metal of interest in Burkina Faso (eg. Glencore’s JV with Blackthorne on the Perkoa zinc deposit) and Vital continues to promote the zinc prospectivity of Doulunia. The ground magnetic survey will help define any cross-cutting brittle-ductile structures likely to have controlled fluid from the already defined ductile architecture, resulting in discrete zones of higher grade mineralisation. (e.g. Ora Banda).

Patrick O’Sullivan, new Exploration Manager has been on site since 9 December 2010. Patrick is a qualified geologist, has a number of years of mineral exploration experience in Burkina Faso and is a fluent French speaker. Vital has purchased 2 exploration 4WD vehicles and the exploration camp at Tiebele has been expanded and is fully operational.

Watershed

With the price of ammonium paratungstate (APT) currently at US\$345/mtu, bulk sampling programme costs have been estimated for Vital’s Watershed Tungsten Project in Queensland Australia, and the 2009 draft Pre-Feasibility Study is under review.

An internal document is being developed to identify different pathways, timing and costs of enhancing the economic viability of the deposit. In the mean time, all major global Tungsten industry players have been alerted to the Watershed investment opportunity. Cooperative development discussions have commenced a number of parties.



Competent Person's Statement

The information in this report that relates to exploration results is based on information compiled by Dr Howard Carr, who is a Member of the Australasian Institute of Geoscientists. Dr Carr 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". Dr Carr consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Contacts

For further details, refer to the company's website: www.vitalmetals.com.au or contact:

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About Vital Metals

Vital Metals Ltd is an Australian-based mineral exploration and development company focused on progressing two highly prospective mineral projects: The Doulnia Gold Project in southern Burkina Faso, West Africa and the Watershed Tungsten Project in far north Queensland, Australia.



Doulnia Gold Project -Burkina Faso

In November 2009, Vital entered into a farm-in agreement with Ampella Mining Ltd to earn up to 80% of the Doulnia Gold Project in southern Burkina Faso, West Africa (Figure 6). Vital has completed a comprehensive review of previous exploration and the regional to local geophysical, structural, geological and geochemical attributes of the Project.

The Phase 1 of the drill programme has confirmed the highly prospective nature of the project in general and the Kollo Prospect in particular.

Vital Metals is drilling the 12 000m, Phase 2 drill programme to further test the large number of highly prospective drill targets at the Kollo Prospect.

Watershed Tungsten Project - Queensland

The Watershed scheelite (calcium tungstate) Project, in far North Queensland, 150 kilometres north-west of Cairns (Figure 6) is the Company's flagship venture. Watershed is at the pre-feasibility stage, with a JORC code compliant Indicated Resource of 15.3mt @ 0.46% WO₃.

The project is attracting renewed international attention due to recent, strong increases in the price of tungsten, which is expected to continue into 2011, largely as a result of Chinese export restrictions.



Figure 6. Location of Vital Metals operations



Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Vital Metals Limited

ABN

32 112 032 596

Quarter ended ("current quarter")

31 December 2010

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 & evaluation	(418)	(565)
(b) development	-	-
(c) production	-	-
(d) administration	(249)	(638)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	29	45
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) R&D tax refund	-	191
Net Operating Cash Flows	(638)	(967)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(47)	(91)
1.9 Proceeds from sale of: (a) prospects	22	480
(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)	(6)	(6)
Net investing cash flows	(31)	383
1.13 Total operating and investing cash flows (carried forward)	(669)	(584)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(669)	(584)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	3,352	3,352
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) Share issue transaction costs	(110)	(110)
Net financing cash flows		3,242	3,242
Net increase (decrease) in cash held		2,573	2,658
1.20	Cash at beginning of quarter/year to date	2,119	2,034
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	4,692	4,692

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	101
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes aggregate amounts paid to directors including salary, directors' fees, consulting fees and superannuation.

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	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	-
4.3 Production	-
4.4 Administration	250
Total	1,250

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	3,250	25
5.2 Deposits at call	1,442	2,094
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,692	2,119

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
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

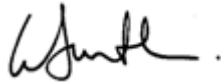
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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	228,201,027	228,201,027		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	41,881,250	41,881,250		
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,400,000 2,000,000 2,000,000		<i>Exercise price</i> 12 cents 40 cents 20 cents	<i>Expiry date</i> 20/02/2011 30/06/2011 17/11/2011
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
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:

Date: 27 January 2011

Company Secretary

Print name:

Graeme Smith

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.

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