



Vital Metals Ltd

VITAL METALS LTD

ACN 112 032 596

ANNUAL REPORT

FOR THE PERIOD 9 DECEMBER 2004 TO 30 JUNE 2005

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CORPORATE DIRECTORY

Directors

William Ryan
Executive Chairman

Mark McAuliffe
Independent Non-Executive Director

D. Ross Kennedy
Independent Non-Executive Director

Andrew Simpson
Independent Non-Executive Director

Colin Hunter
Independent Non-Executive Director

Company Secretary

Ross James Arancini

Principal Office

45 Ventnor Avenue
West Perth WA 6005

Registered Office

110 Hensman Street
South Perth WA 6151

Auditors

KPMG
152 – 158 St George's Tce
Perth WA 6000

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Hwy
Applecross WA 6153

DIRECTORS' REPORT

The Directors submit their Report on the Company for the period 9 December 2004 (being the date of incorporation) to 30 June 2005.

DIRECTORS

The names and details of the directors of the Company in office at any time during or since the end of the year are:

Director William J Ryan M.E., F.AusIMM, FAICD
Appointed 9 December 2004
Position Executive Chairman

Mr Ryan holds a Masters degree in chemical engineering and has over 40 years experience in mining, metallurgy and management. His career has included 4 years in metallurgical research at Amdel in Adelaide, 11 years at Endeavour Resources Limited in Melbourne, a brief role at Bond Resources in 1981 and 1982 following which he operated his own consultancy, Rytech Pty Ltd, until 1987. He took control of what became Titan Resources NL in late 1987 and resigned from that position after 17 years in June 2004.

He was the longest serving President of the influential mining lobby group AMEC for 5 years (1995 – 2000), a Councillor of the WA Chamber of Minerals and Energy for 2 years and an inaugural Councillor of the Australian Gold Council.

Mr Ryan is a non-executive director of Gindalbie Metals and Jupiter Mines Limited, is a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors.

Director Donald Ross Kennedy B.Sc. (Hons), F.AusIMM, CPGEO, MAIG, MICA, MGSA, MAICD
Appointed 20 January 2005
Position Independent Non-Executive Director

Mr Kennedy is a geologist with over 40 years experience in multi-commodity exploration within Australia and overseas and with a proven track record of success. During the 20 years until 1985 he held senior positions with major international mining houses Anaconda Australia Inc., Union Miniere Development and Mining and Rio Tinto Ltd. In this period he discovered the namesake Redross nickel deposit (WA) and identified the deep, high grade mineralization at Porgera (PNG). Mr. Kennedy was Managing director of Astro Mining NL for 2 years before joining the Board of Resolute Ltd in 1987. In the following 13 years Ross was the leader of one of the most successful exploration teams in Australia and led the team that was responsible for the discovery of a number of commercial gold deposits, including Marymia, Chalice, Higginsville and Challenger in Australia and Nkran and Golden Pride in Africa. He also pegged and farmed out the Plutonic gold deposit in WA. In 1993 the Geological Society of Australia (WA Division) awarded Ross Kennedy the Gibb Maitland Medal in recognition of his substantial contribution to geoscience.

Mr Kennedy is Chairman of Jindalee Resources and a non-executive director of Great Western Ltd, is a Certified Practicing Geologist, a Fellow of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists, the Geological Society of Australia, the Mineral Industry Consultants Association and the Australian Institute of Company Directors

DIRECTORS' REPORT (cont)

Director Andrew Simpson Grad Dip. Bus (Curtin), MAICD
Appointed 23 February 2005
Position Independent Non-Executive Director

Mr Simpson holds a Graduate Diploma in Business and Administration (majoring in Marketing and Finance) from Curtin University and is currently the Managing Director and Principal of Resource and Technology Marketing Services Pty Ltd (RTM) in Perth.

Mr Simpson's professional career began with Allied Eneabba in 1975 where he held a variety of positions, including Marketing Manager and Commercial Manager (R&D) over an 11 year period. Andrew then moved to become Managing Director of Dolmar Chemicals in WA, Group General Manager – Marketing and Business Development with Simcoa Operations in WA, Executive Director of Simcoa International and CEO of Atomaer, a WA based mining technology company. He formed RTM in 1999 to specialize in strategic and business planning, resource project assessment and marketing. RTM is recognized as one of Australia's leading market research consultants to the international mining industry.

Mr Simpson is non-executive Chairman of Swick Mining Services Pty Ltd, a director of Wintech International and a Member of the Australian Institute of Company Directors.

