



Vital Metals Ltd



08

ANNUAL REPORT



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Chairman's Review



Dear Fellow Shareholder,

The past year has been, to say the least, a tumultuous period in world financial markets and in the resource markets and industry generally. From the dizzying heights of the resource boom, at least in Australia, in mid 2007 the sentiment has swung down to what now seems the bottomless pit of current times. These mood swings are undoubtedly a feature of heavy speculative activity and, while a serious concern to the average investor, they belie the real fundamentals of the resource supply situation.

The reality is that there are limitations on the supply of resources available to an ever growing world population, with many of the easily found deposits of metals already developed. The surging expansion of China into the modern world has demonstrated clearly what such limitations will do to the demand and price of scarce resources. It is also clear that this expansion is an on-going process and is nowhere near maturity. So we can expect the demand for all resources, metals, minerals and energy to continue – with or without the influence of excessive speculative activity.

The key, for small players such as Vital Metals Ltd, with a world-class metal resource within its stewardship, is to separate the speculative activity from the reality, to manage its development in a prudent and objective manner, and thereby to survive and to prosper.

Vital Metals has spent the past two and a half years in coherent activity of drilling out the Watershed tungsten deposit in far North Queensland to assess its size, its extent and its characteristics but also to define the resource to the level of detailed knowledge required to develop a large-scale mining and processing operation. This has included a very thorough and detailed investigation of the optimal methods of product extraction from the ore, a very comprehensive environmental assessment and extensive infrastructure and marketing studies.

This exploratory and investigative work has cost in excess of sixteen million dollars with no decision to mine taken at any early stage and with no income except from shareholders funds, for which the investment climate has, perhaps until now, been receptive, and for which we are most appreciative. Your directors remain strongly of the opinion that this apparently large expenditure on such essential preparatory work is fully justified.

The principal difficulty with the entire program has been the adequate definition of the Watershed resource and the detail of the distribution of the mineralisation within this large body. The original discoverers, Utah Development, drilled 43 holes in the first attempt to define the resource. Vital has now drilled a further 174 core holes and 72 reverse circulation holes over an area of some 1,600 metres by 500 metres and to depths below surface of 500 metres and has yet to close off the limits of the pervasive mineralisation in any of these directions. Most holes have been drilled on fifty metre by fifty metre spacing and some on ten metre spacing but the variations in intensity of mineralisation require even more detailed information. As a consequence, existing resource modelling methods can only predict a bulk resource grade, which appears to be marginal at current tungsten prices.

The technical staff and your directors believe that, in practice, because of the unique identifying characteristics of this particular tungsten mineral (scheelite); that is; its visual reaction to exposure to ultraviolet light, it should be possible to selectively mine the material at a significantly higher grade.

However, for such a mine, it is necessary to have adequate resources convertible to reserves with a defined mine plan and defined to at least 'Indicated' Status under the definitions of the current Australian JORC standards.

Very recently, when the detailed mine and costing design studies were approaching finality, your directors and technical staff decided that, in the best interests of all shareholders and for the future of the probable Watershed mine, the basis of the Feasibility Study, which was originally planned as an operation to produce 4,000 tonnes of tungstate (WO_3) in concentrates per annum, should be scaled down, in the first stage, to one that would yield about 1,000 tonnes per year.

The revised study for such a reduced scale venture would utilise the current 'Indicated' resource base within a series of open pits, should have an acceptable mine life, would utilise all the metallurgical and environmental studies already completed and would need no further exploratory drilling. The capital cost would be very substantially reduced and the smaller operation would allow the Company to develop selective mining techniques which would, given success, allow the subsequent expansion of the Project to the originally planned size, or possibly, even larger.

The process plant and facilities will be designed for such expansion both in layout preparation and elsewhere as appropriate. The exception will be power supply, which will in the first instance be diesel generated, rather than the preferable, but capital intensive, Queensland State power grid.

Shareholders should be aware that the proposed smaller operation is still relatively large by world tungsten mine standards but carries the potential for upgrading in scale in the relatively short term.

This was not a decision that was taken lightly but was considered essential, particularly when considered in light of the anticipated difficulty in raising the much larger capital sums required for the larger operation and the requirement for substantial additional drilling.

The strength of the Australian dollar against the American currency, in which tungsten prices are measured, has been a big factor in the economics, with the value of tungsten concentrates in Australian dollar terms falling by almost one third, based on currency alone, since Vital listed on the ASX in October 2005.

Watershed is a large resource of tungsten on a world scale. This first-stage mine will be based on plans to extract less than ten per cent of the contained scheelite. Exploration drilling, even in 2008, continues to expand the limits of the resource. As an example, diamond drill hole MWD228, drilled earlier this calendar year, some 200 metres north of the northern boundary of the resource and some 225 metres north of the first-stage pit limits, intercepted six metres of 2.55 per cent WO₃; one of the best intercepts found in all drilling to date.

The directors remain optimistic about the tungsten markets and firmly believe, on the basis of sound independent advice and studies, that the longer term outlook for tungsten is strong. World supply is limited, particularly non-Chinese supply, and despite many plans in train and promised, only one of the Western world's planned new tungsten mines has been successfully launched and that is of similar size to the revised Watershed output.

Tungsten prices, based on overall trends rather than day-to-day fluctuations, seem likely to reach and exceed US\$300 per metric tonne unit, a move which if realised, has major implications for the future of this Project.

On a second front, the Company has now earned its seventy per cent equity in the Mount Mulgine tungsten/molybdenum Project in Western Australia and is now in joint venture with Gindalbie Metals Limited.

The Mount Mulgine 'Trench' and 'Hill' deposits, almost certainly part of the same body, are very large by world standards, considerably larger than Watershed in fact, but of apparently lower grade.

Although quite extensively drilled by previous players, most of the original core has been lost and much of the drilling will need to be replicated. The presence of what appears to be close to ore-grade molybdenum within extensive low-grade scheelite mineralisation over a large area from surface makes this a most attractive second property for the Company. Recent scout drilling in areas peripheral to the main zones have also shown promise.

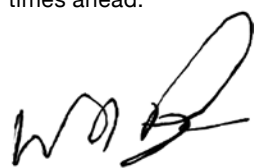
The coming months will be pivotal in the development and the future of Vital Metals. Your directors are encouraged by the positive and specific nature of the plans ahead and we look forward to seeing the results of almost three years of hard work begin to pay their dues in this period.

In closing I would like to thank my fellow directors for their support during this past year, to thank retiring directors Colin Hunter, who has moved to the UK, and Ross Kennedy and to welcome new director Peter Knowles, whose input we look forward to in 2008/2009.

In particular, I welcome our new Chief Executive and Managing Director, Andy Haslam, who took the reins at the beginning of 2008 and who has encountered exceptionally difficult circumstances during the past months. His expertise and acumen will, I believe, come to the fore in the coming year.

The staff members at all levels within the Company have carried out their jobs professionally, with special thanks to Project Engineer, Paul Rundel, Principal Geologist, Bruce Pertzel, Senior Geologists Andrew Harwood in North Queensland and Annie McPherson in Perth, CFO/Company Secretary John Sobolewski and Administration Manager, Helen Bourke.

Finally, I would like to thank all shareholders for their continued support for the Company, particularly in the frustrating climate of recent months. We continue to anticipate better times ahead.



William J Ryan
Executive Chairman

Report on Activities

Corporate

The 2007/08 year has seen the Company focus its activities on working towards the completion of a Feasibility Study for the Watershed Tungsten Project in far North Queensland. During the same time, a small drilling program at Mt Mulgine, and some field work and an aeromagnetic survey at Mt Alexander in Western Australia were completed.

The Company enjoyed a rising share price in the first half of the financial year, but like the wider resource market in Australia, Vital Metals share price suffered during the second half of the year.

Some of this weakness in the share price was due to the Board's decision to considerably scale back the initial size of the proposed Watershed Tungsten Project. In this current credit market, the Company felt it prudent to reduce the initial capital expenditure, with the expectation that the proposed mine would be designed so that it could be expanded and extended once a steady cash flow has been realised and a sound operating track record achieved.

In July 2007 the directors authorised the placement of 11 million new shares at 60 cents per share to raise \$6,600,000 (before costs) as the first tranche of a two-stage fund raising.

During the financial year the company raised \$6,903,750 (before costs) from a fully underwritten, pro-rata, non-renounceable rights issue pursuant to a prospectus which was lodged on 29 June 2007. The rights issue was fully underwritten by Bell Potter Securities Ltd. The issue involved the offering of one new share, at 60 cents per share, for every eight shares held (thereby creating 11,506,250 shares), together with 5,753,125 new options on the basis of one free attaching new option for every two new shares exercisable at 80 cents on 31 August 2008.



In the field at Watershed

Watershed Tungsten Project – North Queensland

Resources

The main aim of our exploration effort was to build on the initial Watershed scheelite resource estimate completed in 2007 by RSG Global Ltd (now Coffey Mining Pty Ltd), based on the drilling completed by both Vital Metals and Utah Development Corporation (1978-1985).

The initial 2007 global resource, using a lower cut-off grade of 0.1 per cent WO_3 , was 21.79 million tonnes at an average grade of 0.26 per cent WO_3 for a contained WO_3 content of 56,300 tonnes. The drilling was completed on a 50 metre by 50 metre drill grid.

To advance the understanding of the deposit, the Company needed to undertake further drilling to:

- (1) better understand the structural geology;
- (2) increase the JORC Classification tonnages and grade of ore; and
- (3) complete some close-spaced reverse circulation drilling (on an approximately 10 metres by 10 metres grid) to moderate depths to increase confidence in detail of the global resource.

Diamond drilling commenced in June 2007 with two rigs on double shift operation. An initial program of forty holes was drilled in the Northern Extension of the deposit and a 90-metre wide north-south strip, much of which had previously been considered barren between the two known mineralised zones over much of their 700 metre length. A further 16 holes were located in the Southern Extension.

In November 2007 a reverse circulation drilling program commenced in three specific areas on the top of the Watershed (deposit) ridge. The 58 hole close spaced (10 metre by 10 metre) program was drilled to a depth of approximately 60 metres. This drilling produced some excellent, high-grade results.

New Resource Estimate

In April 2008 mining consultants Coffey Mining, were engaged to calculate a new resource model, incorporating data from the 2007 model with the new drilling data. Coffey Mining determined that a statistical, mathematical modelling technique known as Ordinary Kriging should be used for the resource estimation.

Applying a 0.10 per cent WO_3 lower cut-off the resource estimate increased by fifty per cent to 32.75 million tonnes at an average grade of 0.20 per cent WO_3 .



Whilst this was a significant increase in tonnage, the 20 metre by 20 metre by 10 metre block size used in the Ordinary Kriging (OK) methodology made it extremely difficult to design and optimise an open pit for an economically viable mining operation.

In May, the Company engaged another resource specialist consultant group, Hellman & Schofield Pty Ltd, to use an alternative modelling method, known as Multiple Indicating Kriging (MIK), which used a block support correction method to produce a new mine recoverable resource estimate.

Applying a 0.10 per cent WO_3 lower cut-off grade, the resource was estimated by this method at 24.7 million tonnes at an average grade of 0.22 per cent WO_3 . Increasing the lower cut-off grade to 0.15 per cent WO_3 , the resource was estimated at 15.2 million tonnes at the much higher average grade of 0.29 per cent WO_3 .

With this base data, Dempers & Seymour Pty Ltd (Geotechnical and Mining Consultants) were engaged to undertake geotechnical assessments of the resource, pit optimisation and mine scheduling.

After reviewing a number of different pit designs, it was determined that it would be difficult, if not impossible, to adequately design an operation at the original planned output of 4,000 tonnes of tungstate concentrate per year, at a high confidence level, without considerably more investigative work on the resource base; a proposal which the directors felt was not feasible in the current very difficult market conditions.

Vital Metals clearly has a major deposit within its grasp at Watershed, a fact which is acknowledged within the tungsten industry. This deposit continues to extend along strike with further drilling. To achieve the detailed information about this deposit adequate to facilitate a selective mining scenario needed to profitably produce 4,000 tonnes per annum of tungsten concentrates over a long mine life, considerably more drilling, time and money would be required.

