



**Vital Metals Ltd**

**and its Controlled Entities**

**31 December 2007**

**Interim Financial Report**

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## Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2007 and the review report thereon.

## Directors

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

Name	Period of directorship
<b>Non-executive</b>	
<b>Mark McAuliffe</b> B.Juris, LLB, MAICD Non-Executive Director	Appointed 9 December 2004 Resigned 13 September 2007
<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 Chairman	Appointed 9 December 2004
<b>Andrew Haslam</b> Grad. Dip. Min, MAICD Managing Director and CEO	Appointed 3 January 2008

## Company Secretary

<b>John A Sobolewski</b> B.Comm CA	Appointed 1 March 2006
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## Directors' report (continued)

### Review of operations

The loss for the consolidated entity for the period, after income tax, was \$1,057,792 (2006: \$784,074).

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 in the feasibility stage, the Mt Alexander Project in Western Australia and the Mt Mulgine Project also in Western Australia.

In-fill drilling continued at Watershed with 16,650 metres drilled since resumption in May 2007. Once all analytical data is received, a new resource estimate will be compiled in accordance with the provisions of the JORC Code and is expected in April 2008. The initial resource estimate, which was released in June 2007, was 21.8m tonnes at an overall grade of 0.26% WO<sub>3</sub> for 56,000 tonnes of contained WO<sub>3</sub> content.

The Company raised \$6.6m (before costs) in July 2007 by placing 11,000,000 shares at \$0.60 per share with institutional and sophisticated investors, then raised a further \$6.9m (before costs) in August 2007 via a pro-rata rights issue of 11,506,250 new shares, at \$0.60 and 5,753,125 free attaching options, issued on the basis of 2 new shares and 1 option for every 16 shares held. The options are listed on the ASX and are exercisable in August 2008 at a price of \$0.80 each.

### 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 2007.

Signed in accordance with a resolution of the directors:



A Haslam  
Director

Dated: 12 March 2008

## Consolidated interim income statement

For the six months ended 31 December 2007

<i>Note</i>	31 Dec 2007	31 Dec 2006
	\$	\$
Other income	1,000	2,399
Administrative expenses	(1,311,695)	(862,104)
Depreciation	(63,852)	(47,080)
<b>Loss before income tax and financing costs</b>	<b>(1,374,547)</b>	<b>(906,785)</b>
Financial income	319,793	128,465
Financial expenses	(3,038)	(5,754)
Net financial costs	316,755	122,711
Income tax expense	-	-
<b>Loss for the period attributable to shareholders</b>	<b>(1,057,792)</b>	<b>(784,074)</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 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		-	-	27,150	27,150
Balance at 31 December 2006		15,492,232	(2,093,631)	345,117	13,743,718
Balance at 1 July 2007		15,526,406	(2,847,826)	359,760	13,038,340
Loss for the period		-	(1,057,792)	-	(1,057,792)
Share issues		13,503,750	-	-	13,503,750
Capital raising expenses		(719,014)	-	-	(719,014)
Exercise of employee options		379,000	-	-	379,000
Transfer of reserve upon exercise of options		-	98,267	(98,267)	-
Issue of options to employees	9	-	-	222,428	222,428
Balance at 31 December 2007		28,690,142	(3,807,351)	483,921	25,366,712

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 2007

	31 Dec 2007 \$	30 Jun 2007 \$
<b>Current assets</b>		
Cash and cash equivalents	7,468,677	1,585,696
Trade and other receivables	492,496	244,259
<b>Total current assets</b>	<u>7,961,173</u>	<u>1,829,955</u>
<b>Non-current assets</b>		
Property, plant and equipment	7 783,654	539,938
Intangibles – exploration and evaluation assets	17,688,525	11,736,994
<b>Total non-current assets</b>	<u>18,472,179</u>	<u>12,276,932</u>
<b>Total assets</b>	<u>26,433,352</u>	<u>14,106,887</u>
<b>Current liabilities</b>		
Trade and other payables	919,960	932,141
Interest bearing liabilities	48,157	49,183
Provisions	80,903	46,594
<b>Total current liabilities</b>	<u>1,049,020</u>	<u>1,027,918</u>
<b>Non-current liabilities</b>		
Interest bearing liabilities	17,620	40,629
<b>Total non-current liabilities</b>	<u>17,620</u>	<u>40,629</u>
<b>Total liabilities</b>	<u>1,066,640</u>	<u>1,068,547</u>
<b>Net assets</b>	<u>25,366,712</u>	<u>13,038,340</u>
<b>Equity</b>		
Issued capital	28,690,142	15,526,406
Reserves	483,921	359,760
Accumulated losses	(3,807,351)	(2,847,826)
<b>Total equity</b>	8 <u>25,366,712</u>	<u>13,038,340</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 2007

