

Report for Quarter Ended 30 June 2007

Highlights

- **Global Resource Figures for Watershed Tungsten Project established – 21.79 million tonnes at 0.26% WO₃ for 56,300 tonnes contained (Indicated and Inferred);**
- **Selective mining likely to improve Run Of Mine (ROM) head grade;**
- **Encouraging results from advanced testing of ore sorting;**
- **Final Terms of Reference for the Watershed EIS approved;**
- **Diamond drilling resumes testing extensions to current resource;**
- **Bulk sampling, via two adits (tunnels) to extract larger metallurgical samples, to start soon;**
- **Infrastructure studies underway;**
- **Placement raised \$6.6m in conjunction with a fully-underwritten 1:8 pro-rata rights issue to raise a further \$6.9; and**
- **Funding to complete Feasibility Study now in place.**

Introduction

The quarter ended 30 June, 2007 has been a period of significant progress for Vital Metals as it strives to bring a world-class tungsten mine on stream at the Watershed Project in North Queensland with the achievement of a number of key developments and milestones.

Important new developments during the quarter have included the establishment of an increased JORC-compliant global resource estimate for the Watershed scheelite deposit and progress on the metallurgical process proposed for the project.

A new diamond drilling program resumed during the quarter aimed at increasing the overall global size of the resource, which already ranks among the world's largest.

Vital recently completed a placement to institutional and sophisticated investors in conjunction with a rights issue, providing further certainty for development of the Watershed Project. Importantly, these funds will go towards a Feasibility Study for the Watershed Project and also working capital.

Vital continues to take its environmental responsibilities seriously and is working to ensure the Watershed Project has minimal impact on the environment and receives strong support from the local community for the economic benefits it will bring to the regional economy.

The Terms of Reference (ToR) for the formal Environmental Impact Statement (EIS) on the Watershed Project were also finalised during the quarter.

These new corporate and operational developments have assisted the Company in its key focus on building shareholder value.

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Corporate

Vital attracted strong institutional and investor support through a placement to raise \$6,600,000 (before costs) in conjunction with a fully underwritten rights issue to fund the feasibility study of the Watershed Tungsten Project and provide working capital.

Under the placement 11 million fully paid ordinary shares were issued at a price of 60 cents each, to institutional and sophisticated investor clients of Bell Potter Securities Limited in early July 2007.

The Company will also raise \$6,903,750 (before costs) from a fully underwritten, pro-rata, non-renounceable Rights Issue pursuant to a prospectus which was lodged with the Australian Securities and Investments Commission on Friday, 29 June 2007.

The Rights Issue is fully-underwritten by Bell Potter Securities Limited. The Company is offering 11,506,250 shares at 60 cents each on the basis of one new share for every 8 shares held at the Record Date, together with 5,753,125 new options on the basis of one free attaching new option for every 2 new shares exercisable at 80 cents on 31 August 2008. Application will be made to the ASX for listing of these options.

The funds raised will be used towards completion of the Feasibility Study of the Watershed Project and for general working capital purposes.

Watershed is a world-class tungsten deposit and this new capital will enable the Company to continue with its plans to develop a mine producing scheelite concentrates containing some 4,000 tonnes of tungsten a year from a long life mine.

The Company had approximately \$1.6 million in cash at 30 June 2007, before the placement and rights issue.

Vital had 81,050,003 ordinary shares on issue (including 5.95 million escrowed for 2 years from the date of listing) and 6,305,000 options on issue (including 4.5 million escrowed for 2 years from the date of listing) at 30 June 2007, before the placement and rights issue.

Watershed – North Queensland (100%)

Resources

During the quarter, RSG Global completed an estimation of the Watershed scheelite resource, based on the drilling to date by both Vital Metals and Utah Development (1978-1985). The global resource figure, using a lower cut-off grade of 0.1% WO₃, was 21.79 million tonnes at an average grade of 0.26 percent WO₃ for a contained WO₃ content of 56,300 tonnes. The global resource estimate was based on a block size in the model of 20 metres (east-west) by 20 metres (north-south) by 10 metres (RL).

Details of the estimate, including assumptions used, variations in the lower cut-off grade and the JORC Classifications, are given in the grade tonnage table (Table 1) attached below. Within the global estimate there is the potential to extract a substantial portion of that tonnage, which may be mineable at a higher grade, with a more selective mining approach. There is currently insufficient information to complete a 'selective mining' estimate due to a lack of supporting close-spaced data.

One or two relatively small areas (approximately 50 metres by 50 metres) will need to be drilled to moderate depths, using reverse circulation methods, in a close-spaced, grade-control drilling pattern, to increase confidence in the global resource. This will allow consideration of a more selective estimate. A suitable drilling rig has been sourced to carry out this program and it expected to be available to do so in September.