Director Colin Hunter BSc, PhD
Appointed 23 February 2005
Position Independent Non-Executive Director

Mr Hunter graduated from the University of Manchester (UK) with a BSc Hons degree in Metallurgy and was awarded a PhD from Brunel University (UK) in 1985 for his work on the froth flotation of sulphide minerals. He moved to South Africa and worked for 3 years with Impala Platinum Limited before joining Gencor Process Research where he rose to the position of Head of Minerals Engineering. In 1993 he joined the Ashanti Goldfields Company in Ghana to help commission and run the Sansu sulphide treatment plant, the largest bacterial leaching (Biox) plant in the world.

Mr Hunter has since been involved with the bio-leaching of refractory gold and a development of the process for bio-leaching nickel and other base metals and is a founding director of Bio-Hydro Metallurgy Ltd, which was established to develop bio-leach processes for chalcopyrite, zinc and other sulphide mineral systems.

In 1998 Bio-Hydro Metallurgy formed a joint venture company, Pacific Ore Technology Ltd, with Australian nickel miner, Titan Resources NL. Colin has since been operating as Technical Director for Pacific Ore Technology and has been responsible for managing the development of the BioHeap™ Process.

Director Mark McAuliffe B.Juris, LLB
Appointed 9 December 2004
Position Independent Non-Executive Director

Mr McAuliffe is a solicitor with over 24 years in acting for and advising mining companies, public listed companies and institutions upon a wide range of legal issues. He holds a Bachelor of Jurisprudence and a Bachelor of Laws from the University of WA. His career includes advising and documenting a wide range of mining transactions from acquisitions through joint ventures, initial public offerings and capital raisings. This mining experience extends beyond Australian jurisdiction and includes transactions in a number of countries in Africa and South America.

Mr McAuliffe commenced his career at Downing and Downing before establishing his own firm in 1989. In 2004 Mark's firm merged into the Dibbs Barker Gosling group (renamed on 1 July 2005 Dibbs Abbott Stillman), where he holds the position of senior partner for the Perth office. Mark sits upon the national Board of the Dibbs Abbott Stillman group and has extensive experience as a director for a wide range of client companies.

DIRECTORS' REPORT (cont)

Director Evan Cranston
Appointed 9 December 2004 Resigned 11 April 2005
Position Independent Non-Executive Director

COMPANY SECRETARY

The company secretary is Ross James Ararancini B. Bus CA. Mr Arancini is a Chartered Accountant who has been in private practice for 14 years specialising in providing corporate, secretarial and taxation advice and services to listed public companies involved predominantly in mineral exploration. Mr Arancini is company secretary of a number of listed public companies.

PRINCIPAL ACTIVITIES

The principal activities for the period were the acquisition of mineral tenements and preparatory work for an initial public offering.

REVIEW AND RESULTS OF OPERATIONS

The loss for the period after income tax was \$95,793.

Since incorporation on 9 December 2004 the activities of the Company have focussed on the location of prospective tungsten and molybdenum projects and preparatory activities for an initial public offering.

Three projects have been secured by the Company being the Watershed Project in North Queensland which is at the pre-feasibility stage, the Mt Alexander Project in Western Australia and the Mt Mulgine Project also in Western Australia.

DIVIDENDS

No dividends were paid during the period and the Directors do not recommend the payment of a dividend.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than noted below there were no significant changes in the state of affairs of the Company during the period.

On 31 March 2005 the following ordinary fully shares were allotted and issued:

- 5,000,000 at \$0.01 per share in repayment of a loan of \$50,000;
- 2,400,000 at \$.05 per share for cash;
- 500,000 at \$0.05 per share for services provided.

On 18 April 2005 4,150,000 ordinary fully paid shares were allotted and issued at \$0.10 per share for cash.

DIRECTORS' REPORT (cont)

SIGNIFICANT POST BALANCE DATE EVENTS

Other than noted below there are no matters or circumstances that have arisen since the end of the financial period which has significantly affected, or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial period ended 30 June 2005.

On 10 August 2005 the Company lodged a prospectus with the Australian Securities & Investments Commission inviting investors to apply for 40,000,000 ordinary fully paid shares at \$0.20 per share.

Within 7 days of the lodgement of the Prospectus the Company also lodged a Listing Application for its shares with the Australian Stock Exchange Ltd.

The Company closed its offer to the public on 28 September 2005 as it had received applications for in excess of 40,000,000 shares.

The Company allotted and issued 40,000,000 shares on 3 October 2005.