The decision was made in the best interest of all shareholders, to substantially reduce the initial size of the mining operation such that it would produce some 1,000 tonnes of tungsten concentrate per annum, but with a design philosophy that would enable a relatively simple escalation of the operation to the originally planned output as soon as possible.

The new plan encompasses mining 450,000 tonnes of ore per year, at a very much reduced capital cost, initially extracting the high grade zones near the surface, at a low

waste to ore strip ratio, with the mine waste material being assigned to the construction of the tailings dam walls and other civil construction requirements.

The initial pit design would extract a total of 2.7 million tonnes (already classified as Measured and Indicated Resources, thereby requiring no further drilling) with a 6 year mine life at an ore processing rate of 450,000 tonnes per annum. From work completed on the resource to date, the Company is confident that the size of the resource will be expanded considerably and the potential for an underground resource in the future remains very high.

From all the drilling completed to date (46,247 metres) the Company has determined that mineralisation remains open along strike and at depth. The Company remains keen to undertake some deep drilling in an attempt to find the source of the mineralisation, but with a limited drilling budget, it seems prudent that this work will have to wait until additional funds become available.

It should be noted that most of the "on-site" exploration activity was undertaken from 1 June until 22 December 2007. From the 24 December 2007 to early April 2008 the Watershed site experienced the wettest "wet season" on record, with 1.4 metres of rain during this period.

While the rain and the steep terrain present challenges to the drilling and exploration teams, the health and safety of our people is foremost in our planning and the Company is pleased to report that all activities were carried out in a safe manner during the year.

Metallurgy

After encouraging results were received from trials last year using conventional Ore Sorting technology, the Company purchased an X-ray Ore Sorter for test work in a Perth laboratory. The ore sorting provides the ability to pre-concentrate the ore grade, rejecting the waste fraction within the ore body and leaving a reduced volume to be processed through the "wet end" of the plant.

In August 2007, the Company commenced work on two adits (tunnels) into the deposit to gain representative ore samples. The aim was to collect two bulk samples of the ore, totalling approximately 150 tonnes, for reliable metallurgical and ore sorting tests.

Following the bulk sampling, eleven large-diameter diamond core holes were drilled throughout the deposit to obtain 'variability' samples to compare with the metallurgical results obtained from the adit material.

Report on Activities

The X-ray ore sorting trials were extremely thorough – and most successful. Waste and very low grade ‘rejection’ levels consistently averaged 50 per cent at an overall 97 per cent metallurgical recovery across size fractions ranging from 5 to 100 millimetres.

As an example, using the innovative Ore Sorting pre-concentration process, the test results have shown the following results:

11 variability samples;

- average head grade of 0.386 per cent WO_3 , the average up-grade ratio achieved was 2.08 times, thereby yielding an accept ‘head grade’ of 0.80 per cent.

Similarly for the initial bulk samples;

- average grade of 0.308 per cent WO_3 , the upgrade ratio was 5.27 times to yield an accept grade of 1.624 per cent WO_3 .

These are clearly impressive results and justify the Company’s enthusiasm for this technology. The major potential benefits from ore sorting pre-concentration include:

- A substantial reduction in the size and capital cost of the mineral dressing section of the treatment plant;
- Commensurate reduction in the overall processing cost per tonne and plant cut-off grade; and
- Potential production of a very high grade intermediate scheelite product suitable for final clean-up, direct from the sorting stage.

Process Flow Sheet

The process plant will be designed for a capacity of 450,000 tonnes per annum of scheelite ore, with consideration for expansion at a later date. The Process Flow sheet is shown in Figure 1.

Ore will be crushed and conveyed onto a primary ore stockpile. From there, the ore will pass through a five deck screen, with the minus 5 millimetre (mm) reporting to down-stream gravity processing and the remainder going through a bank of X-ray ore sorters, handling material from plus 5 to minus 100 mm in size. The ore-sort reject waste material will be conveyed to a waste stockpile.

Ore-sort accept products will be further crushed to minus 10 mm and combined with the initially screened minus 5 mm fines (with a combined mass of 50 per cent of the original ROM feed at an up-grade ratio of 1.84) as feed to a rod mill.

This crushed minus 10mm material reports to a 600 micron screen deck with the undersize fraction reporting direct to rougher/scavenger spiral banks and oversize (plus 600 micron) fed to a rod mill in open circuit.

Rougher spiral concentrate (comprising approximately 1.8 per cent of the original mass) would report to the concentrate up-grade circuit comprising of small regrind rod mills and Wilfley tables, producing a saleable concentrate at a grade above 65 per cent WO_3 .

The flotation circuit will comprise of roughers, scavengers, cleaners and re-cleaners with final concentrate up-grading by tabling, magnetic separation and possible chemical treatment of gangue inclusions.

Gravity and flotation concentrate products will be combined within an agitated storage tank for down-stream filtering, drying and ultimate bagging for export.



Adit development at Watershed.



ROM head grade	0.35	%WO ₃
Process throughput rates [tpa]		
Yr 1	450,000	tpa
Yrs 2	450,000	tpa
Yrs 4	450,000	tpa
Yrs 6	450,000	tpa
Total	2,700.000	tpa

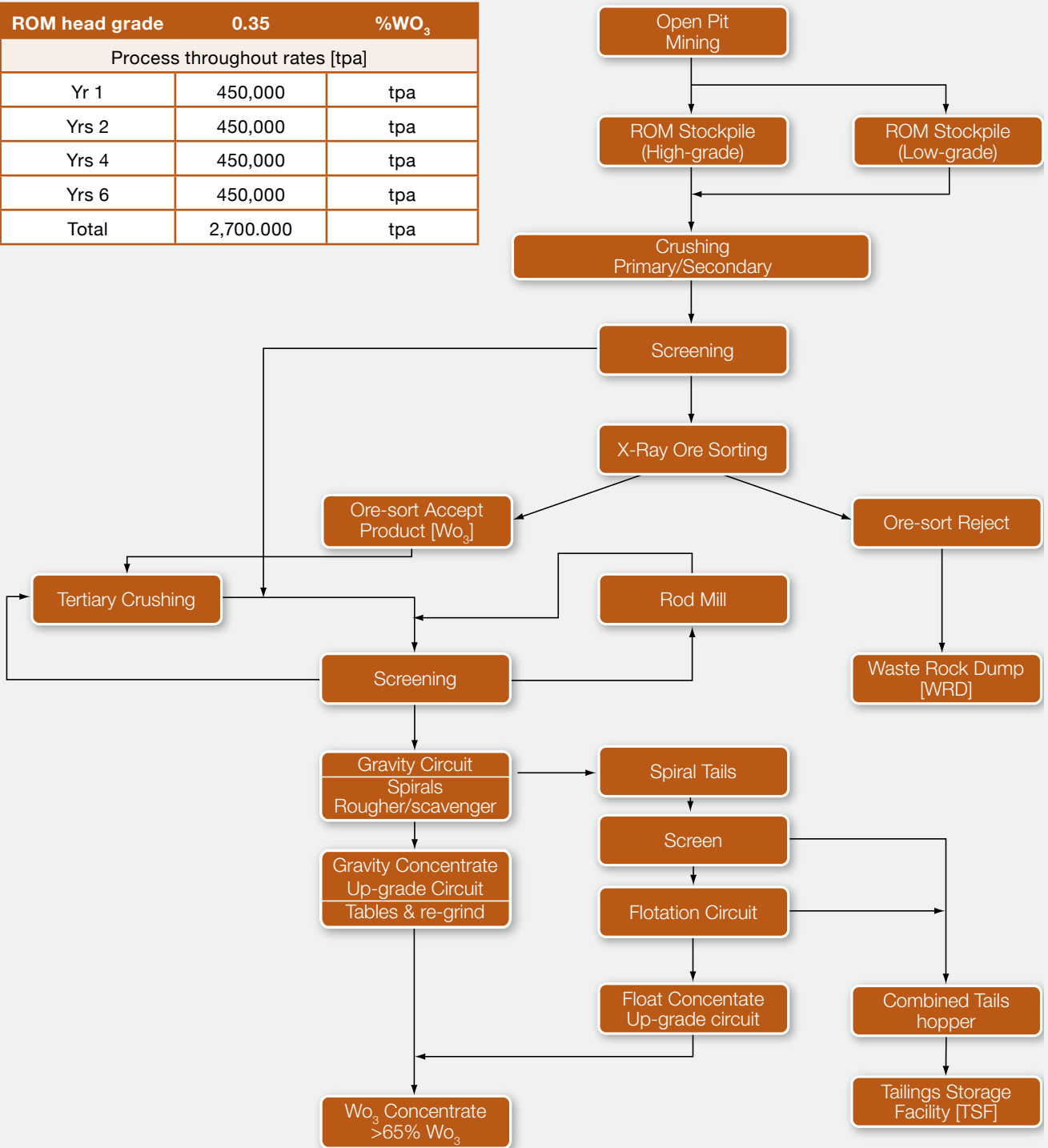


Figure 1. Process Flow Diagram for the Watershed Project – 450,000tpa.

Report on Activities

Capital Expenditure

While the Feasibility Study for the Watershed Project has not yet been completed, it is estimated that the total capital cost for the mine, plant and civil infrastructure will be approximately \$45 million, which includes \$5 million in working capital.

The task of estimating project capital costs has been made more difficult in the past 12 months with wild fluctuations of input costs. During this time the cost of oil has moved from US\$68 barrel to US\$147 barrel, which has a significant effect on the cost of mining (earth moving) and power generation. Likewise the cost of raw steel (construction) has increased by more than 60 per cent this calendar year, with further increases forecast as the higher iron ore prices flow through from manufacturers to end users.

Environmental

The 1,500 page Environmental Impact Statement (EIS) on the Watershed Project was lodged with the Queensland Government's Environmental Protection Agency (EPA) on 15 April 2008. All affected parties were provided with a copy of the EIS and a six week public comment period was undertaken in March 2008. A copy of the EIS document was also made available for review on the Vital Metals' website.

In consultation with the EPA, Vital Metals agreed to co-disposal of waste rock and process tails in the same dump location. This is a major change to the mine design, but it will significantly reduce the environmental footprint and in turn reduce environmental impact in the proposed mine area.

The Company continues to undertake flora and fauna studies in areas of potential land disturbance and has undertaken a water bore monitoring program.

Site based staff have assisted in public consultation and information sessions with the local community and the Company remains committed to ensuring that the highest environmental standards are maintained.

Indigenous and Community

The Company has signed an Indigenous Land Use Agreement (ILUA) with the Western Yalanji people, who are the traditional owners of the land on which the Watershed deposit is located. The Company is keen to ensure that Western Yalanji positively benefit from any project development at Watershed.

Vital Metals has supported and enjoyed participating in a range of local community events in the Mareeba region. The Company acknowledges that local support from the community is a two way deal and while, as an exploration company, we have been careful in our financial support, it is hoped that as a producer the Company can build on its community involvement.

Mt Mulgine – Western Australia

The Mt Mulgine Project is located approximately 500 kilometres north-northeast of Perth and about 50 kilometres south of the Golden Grove base metals mine. The project's tenements are owned by Gindalbie Metals Ltd and Vital Metals has earned a 70% equity for the tungsten and molybdenum rights by sole funding \$750,000 of expenditure.

A RC drilling program comprising 12 holes was completed to test targets identified by 3D inversion modelling. Best results were:

- VMRC006 – 149 metres at 0.13% WO₃ from 0 metres
 - including 10 metres at 0.23% WO₃ from 68 metres with 8 metres at 0.21% WO₃ from 92 metres and 4 metres at 0.55% WO₃ from 112 metres
 - including 105 metres of 0.030% Mo from 44 metres
 - including 4 metres at 0.53 g/t Au from 12 metres and 14 metres of 1.5 g/t Au from 68 metres
- VMRC007 – 52 metres at 0.10% WO₃ from 12 metres
 - and 54 metres of 0.050% Mo from 0 metres
 - and 8 metres at 0.034% Mo from 64 metres
 - and 73 metres of 0.026% Mo from 106 metres
- VMRC004 – 4 metres at 0.10% WO₃ from 108 metres
 - and 4 metres of 0.16% WO₃ from 120 metres
- VMRC012 – 16 metres at 0.05% WO₃ from 60 metres
 - and 8 metres at 0.034% Mo from 96 metres



The results confirm the tenor of mineralisation at the Trench deposit (VMRC006) and indicate mineralisation extends to the southeast towards the Hill deposit (VMRC007) and may also extend to the southwest. The results also indicate gold could be a significant by-product to any tungsten/molybdenum production within the Trench deposit. There were also at least six new tungsten and/or molybdenum prospects within the project area that warrant further exploration.