The estimate is based on the drilling completed to date and the mineralisation remains open to both the north and south and at depth. There is also obvious potential for continuity of mineralisation between the major western and eastern ore zones (see attached map).

Diamond drilling resumed on May 30 with two rigs and has now moved to double shift operation. An initial program of some 40 holes is planned which will test: (1) the northern section of the deposit; (2) a 90-metre wide north-south strip much of which has previously been considered barren between the two known mineralised zones over much of their 700 metre length; (3) the southern extension targets; and (4) the northern extension targets.

This new diamond drilling program is aimed at increasing the overall (global) size of the resource with most emphasis being focused on the so-far untested "barren" strip between the two defined mineralised east and west horizons and on the high-grade deeper mineralisation previously encountered towards the south-west sections of the deposit.

Metallurgy

A second series of trials on the use of conventional Ore Sorting technology on bulk samples from Watershed has produced encouraging results. The results on three different sorting techniques have strongly supported the concept of pre-concentration of the tungsten-bearing material prior to treatment in a conventional mineral dressing process.

The essence of these results, which confirm preliminary tests last year, is that overall feed tonnage to the downstream gravity and flotation circuits can be reduced by an estimated 50% in a low-cost, pre-concentration step while maintaining a high metallurgical recovery rate.

This bulk pre-concentration stage should enable the extraction of a significant fraction of the total scheelite as a high grade, intermediate concentrate. Over one third of the contained scheelite was pre-concentrated into a mass of less than 1% of the original ore weight, at a grade above 35% WO₃. It is likely that this material would then be suitable for final clean-up into a saleable product.

Eight samples were obtained from bulk material representing the two zones of mineralisation at Watershed. These were crushed to minus 25mm with the minus 10 mm fines screened out, leaving a minus 25 mm plus 10 mm fraction suitable for the ore sorting test work. The minus 25mm to plus 10mm material from each sample underwent trials at three different ore-sorting equipment manufacturers to evaluate the effectiveness of X-ray 'transmission'; X-ray 'reflection'; and ultraviolet (UV) 'reflection' methods.

Two of the three methods resulted in rejection of more than 70% of the weight with the rejected 'waste' reporting at a grade of just 0.046% WO₃. In the minus 25 mm to plus 10 mm material suitable for ore sorting, more than 93% of the scheelite was pre-concentrated into a weight of less than 30% of the original mass prior to any fine grinding, with a commensurate increase in grade.

Based on the behaviour of similar ore types, crushing of run-of-mine (ROM) ore should produce a size distribution with approximately 70% amenable to sorting, of which 70% may be rejected as waste. On this basis, ore sorting has the ability to reject approximately 50% of all material as waste. The un-sortable fines would be subjected to conventional mineral dressing.

The major potential benefits from such an ore pre-concentration would include:

- A substantial reduction in the size and capital cost, of the mineral dressing section of the treatment plant;
- Commensurate reduction in the overall processing cost per tonne and plant cut-off grade; and
- Potential production of a very high grade intermediate scheelite product, suitable for final clean-up, direct from the sorting stage.

The Company has applied for Ministerial approval to extract two further 50-tonne bulk samples from two adits into the eastern and western zones of the deposit. This approval was granted at the beginning of July.

Mineralised material from these samples will then be subjected to ore sorting and gravity and flotation processing in a continuous pilot-plant operation to simulate a commercial venture.

Work on the adits will begin immediately.

Environmental

The Terms of Reference (ToR) for the formal Environmental Impact Statement (EIS) on the Watershed Project were also finalised in the quarter ending 30 June 2007. The official finalisation will enable the roll-out of the Watershed Project's remaining impact assessment studies to get underway.

The ToR have been the subject of extensive discussion with the Queensland Government's Environmental Protection Agency (EPA). The 30-day public exposure period for the draft documentation on the EPA and Vital Metals websites has also been completed. All affected parties were consulted prior to closure of the public comment period on 17 May 2007.

While a substantial amount of detailed study work has yet to be completed, much of the field survey work has already been finalised.

Lead studies, such as flora and fauna investigations, have been completed and surface-water data, initial soils, land suitability and waste rock characterisation assessments have been substantially progressed.

The Terms of Reference may be viewed on the Vital Metals website at www.vitalmetals.com.au/projects/watershed.phtml or on the Queensland EPA website <http://www.epa.qld.gov.au/>

Vital continues to take its environmental responsibilities seriously and is working to ensure the Watershed Project has minimal impact on the environment and receives strong support from the local community for the economic benefits it will bring to the regional economy.

New Drilling

Diamond core drilling of targets, comprising 'internal' and 'external' extensions to the current resource, commenced at the Watershed Project at the end of May 2007.