Conditional on listing on Australian Stock Exchange the Company has issued:

- 2,000,000 fully paid ordinary shares at \$0.20 per share for the right to earn up to a 70% equity in the Mount Mulgine Project's mining and exploration tenements through the sole funding of exploration costs of \$750,000 within 3 years from the date the Company lists on ASX;
- 7,500,000 fully paid ordinary shares at \$0.20 per share for the acquisition of 100% of the issued shares in Mount Alexander Resources Pty Ltd which owns the tenements comprising the Mt Alexander Project;
- 8,000,000 fully paid ordinary shares at \$0.20 per share for the acquisition of 100% of the issued shares in North Queensland Tungsten Pty Ltd which has acquired the Watershed Project;
- and 500,000 fully paid ordinary shares at \$0.20 per share and the payment of \$20,000 upon exercise of an option to acquire the rights to certain minerals within a granted mining tenement surrounding North Queensland Tungsten Pty Ltd's Watershed Project.

LIKELY DEVELOPMENTS

Subject to the successful listing of the Company's shares on the Australian Stock Exchange the Company will commence exploration and development activities as outlined in its Prospectus.

Further information on the likely developments in the operations of the Company and the expected results of those operations have not been included in this Report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

REMUNERATION REPORT

Remuneration levels for directors, officers and senior executives of the Company are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The Board is responsible for remuneration policies and practices.

The Board, where appropriate, seeks independent advice on remuneration policies and practices, including the remuneration packages and terms of employment.

DIRECTORS' REPORT (cont)

REMUNERATION REPORT

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board where applicable.

Performance-linked remuneration

Performance-linked remuneration is designed for rewarding directors, officers and senior management for their role in achieving corporate objectives and is directly linked to the creation of shareholder value

This incentive is provided as options issued either under terms and conditions of the Company's Employee Option Plan or otherwise under terms and conditions determined at the time of issue by the Board.

Service contracts

The Company has entered into a service agreement with Mr Ryan. The agreement, to commence when the Company is admitted to the official list of the Australian Stock Exchange, entitles Mr Ryan to receive a salary of \$240,000 per annum, statutory superannuation, a motor vehicle allowance not exceeding \$10,000 and the reimbursement of other costs.

Mr Ryan receives \$55,000 per annum plus statutory superannuation for his role as Chairman.

Non-executive directors

Non-executive directors received a fixed fee for their services.

Non-executive directors receive \$36,000 per annum plus statutory superannuation.

There is no direct link between remuneration paid to any non-executive directors and corporate performance. There are no termination or retirement benefits for non-executive directors (other than statutory superannuation).

DIRECTORS' REPORT (cont)

REMUNERATION REPORT

Remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company during the financial period are detailed below:

	Primary Directors fees	Post- employment Super Contributions	Equity compensation Value of Options	Total	Value of Options as a Proportion of remuneration
	\$	\$	\$	\$	%
W Ryan	13,750	1,238	25,795	40,783	63.25
D Kennedy	9,000	810	25,795	35,605	72.45
A Simpson	9,000	810	25,795	35,605	72.45
C Hunter	9,000	810	25,795	35,605	72.45
M McAuliffe	9,000	810	25,795	35,605	72.45
E Cranston	-	-	1,548	1,548	100.00

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise Price	Estimated Volatility	Risk Free Interest Rate
31 March 2005	30 June 08	\$0.05159	\$0.20	50%	5.275%

DIRECTORS' INTERESTS

As at the date of this Report the relevant interest of each director in the shares and options of the Company is as follows:

	Ordinary Shares		Options over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
W Ryan	1	5,000,000	-	500,000
D Kennedy	-	400,000	-	500,000
A Simpson	-	400,000	-	500,000
C Hunter	-	400,000	-	500,000
M McAuliffe	1	400,000	-	500,000

DIRECTORS' REPORT (cont)

DIRECTORS' MEETINGS

The following directors' meetings were held during the period and the number of meetings attended by each of the directors during the year were:

Director	Directors' meetings held while a Director	Number of Directors' meetings attended	Number of Audit Committee meetings held	Number of Audit Committee Meetings attended
W Ryan	4	4	**	**
D Kennedy	4	4	**	**
A Simpson	3	3	1	1
C Hunter	3	3	1	1
M McAuliffe	4	3	1	1
E Cranston	2	2	**	**

** Not a member of the audit committee.

OPTIONS

During or since the end of the financial period the Company granted options to the following directors and executives as part of their remuneration:

Director/Executive	Number	Exercise Price	Expiry Date
W Ryan	500,000	\$0.20	30 June 2008
D Kennedy	500,000	\$0.20	30 June 2008
A Simpson	500,000	\$0.20	30 June 2008
C Hunter	500,000	\$0.20	30 June 2008
M McAuliffe	500,000	\$0.20	30 June 2008
E Cranston	30,000	\$0.20	30 June 2008

Further details of the options granted are contained in the Remuneration Report section of the Directors' Report.