Further RC drilling is currently being planned to follow up these results, in addition to testing other 3D modelled targets, and it is hoped that this program will be completed by the end of 2008.

Mt Alexander – Western Australia

The Mt Alexander Project is located approximately 300 kilometres south-southwest of Karratha and is wholly owned by Mt Alexander Resources Pty Ltd, a 100% owned subsidiary of Vital Metals. Mt Alexander Resources Pty Ltd has entered into a Split Commodity Agreement with Giralia Resources NL on a 28 square kilometre region centred on Mt Alexander itself. Mt Alexander Resources retain the tungsten and molybdenum rights and have assigned the base metal rights to Giralia Resources NL.

An interpretation of the aeromagnetic and radiometrics survey completed last year was completed, and identified several drilling targets for tungsten and molybdenum mineralisation. A RC drilling program is being planned to test for mineralisation within skarn units along strike of historic drill holes.

Marketing

At the end of 2007, Vital Metals commissioned Goodall Business and Resource Management Ltd (GBRM) to provide the Company with an updated market review of the world tungsten market. In January 2008, GBRM delivered a comprehensive 50 page report which detailed current world tungsten supply and demand figures, the curtailment of Chinese domestic mining operations and the recognition of increasing costs to development of new tungsten mines. The report detailed the likelihood of an increase in the ammonium paratungstate (APT) price, which in the next five years is likely to reach or exceed US\$300/metric tonne unit.

Like all Australian mining companies, the Australian Dollar/US Dollar exchange rate has a strong bearing on operating margins. When Vital Metals was floated in October 2005, the Australian Dollar was \$0.754. This year the Australian Dollar has traded in a range of \$0.887 and \$0.985. To date, the Company has been using A\$0.86 for its concentrate revenue conversion.



A view of Mt Mulgine, looking North.

Report on Activities

The Company has continued discussions with several major players in the tungsten industry regarding sales contracts and financial assistance with the mine development. The preference is to complete the Watershed Feasibility Study before completing sale and off-take agreements with potential parties.

Outlook

Vital Metals is on track to be a producer of tungsten concentrate by 2010. For any company to go from listing to production inside 5 years is a commendable effort, especially in the current mining boom where securing specialist consultants can be difficult and regulatory framework has become more complex and costly. The Company is fortunate to have a small, talented group of professional staff who are committed to moving the Watershed project from exploration to production as quickly and efficiently as possible.

The Company remains very positive about the tungsten market fundamentals and will remain focused on being the next Australian tungsten producer.



Scheelite in Watershed drill core (fluorescing under ultraviolet light).

Directors' Report

for the year ended 30 June 2008

The Directors submit their Report on Vital Metals Ltd (the "Company") and of the Company and its controlled entities (together referred to as the "consolidated entity"), for the year ended 30 June 2008 and the auditor's report thereon.

1. 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 Non-Executive Chairman (Executive Chairman until 30 June 2008)

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 was appointed non-executive Chairman of Brumby Resources Ltd in May 2006. Mr Ryan resigned as a non-executive director of Gindalbie Metals on 24 November 2005 and Jupiter Mines Limited on 31 March 2006. He is a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors.

Director Andrew Malcolm Haslam Grad. Dip. Min, MAICD

Appointed 3 January 2008

Position Managing Director/Chief Executive Officer

Mr Haslam began his mining career at the Bluebird mine with Endeavour Resources Ltd (now St Barbara Mines) and later became Mine Superintendent at Dominion Mining Limited's Labouchere gold operation. He was Operations Manager at AWP Contractors (7 years) and Henry Walker Eltin (8 years), following which he was Project Manager and Registered Mine Manager for BHPB's Yandi iron ore mine from 2000 to 2002. His most recent position was Mining Manager for Thiess Pty Ltd's operations in Western Australia and South Australia responsible for the BHP Billiton - Thiess Mining Alliance at the Mt Keith nickel operation in WA and Oxiana Pty Ltd's Prominent Hill copper/gold mine in SA.

Mr Haslam holds a Graduate Diploma in Mining from Ballarat University and a Diploma of Extractive Industries Management from SEM College in WA. He has over 25 years of wide-ranging experience in mining operations, the past 18 of these in open cut contracting.

Directors' Report

for the year ended 30 June 2008

1. DIRECTORS (continued)

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. Mr Simpson 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 specialise in strategic and business planning, resource project assessment and marketing. RTM is recognised as one of Australia's leading market research consultants to the international mining industry.

Mr Simpson is non-executive Chairman of Swick Mining Services Ltd, Territory Resources Ltd, and India Resources Ltd. He is also a non-executive director of ABM Resources Ltd, Matilda Minerals Ltd, and Wintech International Pty Ltd and a Member of the Australian Institute of Company Directors. Mr Simpson resigned as a non-executive director of Consolidated Minerals Ltd and Windamurra Vanadium Ltd on 30 June 2007 and 29 February 2008 respectively.

Director Peter Knowles B.Econ (Monash)

Appointed 20 August 2008

Position Independent Non-Executive Director

Mr Knowles is a graduate in Economics from Monash University in Victoria. He has also completed Advanced Management Programs at the University of Western Australia and at Harvard University in Boston.

Mr Knowles has a broad background in corporate finance and strategic planning. He was at various times the Manager of Corporate Planning, and General Manager Projects for Hamersley Iron, Group Projects Manager for Wesfarmers and was Managing Director of Wesfarmers CSBP Limited from 1994 to 2001. He currently acts as an independent consultant to various clients on resource and infrastructure projects.

Mr Knowles is currently a non-executive director of Activ Foundation Inc and Coogee Chemicals Pty Ltd. He resigned as a non-executive director of Sons of Gwalia Ltd and Alinta Infrastructure Holdings on 9 February 2005 and 8 March 2007 respectively.

Directors' Report

for the year ended 30 June 2008

1. DIRECTORS (continued)

Director Donald Ross Kennedy B.Sc. (Hons), F.AusIMM, CPGEO, MAIG, MICA, MGSA, MAICD

Appointed 20 January 2005

Resigned 1 September 2008

Position Lead Independent Non-Executive Director

Mr Kennedy is a geologist with over 40 years experience in multi-commodity exploration within Australia and overseas 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 mineralisation at Porgera (PNG). Mr Kennedy was Managing director of Astro Mining NL for two years before joining the Board of Resolute Ltd in 1987. In the following 13 years Mr Kennedy 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 non-executive Chairman of Jindalee Resources, Energy Metals Ltd, and Great Western Exploration Ltd, and a non-executive director of Uran Limited, is a Certified Practising 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.

Director Colin Hunter BSc, PhD

Appointed 23 February 2005

Resigned 8 July 2008

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. Mr Hunter has since been operating as Technical Director for Pacific Ore Technology and has been responsible for managing the development of the BioHeap™ Process. He resigned as a director of Pacific Ore Technology on 30 November 2007.

Directors' Report

for the year ended 30 June 2008

1. DIRECTORS (continued)

Director Mark McAuliffe B.Juris, LLB, MAICD

Appointed 9 December 2004

Resigned 13 September 2007

Position Independent Non-Executive Director

Mr McAuliffe is a solicitor with over 25 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. Mr McAuliffe is presently a legal practitioner and director of McAuliffe Legal. He has extensive experience as a company director for a wide range of client companies. Mr McAuliffe is Chairman of Hazelwood Resources Ltd and a member of the Australian Institute of Company Directors. He was also a non-executive director of Swick Mining Services Ltd from 1 January 2007 to 14 November 2007.

2. COMPANY SECRETARY

The company secretary is John Adam Sobolewski B. Comm. CA. Mr Sobolewski is a member of the Institute of Chartered Accountants in Australia and has held similar positions with Titan Resources Limited and Croesus Mining NL. Mr Sobolewski was appointed to the position of company secretary on 1 March 2006.

3. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were mineral exploration. There were no significant changes in the nature of the economic entity's principal activities during the year.

4. DIVIDENDS

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

5. OPERATING AND FINANCIAL REVIEW

The consolidated loss of the consolidated entity after providing for income tax amounted to \$2,774,855 (2007: \$1,538,269). A review of the operations of the economic entity during the financial year, the results of those operations, together with future prospects are set out elsewhere in this annual report.

There were no significant changes in the state of affairs of the consolidated entity during the period.

6. SIGNIFICANT POST BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial period which has significantly affected, or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to the financial period ended 30 June 2008.

7. LIKELY DEVELOPMENTS

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.

8. 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.

Directors' Report

for the year ended 30 June 2008

9. REMUNERATION REPORT

(a) Principles of Compensation – audited

Remuneration of directors and executives is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity including directors of the Company and other executives. They include the five most highly remunerated s300A directors and executives for the Company and the consolidated entity. Compensation levels for directors and key management personnel of the Company and consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

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

The compensation 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. The compensation structures take into account a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company and the consolidated entity.

(i) Fixed compensation

Fixed compensation consists of base compensation (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. Compensation levels are reviewed annually by the Board where applicable.

(ii) Share based remuneration

Share options are granted to key employees as Directors feel that this is the most appropriate method of aligning performance to the interests of shareholders. The share options are issued under the Vital Metals Ltd Share Option Plan (See note 29 to the financial statements) and the Directors feel that it appropriately links the long term incentives of key employees to the interest of shareholders.

(iii) Service contracts / agreements

The Company has entered into a service agreement with Mr Haslam. The service agreement ends on 1 January 2010. The Company may terminate the agreement, however must pay out the balance of the agreement. Mr Haslam may terminate this agreement by providing at least 3 months notice.

The Company has entered into a service agreement with Mr Ryan. This agreement ceased on 30 June 2008. Mr Ryan remains the non-executive Chairman.

Mr John Sobolewski, Company Secretary, has a contract of employment with the Company. This contract is for an unlimited term and is capable of termination on 4 weeks notice. Upon termination, Mr Sobolewski is entitled to payment of his notice period.

Mr Bruce Pertzel, Principal Geologist, has a contract of employment with the Company. This contract ends on 31 December 2008. Mr Pertzel is employed for a minimum of 10 days per calendar month during the term of his contract.

Mr Paul Rundel, Project Engineer, has a contract of employment with the Company. This contract is for an unlimited term and is capable of termination on 4 weeks notice. Upon termination, Mr Rundel is entitled to payment of his notice period.

(iv) Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2007 AGM, is not to exceed \$400,000 per annum. Non-executive directors received a fixed fee for their services of \$42,000 per annum plus statutory superannuation. The Chairman receives \$60,000 per annum plus statutory superannuation. From 1 July 2008 non-executive directors will receive \$50,000 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

for the year ended 30 June 2008

9. REMUNERATION REPORT (continued)

(b) Remuneration - audited

The Details of the nature and amount of each major element of the remuneration of the directors and key management personnel of the Company during the financial period are set out in the tables below.