Extensions to the existing known surface limits of the Watershed Deposit have been confirmed by recent exploration activities, including diamond drilling and detailed surface mapping.

1. Drilling:

The new diamond drill hole, MWD145, intersected multiple scheelite-mineralised intervals between 31 metres and 178 metres down-hole. Five intercepts, each varying in width between 2 metres and 25 metres, were encountered with indications in all zones of 'moderate' to 'strong' scheelite fluorescence when exposed to ultraviolet light.

While analytical data will not be available for some time, the mineralisation is visually comparable with many other high-grade intercepts encountered in the previous drilling programs and is likely to be of comparable grade.

Hole MWD145 was drilled on an azimuth of 342 degrees magnetic at a declination of 60 degrees and is located at 92700N, 73940E (local grid). This is an area not previously subjected to Vital's infill drilling in the north-western sector of the Watershed deposit. The discovery encountered extends the mineralised domains used in the recent resource estimate by at least 50 metres to the west.

2. Surface mapping:

(a) Southern extensions: The presence of significant scheelite mineralisation south of the known surface limits of the Watershed deposit has been confirmed by surface mapping and ultraviolet night lamping. An additional three vein swarm zones have been identified between two previously known zones, in new drill access track excavations. These five vein swarm zones, situated between 85 and 285 metres south of the current southern limit of the deposit, contain coarse scheelite mineralisation of both vein and disseminated styles. Individual scheelite grains of up to 30mm have been noted. The area is shown in the attached maps.

(b) Northern extensions: Recent field mapping has confirmed the existence of a scheelite-mineralised arenite unit extending for at least 130 metres north of the current northern limit of the resource. As was the case for the new surface mineralisation observed in the southern extension area, this northern mineralisation is of both vein and disseminated styles. Very coarse scheelite crystals, up to 30mm in size, have been observed. The mineralisation, which is situated some 150 metres north of the northern limit of the current resource, remains open along strike.

These two discoveries augur well for a substantial extension to the overall size of the resource and support the Company's general opinion that Watershed will prove to be a major world-class scheelite deposit, if it is not already classified as such.

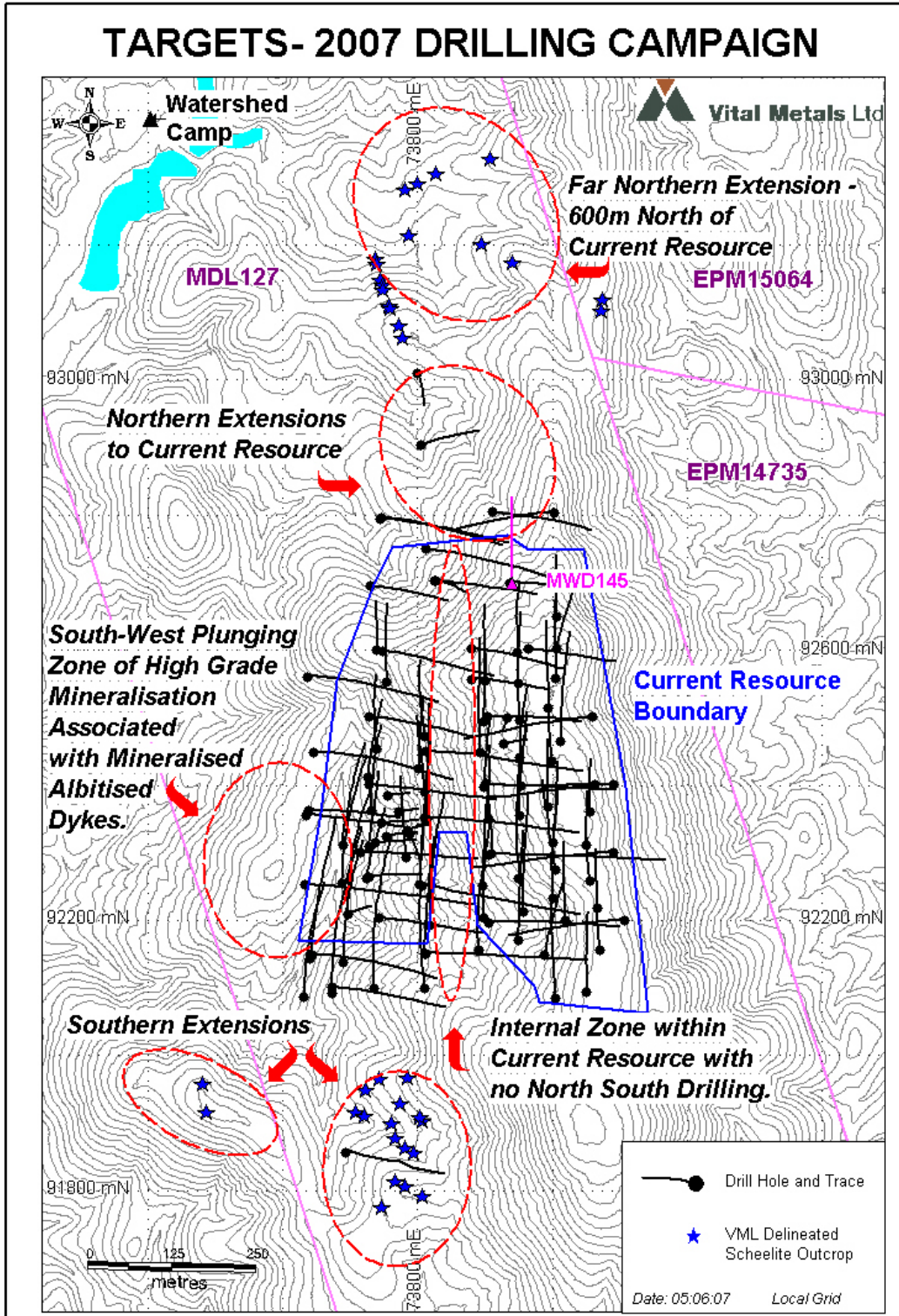
Drilling is now concentrating in the north-western section of the deposit, which was not previously subjected to infill drilling and in the 90 metre wide (east-west) strip between the main eastern and western zones of mineralisation which were used to estimate the resource numbers to date.

