Vital Metals Ltd

and its Controlled Entities

31 December 2008

Interim Financial Report

Contents

	Page
Directors' report	2
Consolidated interim income statement	4
Consolidated statement of changes in equity	5
Consolidated interim balance sheet	6
Consolidated interim statement of cash flows	7
Condensed notes to the interim financial statements	8
Directors' declaration	14
Review report	15
Lead auditor's independence declaration	17

Directors' report

The directors present the financial report of Vital Metals Ltd ("Company") and its controlled entities ("Consolidated Entity") for the half-year ended 31 December 2008.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Name	Period of directorship
Non-executive	
William J Ryan M.E., F.AusIMM, FAICD Chairman	Appointed 9 December 2004
Donald Ross Kennedy B.Sc. (Hons), F.AusIMM, CPGEO, MAIG, MICA, MGSA, MAICD Non-Executive Director	Appointed 20 January 2005 Resigned 1 September 2008
Andrew V Simpson Grad. Dip. Bus (Curtin), MAICD Non-Executive Director	Appointed 23 February 2005
Colin Hunter BSc, PhD Non-Executive Director	Appointed 23 February 2005 Resigned 8 July 2008
Peter Knowles B.Econ (Monash) Non-Executive Director	Appointed 20 August 2008 Resigned 24 April 2009
Paul Benson B.Sc (Geology) (Curtin) Non-Executive Director	Appointed 17 April 2009
Executive	
Andrew Haslam Grad. Dip. Min, MAICD Managing Director and CEO	Appointed 3 January 2008 Resigned 24 April 2009

Review of operations

The loss for the consolidated entity for the period, after income tax, was $17,106,314 (2007: $1,057,792). The loss of $17,106,314 includes an impairment provision against the capitalised exploration expenditure of $15,846,395 (2007:nil) and share based payments of $449,942 (2007: $756,072).

During the half-year, the activities of the Company have focussed on the evaluation and exploration of the Company's three exploration projects being the Watershed Project in North Queensland which is in the feasibility stage, the Mt Alexander Project in Western Australia and the Mt Mulgine Project also in Western Australia. A concluded feasibility study of the Watershed Project and other evaluations of the other projects assessed the

Directors' report (continued)

current value of the three projects at $7,284,930. An impairment provision against the carrying value of the exploration expenditure has been made to reflect that value.

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

In accordance with the Corporations Act 2001 section 307C the auditors of the Company, KPMG, have provided a signed auditors independence declaration to the directors in relation to the half-year ended 31 December 2008. This declaration has been included on page 16 and forms part of this report.

Signed in accordance with a resolution of the directors:

W J Ryan
Chairman

Dated: 30 April 2009

Consolidated interim income statement

For the six months ended 31 December 2008

	Note	**31 Dec 2008** **$**	**31 Dec 2007** **$**
Other income		800	1,000
Profit on sale of assets		4,658	-
Administrative expenses		(1,247,953)	(1,311,695)
Depreciation		(93,811)	(63,852)
Exploration and evaluation impairment	3	(15,846,395)	-
Loss before income tax and financing costs		(17,182,701)	(1,374,547)
Financial income		77,234	319,793
Financial expenses		(847)	(3,038)
Net financial costs		76,387	316,755
Income tax expense		-	-
Loss for the period attributable to shareholders		(17,106,314)	(1,057,792)
Earnings per share			
Basic and diluted earnings per share (AUD)		(0.16)	(0.01)

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 13.

Consolidated statement of changes in equity

	Note	Attributable to shareholders of the Company			
		Share Capital $	Retained Earnings $	Option Reserve $	Total Equity $
Balance at 1 July 2007		15,526,406	(2,847,826)	359,760	13,038,340
Loss for the period		-	(1,057,792)	-	(1,057,792)
Share issues		13,503,750	-	-	13,503,750
Capital raising expenses		(719,014)	-	-	(719,014)
Exercise of employee options		379,000	-	-	379,000
Transfer of reserve upon exercise of options		-	98,267	(98,267)	-
Issue of options to employees		-	-	222,428	222,428
Balance at 31 December 2007		28,690,142	(3,807,351)	483,921	25,366,712
Balance at 1 July 2008		29,504,818	(5,305,680)	798,831	24,997,969
Loss for the period		-	(17,106,314)	-	(17,106,314)
Share issues		185	-	-	185
Capital raising expenses		(4,630)	-	-	(4,630)
Exercise of employee options		-	-	-	-
Transfer of reserve upon expiry/cancellation		-	1,122,135	(1,122,135)	-
Issue of options to employees	6	-	-	449,942	449,942
Balance at 31 December 2008		29,500,373	(21,289,859)	126,638	8,337,152

The statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 13.