The key management personnel of the parent entity and the consolidated entity include the directors and the following executive officers:

- John Sobolewski – Chief Financial Officer / Company Secretary
- Bruce Pertzelt – Principal Geologist
- Paul Rundel – Project Engineer

2008	Short-term benefits		Post-employment benefits	Equity compensation	Total	Value of Options as a
	Salary and fees	Non-monetary benefits	Super-annuation	Value of Options *		Proportion of remuneration
Directors						
W Ryan	310,472	10,208	27,942	-	348,622	-
D Kennedy	42,000	-	3,780	-	45,780	-
A Simpson	42,000	-	3,780	-	45,780	-
C Hunter	42,000	-	3,780	-	45,780	-
M McAuliffe	10,500	-	945	-	11,445	-
A Haslam	172,308	-	22,400	537,161	731,869	73.40
Executives						
J Sobolewski	130,000	20,674	11,700	17,542	179,916	9.75
B Pertzelt	219,707	-	19,144	-	238,851	-
P Rundel	173,333	13,408	15,600	122,796	325,137	37.77
Total	1,142,320	44,290	109,071	677,499	1,973,180	

2007	Short-term benefits		Post-employment benefits	Equity compensation	Total	Value of Options as a
	Salary and fees	Non-monetary benefits	Super-annuation	Value of Options *		Proportion of remuneration
Directors						
W Ryan	275,184	11,731	24,766	-	311,681	-
D Kennedy	36,000	-	3,240	-	39,240	-
A Simpson	36,000	-	3,240	-	39,240	-
C Hunter	36,000	-	3,240	-	39,240	-
M McAuliffe	36,000	-	3,240	-	39,240	-
Executives						
J Sobolewski	115,000	20,447	10,350	-	145,797	-
B Pertzelt	214,154	-	19,274	-	233,428	-
P Rundel	28,571	-	2,571	-	31,142	-
Total	776,909	32,178	69,921	-	879,008	

* The fair value of the options is calculated at the date of grant using a binomial option valuation model and allocated to each reporting period evenly over the period from the grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

Directors' Report

for the year ended 30 June 2008

9. REMUNERATION REPORT (continued)

During the reporting period, 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
30 Jul 2007	30 Jul 2009	\$0.3661	\$0.80	60%	6.15%
18 Dec 2007	3 Jan 2011	\$0.3080	\$1.02	60%	6.5%
18 Dec 2007	3 Jan 2011	\$0.2837	\$1.15	60%	6.5%
18 Dec 2007	3 Jan 2011	\$0.2501	\$1.33	60%	6.5%

No options were granted as compensation to key management personnel during the previous reporting period.

(c) Options granted as compensation – audited

	Number of options granted during 2008	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options vesting during 2008
Directors						
A Haslam	1,000,000	18 Dec 2007	\$0.3080	\$1.02	3 Jan 2011	-
A Haslam	1,000,000	18 Dec 2007	\$0.2837	\$1.15	3 Jan 2011	-
A Haslam	1,500,000	18 Dec 2007	\$0.2501	\$1.33	3 Jan 2011	-
Executives						
J Sobolewski	50,000	30 Jul 2007	\$0.3661	\$0.80	30 Jul 2009	25,000
P Rundel	350,000	30 Jul 2007	\$0.3661	\$0.80	30 Jul 2009	175,000

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

(d) Exercise of options granted as compensation – audited

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

2008	Number of shares	Amount paid \$/share
Directors		
W Ryan	500,000	0.20
D Kennedy	500,000	0.20
A Simpson	500,000	0.20
C Hunter	500,000	0.20
M McAuliffe	500,000	0.20
Executives		
J Sobolewski	200,000	0.20
B Pertzel	350,000	0.20

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2008 financial year.

Directors' Report

for the year ended 30 June 2008

9. REMUNERATION REPORT (continued)

(e) Analysis of options granted as compensation – audited

Details of vesting profiles of the options granted as remuneration to each key management person of the consolidated entity and each of the named executives are detailed below:

	Options granted		% vested	% forfeited	Financial years in which grant vests
	Number	Date			
Directors					
A Haslam	1,000,000	18 Dec 07	-	-	2009
A Haslam	1,000,000	18 Dec 07	-	-	2009
A Haslam	1,500,000	18 Dec 07	-	-	2010
Executives					
J Sobolewski	50,000	30 Jul 07	50	-	2009
P Rundel	350,000	30 Jul 07	50	-	2009

(f) Analysis of movements in options – audited

The movements during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the named executives are detailed below:

	Granted in year \$(A)	Value of Options Exercised in year \$(B)	Lapsed in year \$
W Ryan	-	130,000	-
D Kennedy	-	255,000	-
A Simpson	-	205,000	-
C Hunter	-	180,000	-
A Haslam	966,850	-	-
J Sobolewski	18,305	86,000	-
P Rundel	128,135	-	-
B Pertzal	-	147,000	-

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option valuation model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised in the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

10. 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	6,125,000	-	-
D Kennedy	-	950,000	-	-
A Simpson	-	1,001,750	-	-
A Haslam	-	63,250	-	3,500,000
P Knowles	-	-	-	-

Directors' Report

for the year ended 30 June 2008

11. DIRECTORS' MEETINGS

The following directors' meetings (including meetings of committees of directors) 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 whilst a director	Number of Audit Committee Meetings attended
W Ryan	10	10	**	**
D Kennedy	10	9	1	1
A Simpson	10	10	2	2
C Hunter	10	7	2	1
M McAuliffe	2	2	1	1
A Haslam	4	4	**	**

** Not a member of the audit committee.

12. OPTIONS

No options have been granted since the end of the financial year.

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

Number	Exercise Price	Expiry Date
1,000,000	\$1.02	3 January 2011
1,000,000	\$1.15	3 January 2011
1,500,000	\$1.33	3 January 2011
150,000	\$0.55	14 November 2008
125,000	\$0.60	9 January 2009
600,000	\$0.80	30 July 2009

Options on issue were issued to the following parties:

Executives	3,900,000
Employees	475,000
Total	4,375,000

During or since the end of the financial year 5,980,000 unlisted options were exercised at \$0.20 per share. Since the end of the financial year 231 listed options were exercised and 5,752,894 listed options lapsed unexercised.

13. INSURANCE AND INDEMNITY OF OFFICERS

The Company has entered into an agreement to indemnify all directors and the company secretary against any liability arising from a claim brought by a third party against the Company. The agreement provides for the Company to pay all damages and costs which may be awarded against the officer or director.

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

for the year ended 30 June 2008

14. 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's key roles are to:

- a) increase shareholder value within an appropriate framework which safeguards the rights and interests of the Company's shareholders; and
- b) ensure the Company is properly managed.

The Board is collectively responsible for promoting the success of the Company by:

- a) supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;
- b) ensuring the Company is properly managed;
- c) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- d) approving the annual budget;
- e) monitoring the financial performance of the Company;
- f) approving and monitoring financial and other reporting;
- g) providing overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- h) appointing the external auditor (where applicable, based on the recommendations of the Audit Committee) and the appointment of a new external auditor when any vacancy arises, provided that any appointments made by the Board must be ratified by shareholders at the next Annual General Meeting of the Company;
- i) liaising with the Company's external auditors and Audit Committee; and
- j) monitoring and ensuring compliance with all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

To assist in the execution of its responsibilities, the Board has established an Audit Committee and an Audit Committee Charter. The Audit Committee Charter is available on the Company's website. The members of the Audit Committee during the year were:

- Andrew Simpson (Chair and non-executive director)
- Mark McAuliffe (non-executive director) – Resigned 13 September 2007
- Colin Hunter (non-executive director) – Resigned 8 July 2007
- Donald Kennedy (non-executive director) – Appointed 13 September 2007 and resigned 1 September 2008
- Peter Knowles (non-executive director) – Appointed 20 August 2008

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

Directors' Report

for the year ended 30 June 2008

14. CORPORATE GOVERNANCE (continued)

The Board annually review the effectiveness of the Board, its committees, individual directors, and senior executives. All directors have an opportunity to contribute to the review process. The performance criteria takes into account each director's contribution to setting the direction, strategy and financial objectives of the group, and monitoring compliance with regulatory requirements and ethical standards.

Delegated Authority

The Managing Director/CEO is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director/CEO must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the consolidated entity's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

The Chief Executive Officer and Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively, and that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Code of Conduct

The Company's Code of Conduct is available on the Company's website. This Code of Conduct sets out the principles and standards which the Board, management and employees of the Company are encouraged to strive towards when dealing with each other, shareholders and the broad community.

Share Trading Policy

The Board has also adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information. It also provides that the written acknowledgement of the Chairman should be obtained prior to trading.

Communication with Shareholders

The Board has adopted a strategy that aims to ensure that the shareholders are informed of all major developments affecting the Company. All shareholders receive the Company's annual report, and may also request copies of the Company's half-yearly and quarterly reports. The Company also encourages full participation of shareholders at the Annual General Meeting of the Company.

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 he had an executive role in the Company (Executive Chairman until 30 June 2008) 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 the preparation of the Company when listed.

The Board has appointed Andrew Simpson (Ross Kennedy until 1 September 2008) 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.

Directors' Report

for the year ended 30 June 2008

14. CORPORATE GOVERNANCE (continued)

Principle 2 Recommendation 2.3

Until 3 January 2008, the roles of Chairman and Managing Director were 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 considered the existing structure provided unified leadership that was important to a newly incorporated company with early stage exploration projects. Mr Ryan's dual role made 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. This dual role assisted the Company to run in a cost effective and efficient manner.

The Company appointed a new Managing Director, Mr Andrew Haslam, on 3 January 2008 and is therefore now in compliance with recommendation 2.3.

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. Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

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.

15. NON-AUDIT SERVICES

No non-audit services were provided during the financial year.

16. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is attached as page 64 of the Financial Report and forms part of the Directors' Report for the period ended 30 June 2008.

Signed in accordance with a resolution of the directors



A M Haslam
Director

Dated: 15 September 2008

Income Statements

for the year ended 30 June 2008

	Note	CONSOLIDATED		THE COMPANY	
		30 June 2008	30 June 2007	30 June 2008	30 June 2007
		\$	\$	\$	\$
Income					
Sundry Income		1,000	2,399	1,000	2,399
Total income		1,000	2,399	1,000	2,399
Expenses					
Administration expenses		3,015,933	1,835,346	3,015,058	1,833,062
Exploration expenses					
Depreciation		82,119	47,754	-	-
Exploration expenses written off	13	328,297	-	328,297	-
Total expenses		3,426,349	1,883,100	3,343,355	1,833,062
Results from operating activities		(3,425,349)	(1,880,701)	(3,342,355)	(1,830,663)
Finance income		538,420	230,725	538,420	230,725
Finance expense		(4,964)	(10,080)	(3,102)	(6,859)
Loss before income tax expense		(2,891,893)	(1,660,056)	(2,807,037)	(1,606,797)
Income tax benefit	7	117,038	121,787	117,038	121,787
Loss attributed to equity holders of parent		(2,774,855)	(1,538,269)	(2,689,999)	(1,485,010)
Cents per Share					
Basic loss per share (cents per share)	28	(2.66)	(2.00)		
Diluted loss per share (cents per share)	28	(2.66)	(2.00)		

The accompanying notes form part of these financial statements

Statements of Changes in Equity

for the year ended 30 June 2008

CONSOLIDATED	Attributable to equity holders of the parent			
	Issued Capital	Accumulated Losses	Other Reserves	Total Equity
	\$	\$	\$	\$
At 1 July 2006	11,231,174	(1,309,557)	335,037	10,256,654
Loss for the period - total recognised expense	-	(1,538,269)	-	(1,538,269)
Share issues	4,410,000	-	-	4,410,000
Capital raising expenses	(242,408)	-	-	(242,408)
Exercise of options	100,000	-	-	100,000
Transfer of reserve upon exercise of options	27,640	-	(27,640)	-
Issue of options to employees	-	-	52,363	52,363
At 1 July 2007	15,526,406	(2,847,826)	359,760	13,038,340
Loss for the period - total recognised expense	-	(2,774,855)	-	(2,774,855)
Share issues	13,503,750	-	-	13,503,750
Capital raising expenses	(721,338)	-	-	(721,338)
Exercise of options	1,196,000	-	-	1,196,000
Transfer of reserve upon exercise of options	-	317,001	(317,001)	-
Issue of options to employees	-	-	756,072	756,072
At 30 June 2008	29,504,818	(5,305,680)	798,831	24,997,969
COMPANY				
At 1 July 2006	11,231,174	(1,279,121)	335,037	10,287,090
Loss for the period - total recognised expense	-	(1,485,010)	-	(1,485,010)
Share issues	4,410,000	-	-	4,410,000
Capital raising expenses	(242,408)	-	-	(242,408)
Exercise of options	100,000	-	-	100,000
Transfer of reserve upon exercise of options	27,640	-	(27,640)	-
Issue of options to employees	-	-	52,363	52,363
At 1 July 2007	15,526,406	(2,764,131)	359,760	13,122,035
Loss for the period - total recognised expense	-	(2,689,999)	-	(2,689,999)
Share issues	13,503,750	-	-	13,503,750
Capital raising expenses	(721,338)	-	-	(721,338)
Exercise of options	1,196,000	-	-	1,196,000
Transfer of reserve upon exercise of options	-	317,001	(317,001)	-
Issue of options to employees	-	-	756,072	756,072
At 30 June 2008	29,504,818	(5,137,129)	798,831	25,166,520

