



14 November 2005

The Manager
Australian Stock Exchange Limited
Company Announcements
Level 10
20 Bond Street
SYDNEY NSW 2000

Dear Sir

Tungsten Metal Market Update – November 2005

Please find attached Tungsten Metal Market Update – November 2005 which we intend to place on our website.

Yours faithfully

W J Ryan
Executive Chairman

VITAL METALS LTD

TUNGSTEN METAL MARKET UPDATE NOVEMBER 2005

The following are highlights regarding global market activity in primary Tungsten products over the last quarter:

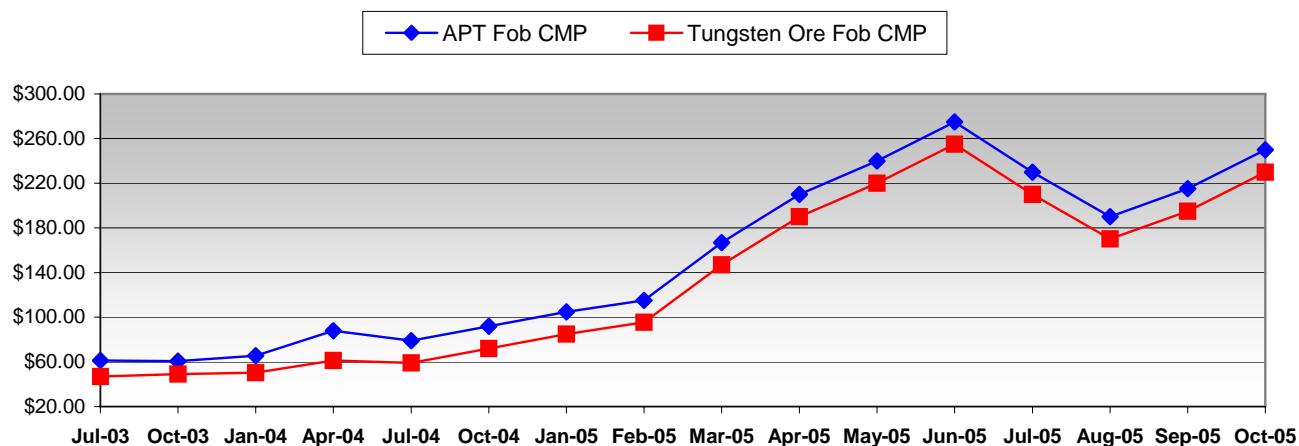
1. Recent industry reports including the Asian Metal and The Metal Bulletin, confirm that the global tungsten supply and particularly the availability of tungsten concentrates, remains extremely tight.
2. In particular, Chinese production continues to decline, principally due to three key factors.
 - Declining grades in traditional mines. Illegal mining has also been eliminated.
 - Operational problems, and particularly due to power shortages.
 - Increasing government restrictions on mining due to a need to maintain reserves for future domestic consumption.
3. Attendance at the International Tungsten Conference in China during September by two Vital Directors also underlined the following.
 - Chinese production will continue to decline over the next five years, and potentially to the point that quantities available will only be sufficient to meet growing domestic requirements in China. This represents a dramatic change against the current position whereby China supplies over 80% of the world's tungsten concentrates. This position was confirmed by Chinese Industry representatives in a paper presented at the conference.
 - Russian producers also indicated they are unable to increase production in the foreseeable future. Austrian production is declining and existing mining operations are expected to be terminated within the next few years due to the cessation of economic reserves.
 - In turn, industry attendees, and particularly the major processing companies in Europe and North America, confirmed there is an urgent need to develop new concentrate sources outside China.
 - Recent industry reports, including those from the ITIA (International Tungsten Association) suggest Tungsten concentrates and semi-processed products (APT) have for the last decade been supplied at below the true cost of production, and a new price plateau needs to be established to encourage new production.
 - Most consumers, (including public statements by major consumers Kennametal and Osram/Sylvania in USA) appear to recognise that this new price plateau needs to be in excess of US\$150mtu for concentrates, and due to the expected continuing tight supply for at least the next few years, may exceed US\$200mtu ex plant (current price is US\$210mtu ex plant China)

- The new price structures are not expected to impact on consumption and some substitution is only likely to occur if prices exceed US\$300mtu for APT.
 - Following discussions with major consumers attending the conference from Europe and North America have indicated their willingness to provide technical support and long-term purchase agreements to encourage new production.
4. The CanTung mine in Canada (owned and operated by North American Tungsten Ltd) recommenced production in September at an annual rate of approximately 4000mtu per annum. Sales of concentrates are initially being made to APT producers in Asia and Europe, and to supplement shortages from domestic concentrate production. The restart of the CanTung operation appears to have had little influence on global price structures.
 5. Despite previous indications of releasing larger quantities, the US Defense Logistics Agency (DLA) has confirmed it will again only release 5 million pounds of WO₃ in 2005. This is similar to previous levels released over the past three years. The industry has recognised this as a responsible decision on the basis that the release of a much larger quantity could disturb market structures, and would simply delay the development of much required new production programs.
 6. In the first half of 2005, prices of tungsten concentrates and APT increased very sharply, and for a short period, APT prices reached US\$300 FOB China. However some correction of this price structure occurred during the European and North American summer holiday period in third quarter, and moved back to a level of approximately US\$200/220 for APT. However, with the re-establishment of buying activity, and supported by shortages of concentrates, prices have again started to firm. In accordance with the following chart, prices for APT now exceed US\$250mtu and US\$210mtu for concentrates.

In summary, information gained at the global tungsten conference in China during September confirmed published industry reports.

- In accordance with published statistics, and supported by papers presented at the tungsten conference, Chinese concentrate production continues to decline, and the Chinese Government is restricting mining activities to maintain reserves for future domestic consumption.
- Tungsten concentrates can no longer be produced and supplied at below US\$100 mtu, and a new pricing plateau needs to be confirmed to encourage new production outside China. It has now generally been accepted by the industry that this new price level needs to be a minimum of US\$150mtu, however due to ongoing shortages may exceed US\$200mtu for the foreseeable future.
- Opportunities for new production appear to be limited to Australia, Vietnam and Bolivia; however no new projects have actually been confirmed.

Tungsten Prices – July 2003 – October 2005



Source: Asian Metal

Note: Ore – tungsten concentrate ore 65 per cent WO_3
APT - ammonium paratungstate
All prices are quoted in mtu (metric tonne units)