As at the date of this report the following options were on issue:

Number	Exercise Price	Expiry Date
2,830,000	\$0.20	30 June 2008

During or since the end of the financial period the Company no options were exercised.

INSURANCE OF OFFICERS

During the period the Company has paid an insurance premium in respect of a Directors' and Officers' Liability Insurance Contract. The insurance premium relates to liabilities that may arise from an Officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are the Directors and the Company Secretary.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

DIRECTORS' REPORT (cont)

ENVIRONMENTAL REGULATION

The Company is subject to and compliant with all aspects of environmental regulation of its exploration activities. The Directors are not aware of any environmental law that is not being complied with.

CORPORATE GOVERNANCE

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable; the Company has adopted the Ten Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

Further information about the Company's corporate governance practices is set out on the Company's website at www.vitalmetals.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the board and its sub-committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Principle 2 Recommendation 2.2

The Chairman does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations Independence ("Independence Test").

Whilst the Board recognises the importance of independence in decision making, it does not comply with best practice recommendation 2.2 as William Ryan, the current chairman, does not satisfy paragraphs 1 and 2 of the Independence Test, in that is he has an executive role in the Company and he is a substantial shareholder. The Board believes that William Ryan is the most appropriate person for the position as chairman because of his industry experience and pivotal role in preparing the Company for listing.

The Board has appointed Ross Kennedy to act as a lead independent director, and the board believes this will enable the board to act independently in the event any conflict arises which would make it inappropriate for William Ryan to act in the capacity of chairman.

Principle 2 Recommendation 2.3

The roles of Chairman and Managing Director are exercised by William Ryan, which is not in compliance with best practice recommendation 2.3

While the Board recognises the importance of the need for the division of responsibilities between the chairman and the managing director, it considers the existing structure provides unified leadership important to a newly incorporated company with early stage exploration projects. Mr Ryan's dual role makes him responsible (along with the whole board) for determining strategic direction of the Company as well as having primary responsibility for day to day management. At present this dual role assists the Company to run in a cost effective and efficient manner.

The Board intends to re-consider the duality of William Ryan's role and the merits of appointing a new managing director as the Company evolves and increases its operations.

DIRECTORS' REPORT (cont)

CORPORATE GOVERNANCE

Principle 2 Recommendation 2.4

There is no nomination committee.

The Board considers those matters and issues arising that would usually fall to a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee.

Principle 8 Recommendation 8.1

During the Reporting Period there was no performance evaluation of the Board, its committees and individual directors.

The current Board has only been in place since 9 December 2004 and did not conduct a performance evaluation during the Reporting Period. It is proposed the Chairman will conduct a review in the 2006 financial year.

Principle 9 Recommendation 9.2

There is no separate remuneration committee.

Due to the small size and structure of the Board, a separate remuneration committee is not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. The Board considers that it is more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. When considering matters of remuneration, the Board functions in accordance with the Remuneration Committee Charter which was adopted on 18 April 2005.

In addition, all matters of remuneration will continue to be determined in accordance with Corporations Act requirements, especially in respect of related party transactions. That is, no directors participate in any deliberations regarding his or her own remuneration or related issues.

NON-AUDIT SERVICES

During the period the Company's auditor, KPMG, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the period by the auditor and is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure that they do not impact on the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *FI Professional independence* as they did not involve auditing or reviewing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate of the Company or jointly sharing risks or rewards.

DIRECTORS' REPORT (cont)

NON-AUDIT SERVICES

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act is included in the Director's Report.

Details of the amount paid to the auditors of the Company, KPMG, and its related practices for audit and non-audit services provided during the period are set out below.

<i>Statutory audit</i>	\$
Audit of financial statements	9,000
<i>Services other than statutory audit</i>	
Independent accountant report for prospectus	12,000

AUDITOR'S INDEPENDENCE STATEMENT UNDER SECTION 307C OF THE CORPORATIONS ACT

The Auditor's Independence Statement is attached as page 31 of the Financial Report and forms part of the Directors' Report for the period ended 30 June 2005.