<i>Note</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Cash paid to suppliers and employees	(1,113,375)	(871,980)
Interest paid	(3,038)	(5,754)
Interest received	294,594	115,681
<b>Net cash used in operating activities</b>	<b>(821,819)</b>	<b>(762,053)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(300,331)	(65,339)
Payments for exploration and evaluation costs	(6,158,605)	(3,456,483)
Security bonds	-	(30,970)
<b>Net cash used in investing activities</b>	<b>(6,458,936)</b>	<b>(3,552,792)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from the issue of share capital	12,784,736	4,183,987
Proceeds from the exercise of share options	379,000	60,000
<b>Net cash from financing activities</b>	<b>13,163,736</b>	<b>4,243,987</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,882,981</b>	<b>(70,858)</b>
Cash and cash equivalents at 1 July	1,585,696	4,919,410
<b>Cash and cash equivalents at 31 December</b>	<b>7,468,677</b>	<b>4,848,552</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 2007 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2007 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 Group as at and for the year ended 30 June 2007.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2008.

### 3. Significant accounting policies

Except as described below, the accounting policies applied by the Group 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 2007.

The Group has adopted AASB 2007 - 4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (April 2007)*. 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 Group'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 2007.

### 5. Financial risk management

The Group'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 2007.

### 6. Segment reporting

The Group 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. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 31 December 2007 the consolidated entity acquired assets with a cost of \$307,568 (six months ended 31 December 2006: \$27,378).

No assets were disposed of during the period.

### 8. Capital and reserves

#### Dividends

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

#### Issued Capital

	31 Dec 2007	30 Jun 2007
<i>Ordinary Shares</i>	Number of	Number of
	shares	shares
Issued and fully paid	105,451,253	81,050,003
<i>Movements in ordinary shares on issue</i>	Number of	
	shares	
At 1 July 2007	81,050,003	
Allotted and issued during the six months	24,401,250	
Less: Capital raising expenses	-	
Total issued capital at 31 December 2007	<u>105,451,253</u>	

## Condensed notes to the consolidated interim financial report

### 9. 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 2007 are as follows:

Grant date	Number of options	Vesting date	Expiry
a. Options granted on 30 Jul 2007	300,000	30 Jan 2008	30 Jul 2009
b. Options granted on 30 Jul 2007	300,000	30 Jul 2008	30 Jul 2009
c. Options granted on 18 Dec 2007	1,000,000	3 Jul 2008	3 Jan 2011
d. Options granted on 18 Dec 2007	1,000,000	3 Apr 2009	3 Jan 2011
e. Options granted on 18 Dec 2007	1,500,000	3 Jan 2010	3 Jan 2011

Fair value of share options and assumptions for the six months ended 31 December 2007:

	a and b	c	d	e
Fair value at grant date	36.61 cents/option	30.80 cents/option	28.37 cents/option	25.01 cents/option
Exercise price	80 cents	\$1.02	\$1.15	\$1.33
Share price at grant date	89.5 cents	79 cents	79 cents	79 cents
Expected volatility	60%	60%	60%	60%
Risk-free interest rate (based on government bonds)	6.15%	6.50%	6.50%	6.50%
Option expiry date	30 July 2009	3 January 2011	3 January 2011	3 January 2011

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 2007.

### 10. Contingencies

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

### 11. 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 2007.


## 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 Group as at 31 December 2007 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 Haslam  
**Director**

Dated: 12 March 2008



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

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Vital Metals Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 11 and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim 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 interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 and its performance for the interim period 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 Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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 interim financial report of Vital Metals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the interim period 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 blue ink, appearing to read 'T R Hart', written in a cursive style.

T R Hart  
*Partner*

Perth  
12 March 2008



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

To: the directors of Vital Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the period ended 31 December 2007 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



T R Hart  
*Partner*

Perth  
12 March 2008