The accompanying notes form part of these financial statements

Balance Sheets

as at 30 June 2008

	Note	CONSOLIDATED		THE COMPANY	
		2008 \$	2007 \$	2008 \$	2007 \$
CURRENT ASSETS					
Cash and cash equivalents	9	4,767,275	1,585,696	4,753,489	1,545,835
Trade and other receivables	10	299,726	244,259	122,810	133,542
TOTAL CURRENT ASSETS		5,067,001	1,829,955	4,876,299	1,679,377
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	14,898,294	6,854,470
Investments	11	-	-	3,146,186	3,195,465
Property, plant and equipment	12	744,817	539,938	230,173	240,527
Intangible assets	13	20,811,211	11,736,994	2,484,847	1,559,914
TOTAL NON-CURRENT ASSETS		21,556,028	12,276,932	20,759,500	11,850,376
TOTAL ASSETS		26,623,029	14,106,887	25,635,799	13,529,753
CURRENT LIABILITIES					
Trade and other payables	14	1,492,684	932,141	352,301	300,784
Loans and borrowings	15	40,629	49,183	25,231	35,109
Provisions	16	91,747	46,594	91,747	46,594
TOTAL CURRENT LIABILITIES		1,625,060	1,027,918	469,279	382,487
NON CURRENT LIABILITIES					
Loans and borrowings	15	-	40,629	-	25,231
TOTAL NON-CURRENT LIABILITIES		-	40,629	-	25,231
TOTAL LIABILITIES		1,625,060	1,068,547	469,279	407,718
NET ASSETS		24,997,969	13,038,340	25,166,520	13,122,035
EQUITY					
Share capital	17	29,504,818	15,526,406	29,504,818	15,526,406
Reserves	18	798,831	359,760	798,831	359,760
Accumulated losses	23	(5,305,680)	(2,847,826)	(5,137,129)	(2,764,131)
TOTAL EQUITY		24,997,969	13,038,340	25,166,520	13,122,035

The accompanying notes form part of these financial statements

Statements of Cash Flows

for the year ended 30 June 2008

	Note	CONSOLIDATED		THE COMPANY	
		30 June 2008	30 June 2007	30 June 2008	30 June 2007
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Cash paid to suppliers and employees		(2,172,295)	(1,722,210)	(2,118,129)	(1,723,266)
Interest received		536,105	224,604	536,105	224,604
Other receipts		1,000	2,399	1,000	2,399
Interest paid		(4,964)	(10,080)	(3,102)	(6,859)
Income tax receipts		117,038	121,787	117,038	121,787
Net cash used in operating activities	27	(1,523,116)	(1,383,500)	(1,467,088)	(1,381,335)
Cash Flows from Investing Activities					
Security bonds		10,000	(40,970)	10,000	(40,970)
Acquisition of property, plant and equipment		(373,810)	(171,983)	(61,724)	(96,338)
Payment for exploration expenditure		(8,912,231)	(6,019,238)	(1,210,446)	(901,054)
Loans to subsidiaries		-	-	(8,043,824)	(5,219,202)
Net cash used in investing activities		(9,276,041)	(6,232,191)	(9,305,994)	(6,257,564)
Cash Flows from Financing Activities					
Net proceeds from issue of share capital		12,784,736	4,181,977	12,784,736	4,181,977
Proceeds from exercise of share options		1,196,000	100,000	1,196,000	100,000
Net cash provided by/(used in) financing activities		13,980,736	4,281,977	13,980,736	4,281,977
Net increase/(decrease) in cash held		3,181,579	(3,333,714)	3,207,654	(3,356,922)
Cash at 1 July		1,585,696	4,919,410	1,545,835	4,902,757
Cash at 30 June	9	4,767,275	1,585,696	4,753,489	1,545,835

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2008

1. REPORTING ENTITY

Vital Metals Ltd (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by all entities in the consolidated entity.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial reports of the consolidated entity and the Company also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 10 September 2008.

(b) Financial position

The consolidated loss of the consolidated entity after providing for income tax amounted to \$2,774,855 (2007: \$1,538,269). The net working capital of the consolidated entity at 30 June 2008 was \$3,441,941. The financial statements have been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

The consolidated entity will require further funding in order to meet day-to-day obligations as they fall due and progress its exploration and feasibility projects as budgeted. The Board is aware of the consolidated entity's working capital requirements and the need to access additional working capital in the next 12 months to enable the consolidated entity to continue its normal business activities and ensure the realisation of assets and extinguishment of liabilities as and when they fall due. The Board is confident in securing sufficient additional equity and/or debt funding to provide working capital for at least the next 12 months.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(d) Functional and presentation of currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the entities it controls.

(e) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 Income taxes
- Note 13 Intangible assets
- Note 29 Measurement of share based payments

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Interests in joint venture operations

The Consolidated Entity's interest in its joint venture operation is accounted for by recognising the Consolidated Entity's share of assets and liabilities from the joint venture, as well as expenses incurred by the Consolidated Entity and the Consolidated Entity's share of income earned from the joint venture, in the consolidated financial statements.

(b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit and loss as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Leased Assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Buildings	over 10 years
Plant and equipment	over 3 to 20 years
Office equipment	over 3 to 20 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Property, plant and equipment (continued)

Derecognition

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(c) Intangibles - Exploration & evaluation expenditure

Exploration and evaluation expenditure, including the costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 3(e)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

(d) Financial Instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash at bank, short-term bills and call deposits.

(e) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and exploration and evaluation (3(c)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Share capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(g) Employee benefits

(1) Share-based payment transactions

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period the relevant employees become fully entitled to the award ("vesting period"). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(2) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(3) Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employee's services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating monetary benefits, such as medical care, and motor vehicles, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site restoration

The Company provides for the future cost of rehabilitating its exploration sites in accordance with the environmental and legal obligations imposed on the tenements. A provision for restoration is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. Provisions for restoration are based on the discounted cash flow of expected future cost.

The amount of the provision for future restoration costs is capitalised and is depreciated. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(i) Leases

Operating Lease payments

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are recognised over the term of the lease on the same basis as the lease expense.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

(k) Finance income

Finance income comprises interest income earned on funds invested in bank accounts and call deposits. Interest is recognised on an accruals basis in the income statement, using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 3 October 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Vital Metals Ltd.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any recognised tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(m) 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 balance sheet.

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.

(n) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Financial Statements

for the year ended 30 June 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 *Business Combinations* and amending standard AASB 2008-3 changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 8 *Operating Segments* and amending standard AASB 2007-3 introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the consolidated entity's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the consolidated entity presents segment information in respect of its business and geographical segments.
- Revised AASB 101 *Presentation of Financial Statements* and amending standard AASB 2007-8 introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASB's. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's disclosures.
- Revised AASB 123 *Borrowing Costs* and amending standard AASB 2007-6 removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 financial statements and will constitute a change in accounting policy for the consolidated entity. In accordance with the transitional provisions the consolidated entity will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The consolidated entity has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* and amending standard AASB 2008-3 changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.
- As part of the annual improvement project amending standards AASB 2008-5 and AASB 2008-6 have been issued and is mandatory for financial years ending 31 December 2009 and 30 June 2010 respectively. The consolidated entity has not yet determined the potential effects of the revised standards on the consolidated financial report.
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* addresses issues that have arisen in practice related to the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements at cost. The standard is mandatory for financial years ending 31 December 2009. The consolidated entity has not yet determined the potential effects of the revised standards on the consolidated financial report.

Notes to the Financial Statements

for the year ended 30 June 2008

4. DETERMINATION OF FAIR VALUES

A number of the consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair value of employee share options is measured using a binomial option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. FINANCIAL RISK MANAGEMENT

Overview

The Company and consolidated entity have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Company and the consolidated entity do not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed on a continuous basis. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the consolidated entity through regular reviews of the risks.

Credit Risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The consolidated entity aims to mitigate this risk when negotiating a long term off-take agreement with a reputable third party for its product. The consolidated entity will ensure that a credit check is undertaken including ensuring that the off-take partner is creditworthy.

Currently the consolidated entity's exposure to credit risk is via cash and cash equivalents and trade and other receivables. Cash and cash equivalents are held with Commonwealth Bank of Australia which is an Australian bank with a AA credit rating (Standard & Poor's). The majority of the receivables relate to GST credits receivable from the ATO and security deposits held by state mines departments.

Liquidity Risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves to cover working capital from funds raised in the market and by continuously monitoring forecast and actual cash flows. The consolidated entity does not have any external borrowings.

Notes to the Financial Statements

for the year ended 30 June 2008

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The consolidated entity will aim to mitigate these risks when negotiating a long-term off-take agreement with a third party for its product, and project debt funding arrangements (if applicable). The consolidated entity will be exposed to fluctuations in the price of tungsten, the AUD/USD exchange rate (as the tungsten price is denominated in USD), and interest rates (provided debt funding is sought).

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. The Board's focus has been to raise sufficient funds through equity (via rights issues and placements) to fund exploration and evaluation activities. The Board monitors capital on the basis of the gearing ratio, however there are no external borrowings at balance date. There were no changes in the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

for the year ended 30 June 2008

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
6 - OTHER INCOME AND EXPENSES				
The following significant revenue and expense items not separately highlighted in the Income Statement are relevant in explaining the financial performance:				
Expenses				
Depreciation of non-current assets in administration expenses				
- land and buildings	6,629	6,628	6,629	6,628
- leased plant and equipment	20,503	20,504	20,503	20,504
- plant and equipment	44,119	23,480	44,119	23,480
- office equipment	2,750	2,762	2,750	2,762
Total Depreciation	74,001	53,374	74,001	53,374
Personnel expenses				
- Wages and salaries	874,410	750,582	874,410	750,582
- Contributions to defined contribution superannuation funds	92,187	63,259	92,187	63,259
- Other associated personnel expenses	209,526	123,381	209,526	123,381
- Equity settled share based payment transactions	756,072	52,363	756,072	52,363
Total personnel expenses	1,932,195	989,585	1,932,195	989,585
7 - INCOME TAX EXPENSE				
a) The major components of income tax expense are:				
Income Statement				
<i>Current income tax</i>				
Current income tax benefit	3,561,433	2,348,984	1,079,214	702,101
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(2,682,111)	(1,918,621)	(240,132)	(259,359)
Unused tax losses not recognised as DTA *	(879,322)	(430,363)	(839,082)	(442,742)
Tax rebate from R&D activities	117,038	121,787	117,038	121,787
Income tax benefit reported in the income statement	117,038	121,787	117,038	121,787
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:				
Accounting Loss	(2,891,893)	(1,538,269)	(2,807,037)	(1,485,010)
Prima facie tax benefit at 30%	(867,568)	(461,481)	(842,111)	(445,503)
Add tax effect of:				
Non - deductible items	3,030	2,819	3,030	2,761
Tax losses not brought to account	879,322	430,363	839,081	442,742
Tax effect of consolidations (prior year adjustment)	(14,784)	28,299	-	-
Tax rebate from R&D activities	117,038	121,787	117,038	121,787
Income tax benefit	117,038	121,787	117,038	121,787

* An amount of \$141,493 (Parent: \$141,492) is directly offset against equity.

