



# **Vital Metals Ltd**

**and its Controlled Entities**

**31 December 2006**

**Interim Financial Report**

# Contents

	<i>Page</i>
Director's report	2
Consolidated interim income statement	4
Consolidated statement of changes in equity	5
Consolidated interim balance sheet	6
Consolidated interim statement of cash flows	7
Notes to the interim financial statements	8
Directors' declaration	11
Audit / review report	12
Lead auditor's independence declaration	14

## Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the review report thereon.

## Directors

The directors of the Company at any time during or since the end of the half-year are:

<b>Name</b>	<b>Period of directorship</b>
<b>Non-executive</b>	
<b>Mark McAuliffe</b> B.Juris, LLB, MAICD Non-Executive Director	Appointed 9 December 2004
<b>Donald Ross Kennedy</b> B.Sc. (Hons), F.AusIMM, CPGEO, MAIG, MICA, MGSA, MAICD Non-Executive Director	Appointed 20 January 2005
<b>Andrew V Simpson</b> Grad Dip. Bus (Curtin), MAICD Non-Executive Director	Appointed 23 February 2005
<b>Colin Hunter</b> BSc, PhD Non-Executive Director	Appointed 23 February 2005
<b>Executive</b>	
<b>William J Ryan</b> M.E., F.AusIMM, FAICD Executive Chairman	Appointed 9 December 2004

## Company Secretary

<b>John A Sobolewski</b> B.Comm CA	Appointed 1 March 2006
---------------------------------------	------------------------

## Review of operations

The loss for the consolidated entity for the period, after income tax, was \$784,074 (2005: \$342,416).

During the half-year, the activities of the Company have focussed on the exploration of the Company's three exploration projects 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.

In-fill diamond drilling continued at Watershed with 15,430 metres drilled since resumption in July 2006. Once all analytical data is received, a new resource estimate will be compiled in accordance with the provisions of the JORC Code.

The Company raised \$4.4m in November 2006 by placing 10,500,000 shares at \$0.42 per share with institutional and sophisticated investors.

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

The lead auditor's independence declaration is set out on page 14 and forms part of the directors' report for the half-year ended 31 December 2006.

Signed in accordance with a resolution of the directors:

A handwritten signature in blue ink, appearing to read 'W J Ryan', is written over a light blue rectangular background.

**W J Ryan**  
**Director**

**Dated: 12 March 2007**

## Consolidated interim income statement

For the six months ended 31 December 2006

<i>Note</i>	31 Dec 2006	31 Dec 2005
	\$	\$
Interest income	128,465	84,547
Other income	2,399	-
<b>Total revenue</b>	<b>130,864</b>	<b>84,547</b>
Administrative expenses	(867,858)	(420,555)
Depreciation	(47,080)	(6,408)
<b>Loss before income tax</b>	<b>(784,074)</b>	<b>(342,416)</b>
Income tax expense	-	-
<b>Loss for the period</b>	<b>(784,074)</b>	<b>(342,416)</b>
<b>Earnings per share</b>		
Basic earnings per share (AUD)	(0.01)	(0.01)
Diluted earnings per share (AUD)	(0.01)	(0.01)

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 10.

## Consolidated statement of changes in equity

	Attributable to shareholders of the Company				
	Note	Share Capital \$	Retained Earnings \$	Option Reserve \$	Total Equity \$
Balance at 1 July 2005		347,963	(240,245)	144,452	252,170
Loss for the period			(342,416)		(342,416)
Share issues		11,600,000			11,600,000
Capital raising expenses		(716,789)			(716,789)
Issue of options to stockbrokers				103,180	103,180
Balance at 31 December 2005		11,231,174	(582,661)	247,632	10,896,145
Balance at 1 July 2006		11,231,174	(1,309,557)	335,037	10,256,654
Loss for the period			(784,074)		(784,074)
Share issues		4,410,000			4,410,000
Capital raising expenses		(226,012)			(226,012)
Exercise of employee options		60,000			60,000
Transfer of reserve upon exercise of options		17,070		(17,070)	-
Issue of options to employees	11			27,150	27,150
Balance at 31 December 2006		15,492,232	(2,093,631)	345,117	13,743,718

The statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 10.

## Consolidated interim balance sheet

As at 31 December 2006

	31 Dec 2006 \$	30 Jun 2006 \$
<b>Current assets</b>		
Cash and cash equivalents	4,848,552	4,919,410
Trade and other receivables	360,390	181,704
<b>Total current assets</b>	<u>5,208,942</u>	<u>5,101,114</u>
<b>Non-current assets</b>		
Property, plant and equipment	9 510,938	530,640
Intangible/Exploration assets	9,027,321	5,406,285
<b>Total non-current assets</b>	<u>9,538,259</u>	<u>5,936,925</u>
<b>Total assets</b>	<u>14,747,201</u>	<u>11,038,039</u>
<b>Current liabilities</b>		
Trade and other payables	873,011	623,953
Interest bearing liabilities	46,996	44,847
Provisions	17,699	22,774
<b>Total current liabilities</b>	<u>937,706</u>	<u>691,574</u>
<b>Non-current liabilities</b>		
Interest bearing liabilities	65,777	89,811
<b>Total non-current liabilities</b>	<u>65,777</u>	<u>89,811</u>
<b>Total liabilities</b>	<u>1,003,483</u>	<u>781,385</u>
<b>Net assets</b>	<u>13,743,718</u>	<u>10,256,654</u>
<b>Equity</b>		
Issued capital	15,492,232	11,231,174
Reserves	345,117	335,037
Retained earnings/(Accumulated losses)	(2,093,631)	(1,309,557)
<b>Total equity</b>	10 <u>13,743,718</u>	<u>10,256,654</u>

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 10.

