



Progress Report on Activities February 2006

Vital Metals Ltd listed in mid-October 2005 with three advanced scheelite (calcium tungstate) properties as its targets. The large Watershed deposit in far North Queensland has been, and continues to be, the primary focus of attention although preliminary work has begun on the Mt Mulgine area in the mid-west of WA.

This report to the end of February is intended to update shareholders on progress and follows on from the Quarterly Report which was sent to all shareholders at the end of January.

Highlights

- Metallurgical drill holes completed prior to cessation of drilling for the wet season.
- New geological interpretation of the Watershed deposit suggests a quartz vein swarm deposit rather than the Utah strata-bound model.
- Strong evidence of continuation of mineralisation at the Watershed deposit for 600 metres north of previously reported limits.
- Stage 2 metallurgical development program, including ore-sorting and mineral dressing, to proceed immediately.
- Evaluation begins at Mt Mulgine with geophysical studies and digitisation of existing information.
- Literature study confirms that the Mt Mulgine tungsten deposit(s) rank as 8th largest in the world and 3rd largest outside China and the former USSR.
- Chinese internal consumption of tungsten increased by 11 per cent over the past year. The price remains strong, confirmed by US Defence Logistics Agency sale of 1100 tonnes of concentrate at US\$197 per metric tonne unit. Current APT sales at US\$275 per mtu.

Watershed (North Queensland)

Drilling

Four large diameter (PQ/HQ) diamond core holes, drilled for the purpose of obtaining metallurgical test samples, and two check holes (twinning previous Utah holes), were completed prior to the onset of heavy rains. Drilling ceased on January 28 and is scheduled to re-start at the completion of the wet season, anticipated to be around the beginning of April.

The metallurgical drill cores were not cut for assay and will be analysed in the course of the testing program. Mineralised sections of core from the two twinned holes have been cut and submitted for assay. This assaying will be the first use of a detailed protocol for QA/QC (quality assurance and quality control) which has been developed by Vital over the past three

months to ensure strict, formal control over all future tungsten assaying within this ore sequence as required under the JORC Code. The check assays are expected in the next two weeks.

Geological

Vital personnel, with the assistance of its principal geological consultant (who has specific expertise in tungsten), have reviewed the interpreted geological model of Watershed as developed by Utah and GeoPeko (1978 to 1986). This review has led to a re-interpretation of the nature of the mineralisation, from that suggesting a strata-bound deposit, to that of a quartz vein swarm; with an orientation some 90 degrees at variance from the Utah model. This outcome, while not changing the extensive distribution of scheelite throughout this large system, may have some positive implications for the grade of the mineralisation.

There is, furthermore, evidence that the extent of the deposit may extend well north of the current assumed northern limit of the deposit.

A re-examination of the soil geochemical data collected by Utah in the late 1970's indicates that substantial areas of previously untested, near-surface tungsten mineralisation occur to the north of the previously reported northern limit of the Watershed deposit. Zones of additional scheelite mineralisation, are likely to be present within an area measuring some 600 metres along strike and 300 to 400 metres across strike, either as a new target or as an extension to the main deposit. Preliminary surface evaluation of this area has identified coarse-grained scheelite mineralization spatially associated with a fine-grained granitic dyke located approximately 600 metres north of the known mineralisation and not represented by the previous soil geochemical survey. A program of exploratory drilling is planned which will attempt to evaluate these areas as soon as possible after the wet season.

Metallurgy

The four cores from the metallurgical sample holes have been logged and classified by rock type, indicated grade (based on ultraviolet fluorescence and comparison with nearby Utah holes) and the predominant style of mineralisation (quartz veining or alteration halo). These samples have been sent to Perth. Approximately 1200 kilograms of suitable core is available for metallurgical testing, with more available at site if required.

In conjunction with metallurgical consultants, ProMet Engineers Pty Ltd, a comprehensive program of process test work has been developed and will start almost immediately.