Notes to the Financial Statements

for the year ended 30 June 2008

7 - INCOME TAX EXPENSE (continued)

b) Deferred income tax

Deferred income tax at 30 June relates to the following:

	BALANCE SHEET	
	2008	2007
CONSOLIDATED	\$	\$
<i>Deferred tax liabilities</i>		
Depreciation	46,708	50,049
Exploration	5,127,703	2,405,438
Other	3,130	131
Set-off of tax assets	(5,177,541)	(2,455,618)
	-	-
<i>Deferred tax assets</i>		
Tax value of loss carry forwards	6,598,446	3,147,280
Set-off to deferred tax liability	(5,177,541)	(2,455,618)
Accrued expenses	15,000	12,000
Provisions	22,025	13,978
Non-recognition of deferred taxes	(1,460,395)	(722,566)
Other prepayments	2,465	4,926
	-	-
THE COMPANY		
<i>Deferred tax liabilities</i>		
Movements in depreciation	339	815
Exploration	584,332	306,852
Receivables	2,939	-
Set off tax assets	(587,610)	(307,667)
	-	-
<i>Deferred tax assets</i>		
Tax value of loss carry forwards	1,969,133	1,000,186
Other prepayments	2,465	4,926
Accrued expenses	15,000	12,000
Provisions	22,025	13,978
Non-recognition of deferred taxes	(1,421,013)	(723,423)
Set off to deferred tax liability	(587,610)	(307,667)
	-	-

Notes to the Financial Statements

for the year ended 30 June 2008

7 - INCOME TAX EXPENSE (continued)

c) Tax Losses

At 30 June 2008, Vital Metals Ltd consolidated entity has \$21,994,820 (2007: \$10,490,934) of tax losses that are available indefinitely for offset against future taxable profits of the consolidated entity. No deferred tax asset has been recognised on the Balance Sheet in respect of the amount of these losses.

Unrecognised deferred tax balances

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Deferred tax assets</i>				
Tax losses - revenue	1,460,395	722,566	1,421,013	723,423
Tax losses - capital	-	-	-	-
	1,460,395	722,566	1,421,013	723,423

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefit therefrom.

d) Tax Consolidation Legislation

Vital Metals Ltd and its controlled entities implemented the tax consolidations legislation as of 4 October 2005. The Australian Tax Office was notified of this decision on lodgement of the 2006 income tax return.

The controlled entities have been fully compensated for all deferred tax assets and liabilities transferred to Vital Metals Ltd on the date of implementation of the legislation. The entities have also entered into a tax sharing and compensation agreement. Under the terms of this agreement, the wholly owned entities reimburse Vital Metals Ltd for any current income tax payable or receivable by Vital Metals Ltd arising in respect of their activities. The reimbursements are payable or receivable at the same time as the associated income tax liabilities fall due or refunds are receivable and have therefore been recognised as a current tax related receivable or payable (where applicable) by Vital Metals Ltd. The group has decided to use the "Separate taxpayer within group" approach in accordance with UIG 1052 in order to account for the current and deferred tax amounts amongst the entities within the consolidated group.

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
8 - AUDITOR'S REMUNERATION				
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing of the financial reports	36,169	31,121	36,169	31,121

No non-audit services were performed during 2007 or 2008.

9 - CASH AND CASH EQUIVALENTS

Cash at bank and on hand	312,552	57,955	298,766	18,094
Call deposits	4,454,723	1,527,741	4,454,723	1,527,741
Cash and cash equivalents in the statement of cash flows	4,767,275	1,585,696	4,753,489	1,545,835

Notes to the Financial Statements

for the year ended 30 June 2008

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
10 - TRADE AND OTHER RECEIVABLES				
Current				
Other trade receivables	210,025	137,619	45,109	38,902
Security deposits	89,701	99,701	77,701	87,701
Prepayments	-	6,939	-	6,939
	299,726	244,259	122,810	133,542
Non-Current				
Amount receivable from controlled entities (Note 22)	-	-	14,898,294	6,854,470
	-	-	14,898,294	6,854,470

11 - INVESTMENTS

In the financial statements of the Company, investments in subsidiaries are accounted for at cost and included with other financial assets.

The Company has the following investments in subsidiaries:

	CLASS	COUNTRY OF INCORPORATION	INVESTMENT AT COST	
			2008	2007
			\$	\$
Parent Entity				
Vital Metals Ltd	Ord	Australia	-	-
Controlled Entities (100%)				
North Queensland Tungsten Pty Ltd	Ord	Australia	1,645,465	1,645,465
Mount Alexander Resources Pty Ltd	Ord	Australia	1,500,721	1,550,000
			3,146,186	3,195,465

Notes to the Financial Statements

for the year ended 30 June 2008

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
12 - PROPERTY, PLANT AND EQUIPMENT				
Buildings				
At cost	262,242	249,690	66,290	66,290
Accumulated depreciation	(64,367)	(38,291)	(16,572)	(9,943)
Total land and buildings	197,875	211,399	49,718	56,347
Plant and Equipment				
At cost	607,605	263,919	185,429	123,961
Accumulated depreciation	(158,682)	(60,515)	(75,110)	(30,991)
	448,923	203,404	110,319	92,970
Leased Plant & Equipment				
Capitilised Lease Assets	145,954	144,740	102,516	102,516
Accumulated depreciation	(66,158)	(37,130)	(48,484)	(27,981)
	79,796	107,610	54,032	74,535
Total plant and equipment	528,719	311,014	164,351	167,505
Office equipment				
At cost	25,675	22,128	23,393	21,214
Accumulated depreciation	(7,452)	(4,603)	(7,289)	(4,539)
Total office equipment	18,223	17,525	16,104	16,675
Total property, plant and equipment	744,817	539,938	230,173	240,527

Notes to the Financial Statements

for the year ended 30 June 2008

12 - PROPERTY, PLANT AND EQUIPMENT (continued)

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Land and Buildings	Leased Plant & Equipment	Plant and Equipment	Office Equipment	Total
The Company:					
Balance at 1 July 2006	62,975	95,039	52,273	18,646	228,933
Acquisitions	-	-	64,177	791	64,968
Depreciation expense	(6,628)	(20,504)	(23,480)	(2,762)	(53,374)
Balance at 30 June 2007	56,347	74,535	92,970	16,675	240,527
Acquisitions	-	-	61,468	2,179	63,647
Depreciation expense	(6,629)	(20,503)	(44,119)	(2,750)	(74,001)
Carrying amount at 30 June 2008	49,718	54,032	110,319	16,104	230,173
Consolidated:					
Balance at 1 July 2006	223,403	136,558	151,495	19,184	530,640
Acquisitions	12,188	-	97,080	1,158	110,426
Depreciation expense	(24,192)	(28,948)	(45,171)	(2,817)	(101,128)
Balance at 30 June 2007	211,399	107,610	203,404	17,525	539,938
Acquisitions	12,552	1,214	343,686	3,547	360,999
Depreciation expense	(26,076)	(29,028)	(98,167)	(2,849)	(156,120)
Carrying amount at 30 June 2008	197,875	79,796	448,923	18,223	744,817

Notes to the Financial Statements

for the year ended 30 June 2008

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
13 - INTANGIBLE ASSETS				
Non-Current				
Exploration & Evaluation Expenditure				
Costs carried forward in respect of areas of interest in:				
Exploration and Evaluation Phases:				
Opening balance at 1 July	11,736,994	5,406,285	1,559,914	662,749
Tenements acquired on listing	-	-	-	-
Exploration expenditure during the year	9,402,514	6,330,709	1,253,230	897,165
Exploration expenditure written off	(328,297)	-	(328,297)	-
Closing balance at 30 June	20,811,211	11,736,994	2,484,847	1,559,914

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

14 - TRADE AND OTHER PAYABLES				
Trade creditors and accruals	1,492,684	932,141	352,301	300,784
	1,492,684	932,141	352,301	300,784
15 - LOANS AND BORROWINGS				
Current				
Finance lease liabilities (Note 24)	40,629	49,183	25,231	35,109
	40,629	49,183	25,231	35,109
Non-Current				
Finance lease liabilities (Note 24)	-	40,629	-	25,231
	-	40,629	-	25,231
16 - PROVISIONS				
Current				
Employee benefits				
Liability for annual leave	91,747	46,594	91,747	46,594
	91,747	46,594	91,747	46,594

Notes to the Financial Statements

for the year ended 30 June 2008

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
17 - SHARE CAPITAL				
Ordinary shares				
At the beginning of the reporting period	15,526,406	11,231,174	15,526,406	11,231,174
Shares issued during the year				
250,000 on 15 November 2006 (i)	-	64,225	-	64,225
10,500,000 on 16 November 2006 (ii)	-	4,410,000	-	4,410,000
50,000 on 19 December 2006 (i)	-	12,845	-	12,845
200,000 on 11 May 2007 (i)	-	50,570	-	50,570
11,000,000 on 4 July 2007 (ii)	6,600,000	-	6,600,000	-
300,000 on 10 July 2007 (i)	200,000	-	200,000	-
1,000,000 on 10 July 2007 (i)	60,000	-	60,000	-
11,506,250 on 14 August 2007 (iii)	6,903,750	-	6,903,750	-
70,000 on 12 October 2007 (i)	14,000	-	14,000	-
500,000 on 12 November 2007 (i)	100,000	-	100,000	-
25,000 on 17 December 2007 (i)	5,000	-	5,000	-
500,000 on 18 January 2008 (i)	100,000	-	100,000	-
350,000 on 29 February 2008 (i)	70,000	-	70,000	-
350,000 on 6 March 2008 (i)	70,000	-	70,000	-
25,000 on 2 May 2008 (i)	5,000	-	5,000	-
160,000 on 12 May 2008 (i)	32,000	-	32,000	-
800,000 on 21 May 2008 (i)	160,000	-	160,000	-
330,000 on 26 May 2008 (i)	66,000	-	66,000	-
160,000 on 17 June 2008 (i)	32,000	-	32,000	-
1,410,000 on 30 June 2008 (i)	282,000	-	282,000	-
Less: Capital raising expenses	(721,338)	(242,408)	(721,338)	(242,408)
At reporting date	29,504,818	15,526,406	29,504,818	15,526,406

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(i) Share Options exercised (Note 29).

(ii) Share placement.

(iii) Rights Issue (One new share for every eight shares held, with one free attaching new option for every two new shares).

Notes to the Financial Statements

for the year ended 30 June 2008

17 - SHARE CAPITAL (continued)

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
Number of shares	No	No	No	No
At the beginning of the reporting period	81,050,003	70,050,003	81,050,003	70,050,003
Shares issued during year				
15 November 2006	-	250,000	-	250,000
16 November 2006	-	10,500,000	-	10,500,000
19 December 2006	-	50,000	-	50,000
11 May 2007	-	200,000	-	200,000
4 July 2007	11,000,000	-	11,000,000	-
10 July 2007	300,000	-	300,000	-
10 July 2007	1,000,000	-	1,000,000	-
14 August 2007	11,506,250	-	11,506,250	-
12 October 2007	70,000	-	70,000	-
12 November 2007	500,000	-	500,000	-
17 December 2007	25,000	-	25,000	-
18 January 2008	500,000	-	500,000	-
29 February 2008	350,000	-	350,000	-
6 March 2008	350,000	-	350,000	-
2 May 2008	25,000	-	25,000	-
12 May 2008	160,000	-	160,000	-
21 May 2008	800,000	-	800,000	-
26 May 2008	330,000	-	330,000	-
17 June 2008	160,000	-	160,000	-
30 June 2008	1,410,000	-	1,410,000	-
At reporting date	109,536,253	81,050,003	109,536,253	81,050,003

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
18 - RESERVES				
Option premium reserve (a)				
Balance at 1 July	103,180	103,180	103,180	103,180
Transfer of reserve upon exercise of options	(103,180)	-	(103,180)	-
Balance at 30 June	-	103,180	-	103,180
Share based payment reserve (b)				
Balance at 1 July	256,580	231,857	256,580	231,857
Transfer of reserve upon exercise of options	(213,821)	(27,640)	(213,821)	(27,640)
Issue of options to employees	756,072	52,363	756,072	52,363
Balance at 30 June	798,831	256,580	798,831	256,580
	798,831	359,760	798,831	359,760

(a) The option premium reserve relates to the cost of options issued to stock brokers.

(b) The share based payment reserve relates to the cost of options issued to employees and directors.

Notes to the Financial Statements

for the year ended 30 June 2008

19 - COMMITMENTS

Mineral Tenement Commitments

The consolidated entity has certain minimum obligations in pursuance of the terms and conditions of tenement licences in the forthcoming year. Whilst these obligations are capable of being varied from time to time, in order to maintain current rights of tenure to mining tenements, the economic entity will be required to outlay in 2008/09 amounts of approximately \$674,960 (2007/2008: \$833,500). These obligations are expected to be fulfilled in the normal course of operations.

20 - FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk on financial assets of the Company and consolidated entity which has been recognised on the Balance Sheets is generally the carrying amount, net of any provisions for impairment losses. The types of credit risk exposures are discussed in Note 5.