Signed in accordance with a resolution of the directors

W J Ryan
Director

Dated: 7 October 2005

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD 9 DECEMBER 2004 TO 30 JUNE 2005**

	Notes	2005 \$
Revenue from ordinary activities		-
Expenses from ordinary activities	2	(95,793)
Loss from ordinary activities before income tax expense		(95,793)
Income tax relating to ordinary activities	3	-
Loss from ordinary activities after income tax		<u>(95,793)</u>
Net loss attributable to members of Vital Metals Ltd		<u>(95,793)</u>
Basic earnings per share (cents)		(1.903)
Diluted earnings per share (cents)		(1.903)

The above statement of financial performance should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Notes	2005 \$
Current Assets		
Cash assets	5	371,010
Receivables	6	21,636
Other financial assets	7	<u>6,980</u>
Total current assets		<u>399,626</u>
Non-current assets		
Property, plant and equipment	8	3,001
Exploration and evaluation costs carried forward	9	<u>2,572</u>
Total non-current assets		<u>5,573</u>
Total assets		<u>405,199</u>
Current liabilities		
Payables	10	<u>153,029</u>
Total current liabilities		<u>153,029</u>
Total liabilities		<u>153,029</u>
Net assets		<u>252,170</u>
Equity		
Contributed equity	11	347,963
Accumulated losses	12	<u>(95,793)</u>
Total equity		<u>252,170</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

**STATEMENT OF CASHFLOWS
FOR THE PERIOD 9 DECEMBER 2004 TO 30 JUNE 2005**

	Notes	2005 \$
Cash flows from operating activities		
Payments to suppliers		<u>(45,485)</u>
Net cash outflow from operating activities	4	<u>(45,485)</u>
Cash flows from investing activities		
Bond – office premises		(3,000)
Acquisition of plant & equipment		(3,118)
Exploration expenditure		<u>(2,572)</u>
Net cash outflow from investing activities		<u>(8,690)</u>
Cash flows from financing activities		
Proceeds of loan from an entity related to W Ryan		50,000
Loans to Mount Alexander Resources Pty Ltd and North Queensland Tungsten Pty Ltd		(2,350)
Proceeds from issue of shares		535,001
Capital raising expenses		<u>(157,466)</u>
Net cash inflow from financing activities		<u>425,185</u>
Net increase in cash held		371,010
Cash at the beginning of the financial period		<u>-</u>
Cash at the end of the financial period	5	<u>371,010</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation and presentation of the historical financial information (collectively referred to as the “financial statements”) are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, Urgent Issues Group Consensus Views and other mandatory professional reporting requirements as generally applied in Australia.

They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The disclosure requirements of applicable Accounting Standards and Urgent Issues Group Consensus Views have only been applied as considered necessary. The accounting policies have been consistently applied, unless otherwise stated.

The Company was incorporated on 9 December 2004.

(b) Taxation

The company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating net profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is being carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense

Receivables and payables are stated with the amount of GST included.

The net amount of the GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

(d) Recoverable amount of non-current assets valued on cost basis

The carrying amount of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (see Note 1(f)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

(e) Depreciation

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual lives. Assets are depreciated from the date of acquisition. Depreciation rates are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed. The depreciation rates used for each class of asset are as follows:

Office furniture and equipment	15%
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(f) Exploration & Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest.

These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) Such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- (ii) Exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(g) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

(h) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Costs relating to the acquisition of new areas of interest are classified as exploration or evaluation expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition.

(i) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(j) Receivables

The recovery of debts is assessed at reporting date and specific provision is made for any doubtful debts.

Trade debtors are recognised at the amounts receivable as they are due for settlement which is no more than 30 days.

(k) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenue and expenses of conversion to ordinary shares associated with the dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2005 (cont)

2005
\$

NOTE 2 LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

The loss from ordinary activities before income tax has been arrived at after charging the following items:

Consultancy fees	7,810
Depreciation of office equipment	117
Directors fees	49,750
Insurance	3,985
Legal fees	6,500
Rent	4,467
Superannuation	4,478
Telephone	2,004

2005
\$

NOTE 3 INCOME TAX

The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss. The differences are recorded as follows:

Loss from operating activities	<u>(95,793)</u>
Prima facie income tax benefit on operating loss before income tax at 30%	(28,738)
Add tax effect of:	
- non-deductible items	292
- tax losses and timing differences not brought to account	<u>28,446</u>
Income tax expense on loss from ordinary activities	<u>-</u>

The Directors estimate that the tax losses available to the Company are \$84,170.

The benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the company continues to comply with the conditions for deductibility imposed by the relevant tax legislation;
- (iii) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

2005
\$

NOTE 4 STATEMENTS OF CASH FLOWS

Reconciliation of operating loss after income tax to net cash used in operating activities:

Operating loss after income tax	(95,793)
Depreciation	117
Increase in receivables	(21,636)
Increase in payables	71,827
	<u>(45,485)</u>

NOTE 5 CASH ASSETS (Current)

Cash at bank and on hand	<u>371,010</u>
	<u>371,010</u>

NOTE 6 RECEIVABLES (Current)

Goods & services tax paid	<u>21,636</u>
	<u>21,636</u>

NOTE 7 OTHER FINANCIAL ASSETS (Current)

Security deposit – office premises	3,000
Cash advance – services to be provided	1,500
Unsecured loans to Mount Alexander Resources Pty Ltd and North Queensland Tungsten Pty Ltd	<u>2,480</u>
	<u>6,980</u>

NOTE 8 PROPERTY PLANT & EQUIPMENT

Office equipment at cost	3,118
Accumulated depreciation	<u>(117)</u>
	<u>3,001</u>

Reconciliation

Reconciliation of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial period are set out below.

	Office Equipment	Total
	\$	\$
Additions	3,118	3,118
Depreciation expense	(117)	(117)
Carrying amount at 30 June 2005	<u>3,001</u>	<u>3,001</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005 (cont)

2005
\$

NOTE 9 EXPLORATION AND EVALUATION COSTS CARRIED FORWARD

Exploration and evaluation costs incurred during the period	<u>2,572</u>
Balance at end of period	<u><u>2,572</u></u>

The ultimate recoupment of costs carried forward is dependant upon the successful development and/or commercial exploitation or alternatively, sale of respective areas of interest.

NOTE 10 PAYABLES (Current)

Trade creditors & accruals	<u>153,029</u>
	<u><u>153,029</u></u>

NOTE 11 CONTRIBUTED EQUITY

	2005 Shares	2005 \$
Share capital		
Fully paid ordinary shares	<u>12,050,003</u>	<u>610,001</u>

Movements in ordinary share capital since incorporation on 9 December 2004 are as follows:

Date	Details	Number of Shares	Issue Price	\$
9/12/04	Subscriber shares	3		1
31/3/05	Share Issue	5,000,000	1 cent	50,000
31/3/05	Share Issue	2,900,000	5 cents	145,000
18/4/05	Share Issue	4,150,000	10 cents	415,000
	Less: Capital Raising Expenses to 30 June 2005			<u>(262,038)</u>
		<u>12,050,003</u>		<u>347,963</u>

Share Options

The Company has 2,830,000 options exercisable at \$0.20 on issue at 30 June 2005.

NOTE 12 ACCUMULATED LOSSES

	2005 \$
Net loss	<u>95,973</u>
Accumulated losses at the end of the financial period	<u><u>95,973</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

NOTE 13 FINANCIAL INSTRUMENTS**(a) Interest rate risk exposures**

The Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the following table.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

Floating interest rate \$	Fixed interest maturing in			Non- Interest bearing \$	Total \$
	1 year or less \$	over 1 year less than 5 \$	more than 5 years \$		
Financial Assets					
Cash on hand	-	-	-	1	1
Cash at Bank	-	-	-	371,009	371,009
Receivables	-	-	-	21,636	21,636
Other financial assets	-	-	-	6,980	6,980
	-	-	-	399,626	399,626
Weighted Average Interest Rate					
Financial Liabilities					
Trade creditors and accruals	-	-	-	153,029	153,029
	-	-	-	153,029	153,029
Weighted Average Interest Rate					
Net financial assets (liabilities)	-	-	-	246,597	246,597

(b) Terms, conditions and accounting policies

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

(c) Financial assets

Trade receivables from other entities are carried at nominal amounts less any provision for doubtful debts. Other receivables are carried at nominal amounts due. Interest is taken up as income on an accruals basis.

(d) Financial liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company.

(e) Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

(f) Credit risk exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

NOTE 13 FINANCIAL INSTRUMENTS

(g) Net fair value of Financial Assets and Liabilities

The carrying amount of all financial assets and liabilities approximate fair value because of their short-term maturity.

NOTE 14 REMUNERATION OF DIRECTORS AND EXECUTIVES

Directors of Vital Metals Ltd during the financial period were:

William Ryan
D. Ross Kennedy
Mark McAuliffe
Andrew Simpson
Colin Hunter
Evan Cranston (resigned 11 April 2005)

The Company has no specified executives who are not directors.

General

Remuneration levels for directors, officers and senior executives of the Company are competitively set to attract and retain appropriately directors and senior executives.

The Board is responsible for remuneration policies and practices.