The program will include two main sections:

1. The testing of the practical use of ore sorting techniques for the large-scale pre-concentration of the Watershed ore using both ultraviolet and x-ray illumination. These tests will be carried out by two manufacturers of ore sorting equipment in Germany and Australia.
2. Conventional mineral dressing including gravity and flotation methods, measurement of crushing and grinding indices and the use of electrostatic and magnetic separation.

The cost of this Stage 2 development program is estimated at about \$300,000.

Environmental

Wet season environmental field surveys which are needed for a thorough environmental baseline assessment study are in progress.

Mt Mulgine (Western Australia)

Planning for the initial work at the Mt Mulgine tungsten/molybdenum property in the mid-west of WA has commenced and, at this stage, comprises two methods of evaluation:

1. Compilation of a comprehensive, digital database of all existing drilling (approximately 320 drill holes), including the re-assaying of a number of key holes that are clearly mineralised but for which the core has not been cut and no assays have been carried out, and other geological and geochemical data.
2. A review of the existing geophysical data which comprises airborne magnetic and radiometric surveys by Southern Geoscience Consultants. This will include the collection of representative core sections of the relevant rock types to allow measurement of the geophysical characteristics of each (conductivity, magnetic susceptibility and the like) in preparation for the application of sophisticated, contemporary, geophysical surveys in the (superficially non-mineralised) areas surrounding the Mulgine Granite Intrusive. The purpose of any such surveys will be to search for non-outcropping deposits, as distinguished from the currently known Trench and Hill deposits which are located to the north-west of the Granite core.

The Mt. Mulgine deposits represent a world class accumulation of tungsten at relatively low grade. The Hill deposit is estimated to host an Inferred Resource of 5.09 million tonnes at 0.24 per cent WO_3 while the Trench deposit is very large, estimated at 83.4 million tonnes at 0.136 percent WO_3 with substantial molybdenum plus minor copper, gold and silver credits (refer to the Vital Metals Prospectus).

A literature review of the tungsten deposits of the world shows that the currently-known Mt Mulgine tungsten mineralization (in the Hill and the Trench deposits), with a combined tungsten content, as detailed in the Vital Metals Prospectus, of approximately 125,000 tonnes of WO_3 , ranks at number 8 in the world as measured in terms of tonnes of contained tungsten and, perhaps more importantly, ranks at number 3 outside of China and the former Soviet Union. Hence, while the average grade of the Mulgine deposits is very low, the rewards for successful exploitation would be large.

Most or all of the Mt Mulgine mineralisation is contained within white quartz veins hosted by rocks with a dark matrix. Preliminary ore sorting tests carried out in the early 1980's by Oresorters Australia Pty. Ltd. indicated that the tungsten and molybdenum grades could be increased substantially by optical ore sorting. One of the tasks planned for the future is to carry out new ore sorting tests on freshly drilled samples to follow up these earlier tests.

Mt Alexander (Western Australia)

No field work has been conducted at Mt Alexander since listing due to the wet season and the extreme weather conditions at this time. However, Vital has successfully concluded negotiations with the Native Title Claimant Group such as to allow the grant of two key Exploration Licences, E08/1410 and 08/1411.

Field work is programmed to begin at Mt Alexander in the second quarter of 2006.

The Tungsten Market

Figures released from China during the month of February confirm that Chinese domestic consumption continues to increase rapidly (by 11 per cent over the past year). Annual consumption in China now exceeds 20,000 tonnes per annum.

The US Defence Logistics Agency (DLA) has recently completed the sale of approximately 1100 tonnes of tungsten concentrates at a price of US\$197 per metric tonne unit. This sale seems to confirm that a new price plateau has been established at around \$200 per mtu. Within China, concentrates remain in very tight supply with prices around US\$230 per mtu.

Ammonium paratungstate (APT) prices continue to increase and are currently quoted at around US\$275 per mtu. Further price increases are expected in the next few months (Source: Asian News).

Vital is maintaining on-going discussions with major global consumers and is receiving requests to enter long-term supply agreements once the company's production program has been confirmed.

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

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