(b) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

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.

2008	Weighted Average Interest rate	Notes	Variable Interest rate	Fixed Interest rate	Non-Interest Bearing	Total
Financial Assets						
Cash and cash equivalents	6.97%	9	4,767,275	-	-	4,767,275
Trade and other receivables	-	10	-	-	299,726	299,726
			4,767,275	-	299,726	5,067,001
Financial Liabilities						
Trade and other payables	-	14	-	-	1,492,684	1,492,684
Finance Lease	8.06%	15	-	40,629	-	40,629
Net financial assets / (liabilities)			4,767,275	(40,629)	(1,192,958)	3,533,688

2007	Weighted Average Interest rate	Notes	Variable Interest rate	Fixed Interest rate	Non-Interest Bearing	Total
Financial Assets						
Cash and cash equivalents	5.97%	9	1,585,696	-	-	1,585,696
Trade and other receivables	-	10	-	-	244,259	244,259
			1,585,696	-	244,259	1,829,955
Financial Liabilities						
Trade and other payables	-	14	-	-	932,141	932,141
Finance Lease	8.03%	15	-	89,812	-	89,812
Net financial assets / (liabilities)			1,585,696	(89,812)	(687,882)	808,002

Notes to the Financial Statements

for the year ended 30 June 2008

20 - FINANCIAL INSTRUMENTS (continued)

(b) Interest Rate Risk Exposures (continued)

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	PROFIT OR LOSS AND EQUITY	
	25 bp increase	25 bp decrease
Consolidated		
30 June 2008		
Variable rate instruments	11,918	(11,918)
30 June 2007		
Variable rate instruments	3,964	(3,964)
Company		
30 June 2008		
Variable rate instruments	11,884	(11,884)
30 June 2007		
Variable rate instruments	3,865	(3,865)

(c) Net Fair Value of Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities equal their respective net fair values at balance date.

On-balance Sheet

The net fair value of cash, cash equivalents, non interest bearing monetary financial assets and financial liabilities of the Company and consolidated entity equal their carrying value.

(d) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

Consolidated 30 June 2008	Carrying amount \$	Contractual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$
Non-derivative financial liabilities					
Finance lease liabilities	40,629	42,075	24,148	17,927	-
Trade and other payables	1,492,684	1,492,684	1,492,684	-	-
	1,533,313	1,534,759	1,516,832	17,927	-

Notes to the Financial Statements

for the year ended 30 June 2008

20 - FINANCIAL INSTRUMENTS (continued)

(d) Liquidity Risk (continued)

Consolidated 30 June 2007	Carrying amount \$	Contractual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$
Non-derivative financial liabilities					
Finance lease liabilities	89,812	96,591	54,517	24,148	17,926
Trade and other payables	932,141	932,141	932,141	-	-
	1,021,953	1,028,732	986,658	24,148	17,926

The Company 30 June 2008	Carrying amount \$	Contractual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$
Non-derivative financial liabilities					
Finance lease liabilities	25,231	26,070	16,145	9,925	-
Trade and other payables	352,301	352,301	352,301	-	-
	377,532	378,371	368,446	9,925	-

The Company 30 June 2007	Carrying amount \$	Contractual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$
Non-derivative financial liabilities					
Finance lease liabilities	60,340	64,581	38,511	16,145	9,925
Trade and other payables	300,784	300,784	300,784	-	-
	361,124	365,365	339,295	16,145	9,925

21 - SEGMENT REPORTING

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

22 - RELATED PARTY TRANSACTIONS

Key Management Personnel Disclosures

- (a) The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Parent Entity Directors

William Ryan
 Andrew Haslam
 Andrew Simpson
 Donald Kennedy (Resigned 1 September 2008)
 Colin Hunter (Resigned 8 July 2008)
 Mark McAuliffe (Resigned 13 September 2007)

Executives

John Sobolewski (CFO/Company Secretary)
 Bruce Pertzelt (Principal Geologist)
 Paul Rundel (Project Engineer)

Notes to the Financial Statements

for the year ended 30 June 2008

22 - RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Disclosures (continued)

(b) Key management personnel compensation

The key management personnel compensation included in employee benefit and director compensation expenses are as follows:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short term employee benefits *	1,186,610	809,087	1,186,610	809,087
Post employment benefits **	109,071	69,921	109,071	69,921
Equity compensation benefits	677,499	-	677,499	-
	1,973,180	879,008	1,973,180	879,008

* \$393,040 (2007: \$242,725) was capitalised as exploration and evaluation expenditure.

** \$34,744 (2007: \$21,845) was capitalised as exploration and evaluation expenditure.

(c) Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors interests existing at year end.

(d) Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions on an arms-length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

	Transaction	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
		\$	\$	\$	\$
Key management persons					
Andrew Simpson	Marketing fees (i)	30,151	32,000	30,151	32,000
Mark McAuliffe	Legal fees (ii)	17,869	29,130	17,869	29,130
D. Ross Kennedy	Consulting fees (iii)	1,192	5,650	1,192	5,650

(i) During the year an entity associated with Mr Simpson was paid \$30,151 (2007: \$32,000) for consultancy services provided on normal commercial terms and conditions.

(ii) During the year the Company paid a partnership of which Mr McAuliffe is a partner \$17,869 (2007: \$29,130) for legal services provided on normal commercial terms and conditions.

(iii) During the year the Company paid a company associated with Mr Kennedy \$1,192 (\$5,650) for consultancy services provided on normal commercial terms and conditions.

Notes to the Financial Statements

for the year ended 30 June 2008

22 - RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Disclosures (continued)

(e) Options and Rights Holdings

Number of Options held by Directors and Executives

	Balance 1.07.07	Granted as Remuneration	Options Exercised	Net Change Other *	Balance 30.06.08
Parent Entity Directors					
William Ryan	500,000	-	(500,000)	312,500	312,500
D. Ross Kennedy	500,000	-	(500,000)	25,000	25,000
Andrew Simpson	500,000	-	(500,000)	27,875	27,875
A Haslam	-	3,500,000	-	3,125	3,503,125
Colin Hunter ** (Resigned 8 July 2008)	500,000	-	(500,000)	-	-
Mark McAuliffe ** (Resigned 13 September 2007)	500,000	-	-	31,875	531,875
Executives					
John Sobolewski	200,000	50,000	(200,000)	-	50,000
Paul Rundel	-	350,000	-	-	350,000
Bruce Pertzell	350,000	-	(350,000)	7,188	7,188
	3,050,000	3,900,000	(2,550,000)	407,563	4,807,563

	Balance 1.07.06	Granted as Remuneration	Options Exercised	Net Change Other *	Balance 30.06.07
Parent Entity Directors					
William Ryan	500,000	-	-	-	500,000
D. Ross Kennedy	500,000	-	-	-	500,000
Andrew Simpson	500,000	-	-	-	500,000
Colin Hunter	500,000	-	-	-	500,000
Mark McAuliffe	500,000	-	-	-	500,000
Executives					
John Sobolewski	300,000	-	(100,000)	-	200,000
Paul Rundel	-	-	-	-	-
Bruce Pertzell	350,000	-	-	-	350,000
	3,150,000	-	(100,000)	-	3,050,000

All options that have vested are exercisable.

* Listed options allotted during rights issue as per Prospectus dated 29 June 2007.

** Final holding represents holding at date of resignation

Notes to the Financial Statements

for the year ended 30 June 2008

22 - RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Disclosures (continued)

(f) Shareholdings

Number of shares held by Directors and Executives

	Balance 1.07.07	Received as Remuneration	Options Exercised	Net Change Other *	Balance 30.06.08
Parent Entity Directors					
William Ryan	5,000,001	-	500,000	625,000	6,125,001
D. Ross Kennedy	400,000	-	500,000	50,000	950,000
Andrew Simpson	446,000	-	500,000	55,750	1,001,750
A Haslam	-	-	-	63,250	63,250
Colin Hunter ** (Resigned 8 July 2008)	400,000	-	500,000	-	900,000
Mark McAuliffe ** (Resigned 13 September 2007)	510,001	-	-	63,749	573,750
Executives					
John Sobolewski	-	-	200,000	(90,000)	110,000
Paul Rundel	-	-	-	-	-
Bruce Pertzal	115,000	-	350,000	(231,625)	233,375
	6,871,002	-	2,550,000	536,124	9,957,126

	Balance 1.07.06	Received as Remuneration	Options Exercised	Net Change Other *	Balance 30.06.07
Parent Entity Directors					
William Ryan	5,000,001	-	-	-	5,000,001
D. Ross Kennedy	400,000	-	-	-	400,000
Andrew Simpson	400,000	-	-	46,000	446,000
Colin Hunter	400,000	-	-	-	400,000
Mark McAuliffe	490,001	-	-	20,000	510,001
Executives					
John Sobolewski	-	-	100,000	(100,000)	-
Paul Rundel	-	-	-	-	-
Bruce Pertzal	115,000	-	-	-	115,000
	6,805,002	-	100,000	(34,000)	6,871,002

* Net change other refers to shares purchased and sold during the financial year.

** Final holding represents holding at date of resignation

Notes to the Financial Statements

for the year ended 30 June 2008

22 - RELATED PARTY TRANSACTIONS (continued)

Other Related Party Disclosures

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
(g) Loans to 100% controlled entities				
Receivables (Note 10)				
Mount Alexander Resources Pty Ltd	-	-	206,990	137,586
North Queensland Tungsten Pty Ltd	-	-	14,691,304	6,716,884
	-	-	14,898,294	6,854,470

Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing. Loans to controlled entities were primarily for the purpose of funding exploration and evaluation activities by those entities. The recoverability of the carrying amount of exploration and evaluation assets and ultimately the loans to and investments in controlled entities is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

23 - ACCUMULATED LOSSES

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accumulated losses at the beginning of the financial year	(2,847,826)	(1,309,557)	(2,764,131)	(1,279,121)
Loss for the year	(2,774,855)	(1,538,269)	(2,689,999)	(1,485,010)
Transfer of reserves upon exercise of options	317,001	-	317,001	-
Accumulated losses at the end of the financial year	(5,305,680)	(2,847,826)	(5,137,129)	(2,764,131)

24 - LEASING COMMITMENTS

a) Finance Lease Commitments (i)				
	2008	2007	2008	2007
	\$	\$	\$	\$
Payable				
- not later than 1 year	42,075	54,516	26,070	38,511
- later than 1 year but not later than 5 years	-	42,075	-	26,070
Minimum lease payments	42,075	96,591	26,070	64,581
Less future finance charges	(1,446)	(6,779)	(839)	(4,241)
Total Lease Liability	40,629	89,812	25,231	60,340

(i) The consolidated entity's finance lease liabilities are secured by the leased assets, as in the event of default, the leased assets revert to the lessor. Leased assets are disclosed in Note 12.

Notes to the Financial Statements

for the year ended 30 June 2008

24 - LEASING COMMITMENTS (continued)

b) Operating Lease Commitments

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Leases as lessee				
Payable				
- not later than 1 year	80,832	76,999	80,832	76,999
- later than 1 year but not later than 5 years	113,755	176,041	113,755	176,041
Total Lease Liability	194,587	253,040	194,587	253,040

25 - JOINT VENTURES

The Consolidated Entity has interests in the following joint ventures:

Tenement Area	Activities	Participation Interest		Carrying Value	
		2008	2007	2008	2007
				\$	\$
Mt Mulgine	Tungsten/ Molybdenum	70%	40%	1,436,553	959,976

The carrying value in the above joint ventures represents exploration expenditure and is included in the total of \$20,811,211 (2007: \$11,736,994) at Note 13. This exploration expenditure has been accounted for in accordance with Note 3(c).

In order to earn 70% of the Mt Mulgine Joint Venture, the Company was required to sole fund \$750,000 of exploration costs within 3 years from the date the Company listed on the ASX. As at 30 June 2008, a total of \$1,021,843 (excluding acquisition costs) has been incurred.

26 - CONTINGENT LIABILITIES

Department of Industry and Resources

Performance Bonds totalling \$24,500 (2007: \$34,500) have been granted in favour of the Department of Industry and Resources.