The Board, where appropriate, seeks independent advice on remuneration policies and practices, involving the remuneration packages and terms of employment.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board where applicable.

Performance-linked remuneration

Performance-linked remuneration is designed for rewarding directors, officers and senior management for their role in achieving corporate objectives and is directly linked to the creation of shareholder value

This incentive is provided as options issued either under terms and conditions of the Company's Employee Option Plan or otherwise under terms and conditions determined at the time of issue by the Board.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

NOTE 14 REMUNERATION OF DIRECTORS AND EXECUTIVES

Service contracts

The Company has entered into a service agreement with Mr Ryan. The agreement, to commence when the Company is admitted to the official list of the Australian Stock Exchange Ltd, entitles Mr Ryan to receive a salary of \$240,000 per annum, statutory superannuation, a motor vehicle allowance not exceeding \$10,000 and the reimbursement of other costs.

Mr Ryan receives \$55,000 per annum plus statutory superannuation for his role as Chairman.

Non-executive directors

Non-executive directors received a fixed fee for their services.

Non-executive directors receive \$36,000 per annum plus statutory superannuation.

There is no direct link between remuneration paid to any non-executive directors and corporate performance. There are no termination or retirement benefits for non-executive directors (other than statutory superannuation).

Remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company during the financial period are detailed below:

	Primary Directors fees	Post- employment Super Contributions	Equity compensation Value of Options	Total
	\$	\$	\$	\$
W Ryan	13,750	1,238	25,795	40,783
D Kennedy	9,000	810	25,795	35,605
A Simpson	9,000	810	25,795	35,605
C Hunter	9,000	810	25,795	35,605
M McAuliffe	9,000	810	25,795	35,605
E Cranston	-	-	1,548	1,548

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise Price	Estimated Volatility	Risk Fee Interest Rate
31 March 2005	30 June 08	\$0.05159	\$0.20	50%	5.275%

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005 (cont)

NOTE 14 REMUNERATION OF DIRECTORS AND EXECUTIVES

Directors holdings of shares and share options

The interests of Directors and their Director-related entities in shares and share options at 30 June 2005 are set out below:

Shares	Acquired	Sold	Held at 30 June 2005		
W Ryan	5,000,001	-	5,000,001		
D Kennedy	400,000	-	400,000		
A Simpson	400,000	-	400,000		
C Hunter	400,000	-	400,000		
M McAuliffe	400,001	-	400,001		

Options	Expiry Date	Exercise Price	Issued	Sold	Held at 30 June 2005
W Ryan	30 June 08	\$0.20	500,000	-	500,000
D Kennedy	30 June 08	\$0.20	500,000	-	500,000
A Simpson	30 June 08	\$0.20	500,000	-	500,000
C Hunter	30 June 08	\$0.20	500,000	-	500,000
M McAuliffe	30 June 08	\$0.20	500,000	-	500,000
E Cranston	30 June 08	\$0.20	30,000	-	30,000

Directors' transactions with the Company

During the period the Company issued 5,000,000 shares at \$0.01 each to a company associated with Mr Ryan for the repayment of funds advanced of \$50,000.

During the period a company associated with Mr Kennedy was allotted and issued 400,000 shares at \$0.05 per share for cash.

During the period an entity associated with Mr McAuliffe was allotted and issued 200,000 shares at \$0.05 per share for cash.

During the period the period a party related to Mr Hunter was allotted and issued 400,000 shares at \$0.05 per share for cash.

During the period a company associated with Mr Simpson was allotted and issued 200,000 shares at \$0.05 per share for cash.

During the period an entity associated with Mr Simpson was allotted and issued 200,000 shares at \$0.05 per share for consultancy services provided on normal commercial terms and conditions.

During the period the Company paid a company associated with Mr Kennedy \$3,625 for consultancy services provided on normal commercial terms and conditions.

During the period the Company paid a partnership of which Mr McAuliffe is a partner \$25,337 for legal services provided on normal commercial terms and conditions. Part of the payment was made by way of the issue of 200,000 shares at \$0.05 per share.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (cont)**

NOTE 15 AUDITORS REMUNERATION

	2005
	\$
Amounts received, or due and receivable by the auditors for auditing services	<u>9,000</u>

Amounts received, or due and receivable by a company related to the auditors for non-audit services

12,000

NOTE 16 MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Other than noted below there is no matter or circumstance that has arisen since 30 June 2005 that has significantly affected, or may significantly affect:

- (a) the Company's operations in future financial years, or
- (b) the results of the operations in future financial years, or
- (c) the Company's state of affairs in future financial years.