## Consolidated interim statement of cash flows

For the six months ended 31 December 2006

	Note	31 Dec 2006 \$	31 Dec 2005 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(871,980)	(242,252)
Interest paid		(5,754)	-
Interest received		115,681	56,143
<b>Net cash used in operating activities</b>		<b>(762,053)</b>	<b>(186,109)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(65,339)	(139,274)
Payments for exploration and evaluation costs		(3,456,483)	(629,570)
Security bonds		(30,970)	(60,261)
<b>Net cash used in investing activities</b>		<b>(3,552,792)</b>	<b>(829,105)</b>
<b>Cash flows from financing activities</b>			
Net Proceeds from the issue of share capital		4,243,987	7,184,470
<b>Net cash from financing activities</b>		<b>4,243,987</b>	<b>7,184,470</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(70,858)</b>	<b>6,169,256</b>
Cash and cash equivalents at 1 July		4,919,410	371,010
<b>Cash and cash equivalents at 31 December</b>		<b>4,848,552</b>	<b>6,540,266</b>

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 10.

## Condensed notes to the consolidated interim financial report

### 1. Reporting entity

Vital Metals Ltd (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company’s registered office at Level 1, 335 Hay Street, Subiaco WA 6008 or at [www.vital.metals.com.au](http://www.vital.metals.com.au).

### 2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reports* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2007.

### 3. Significant accounting policies

Except as described below, the accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. This change has not impacted the financial statements of the Company.

### 4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the consolidated entity’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

### 5. Financial risk management

The consolidated entity’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2006.

### 6. Segment reporting

The economic entity operates in one business and geographical segment being mineral exploration and prospecting for minerals in Australia.

## Condensed notes to the consolidated interim financial report

### 7. Discontinued operation

No operations were discontinued during the 6 months ended 31 December 2006.

### 8. Acquisition of subsidiary

No subsidiaries were acquired during the 6 months ended 31 December 2006.

### 9. Property, plant and equipment Acquisitions and disposals

During the six months ended 31 December 2006 the consolidated entity acquired assets with a cost of \$27,378 (six months ended 31 December 2005: \$362,397).

No assets were disposed of during the period.

### 10. Capital and reserves

#### Reconciliation of movements in equity

See the statement of changes in equity on page 5.

#### Dividends

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

#### Issued Capital

	31 Dec 2006	31 Jun 2006
<b>Ordinary Shares</b>	\$	\$
Issued and fully paid	80,850,003	70,050,003
<b>Movements in ordinary shares on issue</b>	<b>Number of shares</b>	<b>\$</b>
At 1 July 2006	70,050,003	11,231,174
Allotted and issued during the six months	10,800,000	4,470,000
Less: Capital raising expenses		(226,012)
<b>Total issued capital at 31 December 2006</b>	<b>80,850,003</b>	<b>15,475,162</b>

## Condensed notes to the consolidated interim financial report

### 11. Share-based payments

The Vital Metals Ltd Share Option Plan was approved in April 2005.

The issue to each individual Employee, Key Employee or Director is controlled by virtue of the provisions of both the Share Option Plan and the Australian Stock Exchange Limited Listing Rules. Under the Share Option Plan the number of shares an eligible person will be entitled to receive will be determined by the Board of directors in their sole discretion.

Employees, key employees and directors are entitled to take up ordinary shares at a cost determined by the Board with regard to the market value of the shares when the Board resolves to offer the Option.

The terms and conditions of the grants made during the six months ended 31 December 2006 are as follows:

Grant date	Number of options	Vesting conditions	Term
Options granted on 14 November 2006	150,000	Immediately	2 years

Fair value of share options and assumptions for the six months ended 31 December 2006:

Fair value at grant date	18.10 cents/option
Exercise price	55 cents
Share price	58 cents
Expected volatility	75%
Risk-free interest rate (based on government bonds)	5.85%
Option expiry date	14 November 2008

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2006.

### 12. Contingencies

Since the last annual reporting date, there has been no material change in any contingent assets or liabilities.

### 13. Subsequent event

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 31 December 2006.

## Vital Metals Ltd

### Directors' declaration

In the opinion of the directors of Vital Metals Ltd ("the Company"):

1. the financial statements and notes set out on pages 2 to 10, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

A handwritten signature in blue ink, appearing to read 'W J Ryan', is written over a light blue rectangular background.

W J Ryan  
**Director**

Dated: 12 March 2007



## **Independent auditor's review report to the members of Vital Metals Ltd**

### **Report on the Financial Report**

We have reviewed the accompanying half-year financial report of Vital Metals Ltd, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Vital Metals Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Vital Metals Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and



- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'T R Hart'.

T R Hart  
*Partner*

Perth  
12 March 2007



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

To: the directors of Vital Metals Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2006 there have been:

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

*KPMG*  
KPMG

T R Hart  
*Partner*

Perth  
12 March 2007