Notes to the Financial Statements

for the year ended 30 June 2008

27 - RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Loss for the year	(2,774,855)	(1,538,269)	(2,689,999)	(1,485,010)
Non-cash flows in profit:-				
Depreciation	156,120	101,128	74,001	53,374
Options issue expense	756,072	52,363	756,072	52,363
Exploration expenses written off	328,297	-	328,297	-
Changes in assets and liabilities:-				
Decrease / (Increase) in other trade receivables	5,082	27,688	719	33,678
Increase / (Decrease) in trade creditors and accruals	(76,697)	(50,230)	(26,090)	(59,560)
Increase / (Decrease) in provisions	82,865	23,820	89,912	23,820
Net cash from operating activities	(1,523,116)	(1,383,500)	(1,467,088)	(1,381,335)

Notes to the Financial Statements

for the year ended 30 June 2008

28 - EARNINGS PER SHARE

a) Basic Earnings per Share

The calculation of basic earnings per share for the year ended 30 June 2008 was based on the loss attributable to ordinary shareholders of \$2,774,855 (30 June 2007: \$1,538,269) and a weighted number of ordinary shares outstanding during the year ended 30 June 2008 of 104,266,646 (2007: 76,760,688) calculated as follows:

	CONSOLIDATED	
	2008	2007
Loss for the period	(2,774,855)	(1,538,269)
Loss attributable to ordinary shareholders	(2,774,855)	(1,538,269)

Weighted average number of ordinary shares	NUMBER OF SHARES	
	2008	2007
Issued ordinary shares at 1 July 2007	81,050,003	70,050,003
Effect of shares issued on 15 November 2006	-	155,479
Effect of shares issued on 16 November 2006	-	6,501,371
Effect of shares issued on 19 December 2006	-	26,438
Effect of shares issued on 11 May 2007	-	27,397
Effect of shares issued on 4 July 2007	10,879,781	-
Effect of shares issued on 10 July 2007	1,264,481	-
Effect of shares issued on 14 August 2007	10,091,547	-
Effect of shares issued on 12 October 2007	50,109	-
Effect of shares issued on 12 November 2007	315,574	-
Effect of shares issued on 17 December 2007	13,388	-
Effect of shares issued on 18 January 2008	224,044	-
Effect of shares issued on 29 February 2008	116,667	-
Effect of shares issued on 6 March 2008	110,929	-
Effect of shares issued on 2 May 2008	4,030	-
Effect of shares issued on 12 May 2008	21,421	-
Effect of shares issued on 21 May 2008	87,432	-
Effect of shares issued on 26 May 2008	31,557	-
Effect of shares issued on 17 June 2008	5,683	-
Effect of shares issued on 30 June 2008	-	-
Weighted average number of ordinary shares at 30 June 2008	104,266,646	76,760,689

b) Diluted Earnings per Share

As the group has made a loss for the year the options have no dilutive effect. Therefore, diluted earnings per share is equal to basic earnings per share.

Notes to the Financial Statements

for the year ended 30 June 2008

29 - SHARE BASED PAYMENTS

(a) Employee Share Option Plan

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 Plan and the Australian Stock Exchange Limited Listing Rules. Under the Share Scheme the number of shares an eligible person will be entitled to receive each year 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.

As at 30 June 2008, 1,650,000 20 cent, 150,000 55 cent, 175,000 60 cent and 600,000 80 cent employee options have been issued. Of these, 50,000 were cancelled as per the terms and conditions of the scheme, 1,650,000 were exercised as per the terms and conditions of the scheme, and 875,000 remain unconverted to ordinary shares. These options are not listed, may not be traded and lapse within thirty days of an employee leaving the company, or 6 months in the case of death or retrenchment.

The closing market price of an ordinary share of Vital Metals Ltd on the Australian Stock Exchange at 30 June 2008 was \$0.46 (2007: \$0.67).

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	No	No	No	No
(b) Movement in the number of share options held by employees are as follows:				
Opening Balance	4,305,000	4,480,000	4,305,000	4,480,000
Granted during the year	4,100,000	325,000	4,100,000	325,000
Exercised during the year	(3,980,000)	(500,000)	(3,980,000)	(500,000)
Lapsed during the year	(50,000)	-	(50,000)	-
Closing balance	4,375,000	4,305,000	4,375,000	4,305,000

Notes to the Financial Statements

for the year ended 30 June 2008

29 - SHARE BASED PAYMENTS (continued)

(c) Details of share options exercised during the year:

During the year, 3,980,000 (2007:500,000) employee options were exercised at \$0.20 (2007: \$0.20) per share. 50,000 employee options with an exercise price of \$0.60 per share lapsed during the year.

			CONSOLIDATED		THE COMPANY	
			2008	2007	2008	2007
			No	No	No	No
(d) Details of share options outstanding as at end of year:						
Grant Date	Expiry Date	Exercise Price				
31-Mar-05	30-Jun-08	\$0.20	-	2,830,000	-	2,830,000
9-Mar-06	9-Mar-08	\$0.20	-	700,000	-	700,000
1-Jun-06	1-Jun-08	\$0.20	-	450,000	-	450,000
14-Nov-06	14-Nov-08	\$0.55	150,000 (i)	150,000	150,000 (i)	150,000
9-Jan-07	9-Jan-09	\$0.60	62,500 (ii)	87,500	62,500 (ii)	87,500
9-Jan-07	9-Jan-09	\$0.60	62,500 (iii)	87,500	62,500 (iii)	87,500
30-Jul-07	30-Jul-09	\$0.80	300,000 (iv)	-	300,000 (iv)	-
30-Jul-07	30-Jul-09	\$0.80	300,000 (v)	-	300,000 (v)	-
18-Dec-07	3-Jan-11	\$1.02	1,000,000 (vi)	-	1,000,000 (vi)	-
18-Dec-07	3-Jan-11	\$1.15	1,000,000 (vii)	-	1,000,000 (vii)	-
18-Dec-07	3-Jan-11	\$1.33	1,500,000 (viii)	-	1,500,000 (viii)	-
			4,375,000	4,305,000	4,375,000	4,305,000

(i) Vest immediately.

(ii) Vest on 9 July 2007.

(iii) Vest on 9 January 2008.

(iv) Vest on 30 January 2008.

(v) Vest on 30 July 2008.

(vi) Vest on 3 July 2008.

(vii) Vest on 3 April 2009.

(viii) Vest on 3 January 2010.

Optionholders have no voting or dividend rights until shares are allotted pursuant to the exercise of the relevant options.

Notes to the Financial Statements

for the year ended 30 June 2008

29 - SHARE BASED PAYMENTS (continued)

(e) Employee expenses

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Share options granted in 2007 - equity settled (i)	8,404	52,363	8,404	52,363
Share options granted in 2008 - equity settled (ii)	747,668	-	747,668	-
Total expense recognised as employee costs	756,072	52,363	756,072	52,363

Grant Date	Number of Options	Expiry Date (Expected Life)	Fair value per option	Exercise price	Estimated volatility	Risk free interest rate
			\$	\$		
9 January 2007	175,000	9 January 2009	0.1921	0.60	75%	6.15%
14 November 2006	150,000	14 November 2008	0.1810	0.55	75%	5.85%
30 July 2007	600,000	30 July 2009	0.3661	0.80	60%	6.15%
18 December 2007	1,000,000	3 January 2011	0.3080	1.02	60%	6.50%
18 December 2007	1,000,000	3 January 2011	0.2837	1.15	60%	6.50%
18 December 2007	1,500,000	3 January 2011	0.2501	1.33	60%	6.50%

30 - DIVIDENDS

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

31 - SUBSEQUENT EVENTS

No matters or circumstances 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 2008.

Notes to the Financial Statements

for the year ended 30 June 2008

SHAREHOLDERS INFORMATION

AS AT 11 SEPTEMBER 2008

1. The total number of issued fully paid ordinary shares was 109,536,484.

2. The distribution of holdings was:	Fully paid ordinary shares	55c options	60 cent options	80 cent options	\$1.02 options	\$1.15 options
1 - 1,000	85	-	-	-	-	-
1,001 - 5,000	393	-	-	-	-	-
5,001 - 10,000	339	-	-	-	-	-
10,001 - 100,000	755	-	-	4	-	-
100,001 - and over	141	1	1	1	1	1
Total	1,713	1	1	5	1	1
Voting rights	Full	None	None	None	None	None

\$1.33 options

1 - 1,000	-
1,001 - 5,000	-
5,001 - 10,000	-
10,001 - 100,000	-
100,001 - and over	1
Total	1

Voting rights None

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

3. The number of holders of less than a marketable parcel of fully paid shares is 213.

4. Substantial shareholders are Consolidated Minerals Ltd with 14,192,044 shares being 12.96% of the issued capital, Stanley Macdonald with 8,500,000 shares being 7.76% of the issued capital, Breamlea Pty Ltd with 5,929,016 shares being 5.41% of the issued capital and Rytech Pty Ltd with 6,125,000 shares being 5.59% of the issued capital.

Notes to the Financial Statements

for the year ended 30 June 2008

SHAREHOLDERS INFORMATION AS AT 11 SEPTEMBER 2008 (continued)

5. Top 20 Shareholders

Name	Fully paid ordinary shares	% Held of Issued Ordinary Capital
Consolidated Minerals Ltd	12,493,294	11.41
Stanley Allan Macdonald	8,500,000	7.76
Breamlea Pty Ltd	5,929,016	5.41
Rytech Pty Ltd	5,725,000	5.23
Graham Riley	4,410,573	4.03
National Nominees Limited	2,508,706	2.29
Consolidated Minerals Ltd	1,698,750	1.55
Topspeed PL	1,500,000	1.37
Robyn Starkey	1,136,569	1.04
Wythenshawe Pty Ltd	1,046,364	0.96
Kingslane Pty Ltd	1,000,000	0.91
Avela Pty Ltd	1,000,000	0.91
Redross Consultants Pty Ltd	950,000	0.87
Fiona Hunter	900,000	0.82
HSBC Custody Nominees Aust Ltd	886,089	0.81
ANZ Nominees Ltd	854,438	0.78
Beaugemma Pty Ltd	757,722	0.69
McAuliffe Administration	725,000	0.66
Der La Noble Ltd	705,108	0.64
Derek Macauley	701,472	0.64
	53,428,101	48.78

Notes to the Financial Statements

for the year ended 30 June 2008

SHAREHOLDERS INFORMATION AS AT 11 SEPTEMBER 2008 (continued)

6 Schedule of Interests in Mining Tenements

Location	Tenement	Percentage held
Mt Mulgine	M59/566	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	E59/1057	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	M59/386	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	M59/387	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	M59/425	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	P59/1083	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	P59/1084	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	P59/1086	70% Interest in Tungsten and Molybdenum Rights
Mt Mulgine	P59/1087	70% Interest in Tungsten and Molybdenum Rights
Mt Alexander	E08/1074	100% Interest in Tungsten and Molybdenum Rights
Mt Alexander	E08/1410	100% Interest in Tungsten and Molybdenum Rights
Mt Alexander	E08/1411	100% Interest in Tungsten and Molybdenum Rights
Mt Alexander	P08/469	100% Interest in Tungsten and Molybdenum Rights
Mt Alexander	P08/470	100% Interest in Tungsten and Molybdenum Rights
Watershed	MDL 127	100% Interest
Watershed	EPM 14735	100% Interest in Tungsten and Molybdenum Rights
Watershed	EPM 15064	100% Interest

Directors' Declaration

for the year ended 30 June 2008

1. In the opinion of the directors of Vital Metals Ltd ('the Company'):
 - (a) the financial statements and notes [including the remuneration disclosures that are contained in the Remuneration report in the Directors' report] are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
 - (b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2008 pursuant to Section 295A of the Corporations Act 2001.

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:



A Haslam

Director

Dated 15 September 2008

Independent Audit Report



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

Report on the financial report

We have audited the accompanying financial report of Vital Metals Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Audit Report



Auditor's opinion

In our opinion:

- (a) the financial report of Vital Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in paragraphs 9(a) to 9(f) of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Vital Metals Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.


KPMG
T R Hart
Partner

Perth
15 September 2008

Lead Auditor's Independence Declaration



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 audit for the financial year ended 30 June 2008 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

T R Hart
Partner

Perth
15 September 2008



Vital Metals Ltd

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