Mt Mulgine – Western Australia (Earning 70%)

A scout drilling program of 14 RC holes designed to test new anomalies outlined by Vital's geophysical and LAG sampling work conducted over the past year, was planned for the coming quarter.

Some delays have been experienced in obtaining final Aboriginal Cultural Heritage clearance of the drill locations. Provided this clearance can be finalised in the next few weeks, drilling may still take place during the September quarter.

TARGETS- 2007 DRILLING CAMPAIGN



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.

The information in the report that relates to the Mineral Resource is based on information compiled by Ben Palich and Alex Virisheff, who are Members of The Australasian Institute of Mining and Metallurgy. Ben Palich and Alex Virisheff are employed by RSG Global Consulting Pty Ltd. Ben Palich and Alex Virisheff have 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" Ben Palich and Alex Virisheff consent to the inclusion in the report of the matters based on their information in the form and content in which it appears."

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

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24 July 2007

**Table 1
Watershed Deposit
Grade Tonnage Table**

Lower Cutoff WO ₃ Grade (%)	Tonnes (Mt)	Tungsten Oxide (WO ₃ %)	Contained WO ₃ (t)
Indicated Resource			
0.05	1.63	0.27	4,300
0.10	1.59	0.27	4,300
0.15	1.38	0.29	4,000
Inferred Resource			
0.05	28.10	0.21	57,700
0.10	20.20	0.26	52,000
0.15	14.40	0.31	44,800
Combined Indicated and Inferred			
0.05	29.73	0.21	62,000
0.10	21.79	0.26	56,300
0.15	15.78	0.31	48,800

Note, the above results have been rounded

- Drilling completed by Vital is predominantly on 50m by 50m grid orientated (local grid) north-south with the pre-Vital drilling completed on a notional 100m by 100m grid orientated (local grid) east-west. The local grid is 12 degrees from true north. The deposit is defined by 43 diamond (DD) drillholes completed by Utah Development Company (1980 to 1982), 12 diamond (DD) drillholes completed by Peko Wallsend Operations (1985) and 62 diamond (DD) drillholes completed by Vital (2006 and 2007) intersecting the targeted tungsten mineralisation. Relative density (specific gravity) measurements have been completed for all Vital samples.
- A nominal 0.1% WO₃ was used to define east-west striking vein swarm domains and a notional 0.01%WO₃ was used to define broader foliation parallel disseminated north south striking domains (see Figures 1 through 3).
- Statistical analyses on 3m composites were completed. Variography and search neighbourhood analysis were also conducted as input into grade estimation.
- The method used to obtain grade estimates within the vein swam and disseminated domains, was Ordinary Kriging.
- The relative bulk density (specific gravity) which is assumed to be equivalent to dry insitu bulk density has been derived for the various lithologies from the examination of 5,531 direct diamond core measurements performed by Vital Metals. From this analysis, an average density of 2.74t/m³ was assigned to the arenite, 2.77t/m³ was assigned to the argillite and 2.19t/m³ to the overburden.
- Resource classification was developed from the confidence levels of key criteria including drilling methods, geological understanding and interpretation, sampling, data density and location, grade estimation and quality.
- Comparative estimates were completed to assess the resource at a higher selectivity. These show that scope exists for an increase in the grade of the resource however, currently, there is insufficient close-spaced information for a robust 'selective mining' estimate to be completed.