On 10 August 2005 the Company lodged a prospectus with the Australian Securities & Investments Commission inviting investors to apply for 40,000,000 ordinary fully paid shares at \$0.20 per share.

Within 7 days of the lodgement of the Prospectus the Company also lodged a Listing Application for its shares with the Australian Stock Exchange.

The Company closed its offer to the public on 28 September 2005 as it had received applications for in excess of 40,000,000 shares.

The Company allotted and issued 40,000,000 shares on 3 October 2005.

Conditional on listing on Australian Stock Exchange the Company will:

- Issue 2,000,000 fully paid ordinary shares at \$0.20 per share for the right to earn up to a 70% equity in the Mount Mulgine Project's mining and exploration tenements through the sole funding of exploration costs of \$750,000 within 3 years from the date the Company lists on ASX;
- Issue 7,500,000 fully paid ordinary shares at \$0.20 per share for the acquisition of 100% of the issued shares in Mount Alexander Resources Pty Ltd which owns the tenements comprising the Mt Alexander Project;
- Issue 8,000,000 fully paid ordinary shares at \$0.20 per share for the acquisition of 100% of the issued shares in North Queensland Tungsten Pty Ltd which has acquired the Watershed Project;
- Issue of 500,000 fully paid ordinary shares at \$0.20 per share and the payment of \$20,000 upon exercise of an option to acquire the rights to certain minerals within a granted mining tenement surrounding North Queensland Tungsten Pty Ltd's Watershed Project.

NOTE 17 SEGMENT INFORMATION

Vital Metals Ltd operates in the mineral exploration industry within Australia.

NOTE 18 COMMITMENTS

Exploration Commitments

As at 30 June 2005 the Company held no mining mining tenements and therefore had no expenditure commitments to maintain rights of tenure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005 (cont)

NOTE 19 CONTINGENT LIABILITIES

The Company's mining tenements could be subject to Native Title Claims. At this stage it is not possible to quantify the impact (if any) that Native Title may have on the operations of the Company.

NOTE 20 ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Impact of Transition to AIFRS

The impact of the transition to AIFRS is based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS report (being the half year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary of expected differences and therefore further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction;
- changes to the Company's operations.

Management currently expect that the likely differences in the Company's accounting policies which will arise from the adoption of AIFRS will be:

(a) Impairment of Assets – The Company currently determines the recoverable amount of an asset on the basis of either undiscounted or discounted (depending on the specific asset) net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of the fair value less costs to sell and value in use. It is expected that this change in accounting policy will generally lead to impairments being recognised more often than under the existing policy. There is no impact on the 30 June 2005 numbers disclosed.

(b) Exploration tenements – Currently, tenement acquisition costs and mineral exploration expenditure are capitalised in relation to each separate area of interest in accordance with the Company's adopted accounting policy. The Australian Accounting Standards Board has issued the IFRS equivalent standard dealing with this issue, AASB 6 "Exploration For and Evaluation of Mineral Resources", which is not expected to significantly impact the current policy. There is no impact on the 30 June 2005 numbers disclosed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005 (cont)

NOTE 20 ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(c) Income Tax – Currently the Company adopts the income statement liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or a future income tax benefit. Under the Australian equivalent to IAS 12, the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset

and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. It is not expected that this change will significantly impact the Company's reported results and financial position.

(d) Equity based payments – Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions, and spread over the vesting period during which the grantees become unconditionally entitled to the options. The fair value of options will be measured using the Black & Scholes method, taking into account the terms and conditions attached to the options. It is not expected that this change will significantly impact the Company's reported results and financial position.

**DIRECTORS' DECLARATION
FOR THE PERIOD ENDED 30 JUNE 2005**

The directors of Vital Metals Ltd declare that:

- (a) in the directors' opinion, the financial statements and notes for the financial period ended 30 June 2005 are in accordance with the Corporations Act 2001, including:
 - (i) section 296 (compliance with accounting standards); and
 - (ii) section 297 (true and fair view); and
- (b) in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the directors have been given the declarations required by section 295A of the Corporations Act 2001 for the financial period ended 30 June 2005.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

W J Ryan
Director

Dated 7 October 2005



Independent audit report to members of Vital Metals Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Vital Metals Limited (the "Company"), for the period ended 30 June 2005.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



Audit opinion

In our opinion, the financial report of Vital Metals Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the financial period ended on that date; and
 - ii complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG
KPMG

T R HART
Partner

Perth
Date: *7 October 2005*



Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

To: the directors of Vital Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

T R HART
Partner

Perth

Date: *7 October 2005*