Consolidated interim balance sheet

As at 31 December 2008

	Note	31 Dec 2008 $	30 June 2008 $
Current assets			
Cash and cash equivalents		690,975	4,767,275
Trade and other receivables		122,626	299,726
Total current assets		813,601	5,067,001
Non-current assets			
Property, plant and equipment	4	646,369	744,817
Intangibles – exploration and evaluation assets	3	7,284,930	20,811,211
Total non-current assets		7,931,299	21,556,028
Total assets		8,744,900	26,623,029
Current liabilities			
Trade and other payables		328,823	1,492,684
Interest bearing liabilities		-	40,629
Provisions		78,925	91,747
Total current liabilities		407,748	1,625,060
Total liabilities		407,748	1,625,060
Net assets		8,337,152	24,997,969
Equity			
Issued capital	5	29,500,373	29,504,818
Reserves	6	126,638	798,831
Accumulated losses		(21,289,859)	(5,305,680)
Total equity		8,337,152	24,997,969

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 13.

Consolidated interim statement of cash flows

For the six months ended 31 December 2008

	Note	31 Dec 2008	31 Dec 2007
		$	$
Cash flows from operating activities			
Cash paid to suppliers and employees		(881,246)	(1,113,375)
Other receipts		800	-
Interest paid		(847)	(3,038)
Interest received		84,303	294,594
Net cash used in operating activities		**(796,990)**	**(821,819)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(100,170)	(300,331)
Sale of property, plant and equipment		30,000	-
Payments for exploration and evaluation costs		(3,235,665)	(6,158,605)
Security bonds		30,970	-
Net cash used in investing activities		**(3,274,865)**	**(6,458,936)**
Cash flows from financing activities			
Net proceeds from the issue of share capital		(4,445)	12,784,736
Proceeds from the exercise of share options		-	379,000
Net cash from financing activities		**(4,445)**	**13,163,736**
Net increase/(decrease) in cash and cash equivalents		(4,076,300)	5,882,981
Cash and cash equivalents at 1 July		4,767,275	1,585,696
Cash and cash equivalents at 31 December		**690,975**	**7,468,677**

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 8 to 13.

Condensed notes to the consolidated interim financial report

1. Basis of preparation and accounting policies

Reporting entity

Vital Metals Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report as at and for the six months ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity").

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at Level 1, 335 Hay Street, Subiaco WA 6008 or at www.vitalmetals.com.au.

Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2008.

This consolidated interim financial report was approved by the Board of Directors on 30 April 2009.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Consolidated Entity has incurred a net operating loss after tax for the half-year ended 31 December 2008 of $17,106,314 including an impairment expense of $15,846,395 and share based payments expense of $449,942 (2007 half-year: $1,057,792 including $756,072 share based payments expense) and experienced net cash outflows from operating activities of $796,990 (2007: $821,819).

A Share Purchase Plan was closed on 23 January 2009 and raised a total of $410,000. In April 2009 the directors completed a placement of equity to Aragon Resources Limited (Aragon) raising $436,250 In addition, Aragon have committed to the acceptance of $500,000 of convertible notes in the Company. The issue and terms of these notes is subject to the approval of Vital Metals Ltd shareholders.

However, the Directors recognise that the ability of the Company and the Consolidated Entity to continue as going concerns and to pay their debts as and when they fall due is dependent on the ability of the Company to secure further working capital by the issue of additional equity, debt, the sale of non-core assets, farm out of tenement asset obligations, or a combination of any or all of those alternatives. The Directors consider the going concern basis of preparation to be appropriate and are confident that the Company will successfully raise additional funds in the future to meet its financial obligations and/or farm out commitments as necessary. However, should adequate funding not be available there is significant uncertainty as to whether the Company and Consolidated Entity will continue as a going concern, and therefore may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial report.

Condensed notes to the consolidated interim financial report

1. Basis of preparation and accounting policies (continued)

Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2008.

The financial statements have been prepared on the basis of historical cost. All amounts are presented in Australian dollars, unless otherwise noted.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Changes in accounting policy

From 1 July 2008 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2008. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

- AASB 2008-10 Amendment to Australian Accounting Standards – Reclassification of Financial Assets (amendments to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments Disclosures)
- Interpretation 12 and AASB 2007-2 Service Concession Arrangements and consequential amendments to other Australian Accounting Standards
- Interpretation 129 Service Concession Arrangements: Disclosures
- Interpretation 4 (revised) Determining whether an arrangement contains a lease
- Interpretation 13 Customer Loyalty Programmes
- Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Consolidated Entity has not elected to early adopt any new standards or amendments.

Estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2008.

In the half-year ended 31 December 2008, the Consolidated Entity reassessed its estimates in respect of impairment of exploration and evaluation expenditure (see Note 3). The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Condensed notes to the consolidated interim financial report

2. Segment reporting

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

3. Intangibles – exploration and evaluation

	31 December 2008	30 June 2008
Opening balance	20,811,211	11,736,994
Exploration expenditure incurred in the period	2,320,114	9,402,514
Exploration expenditure written-off	-	(328,297)
Impairment	(15,846,395)	-
Closing balance	**7,284,930**	**20,811,211**

Watershed

The Company recently completed a preliminary feasibility study (Study) for the Watershed Tungsten Project (the Project). The Study includes a net present value cashflow model for the estimated life of the Project. The Directors have assessed the recoverable amount of the Project using the outcomes from the Study derived from key assumptions including a discount rate of 15%, longer term USD exchange rate of $0.65 and tungsten prices $.

The Directors have assessed an appropriate estimate of the Project recoverable amount to be $5,932,000. Accordingly an impairment expense for the period of $14,383,602 has been recognised.

Other Exploration Assets

The Directors have also assessed the carrying value of the Company's other exploration areas of interest. Exploration efforts have not yet reached a stage where a reliable estimate of the future potential of those areas can be made. However, the Directors have determined that, in the current economic environment and in light of the restricted cash resources presently available to the Company to fund continuing exploration, a reduction in carrying value to estimated recoverable account is appropriate.

The resulting carrying value of the Consolidated Entity's other exploration assets is $1,352,930 and an impairment expense of $1,462,793 has been recognised.

4. Property, plant and equipment

The majority of the consolidated entity's property, plant and equipment is utilised for exploration activities on the Consolidated Entity's areas of interest.

Acquisitions and disposals

During the six months ended 31 December 2008 the consolidated entity acquired assets with a cost of $20,705 (six months ended 31 December 2007: $307,568).

During the six months ended 31 December 2008 the Consolidated Entity disposed of assets with a carrying value of $25,342. No assets were disposed of during the six months ended 31 December 2007.

Condensed notes to the consolidated interim financial report

5. Capital

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

Capital

	31 Dec 2008	30 Jun 2008
Ordinary Shares	Number of shares	Number of shares
Issued and fully paid	109,536,484	109,536,253

Movements in ordinary shares on issue	Number of shares
At 1 July 2008	109,536,253
Allotted and issued during the six months	231
Total issued capital at 31 December 2008	109,536,484

6. Reserve & share-based payments

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

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

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

The Consolidated Entity measures the cost of equity settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted.

The fair value of options granted to directors is:

1. recognised as a director's emolument expense with a corresponding increase in equity (share based payments reserve);

2. measured at the grant date using the Binomial option valuation methodology that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option; and

3. adjusted to reflect market vesting conditions. At each reporting date, the Consolidated Entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Condensed notes to the consolidated interim financial report

Reserve & share-based payments

The number of options issued and the assumptions used to determine the fair value of those options issued in the half-year period are:

Options	31 December 2008 Number of options	31 December 2008 $	30 June 2008 Number of options	30 June 2008 $
Opening balance	4,375,000	798,831	4,305,000	256,580
Exercised	-	-	(3,980,000)	(205,764)
Expired or cancelled	(4,000,000)	(687,107)	(50,000)	(8,057)
Issued	2,350,000	14,914	4,100,000	756,072
Closing balance	**2,725,000**	**126,638**	**4,375,000**	**798,831**

During the half-year:

1. 350,000 employee options were cancelled and re-issued on 17 September 2008;
2. 150,000 employee options expired unexercised on 17 September 2008;
3. 3,500,000 options issued to the director, Andrew Haslam, were cancelled on 11 December 2008;
4. 1,500,000 options were issued to the director, Andrew Haslam, on 11 December 2008; and
5. 500,000 options were issued to the director, Peter Knowles, on 11 December 2008.

The fair value of the options issued is determined using the Binomial methodology and applying the following assumptions:

No of options	350,000	2,000,000
Grant date	17 September 2008	21 November 2008
Vesting dates	175,000 17 March 2009 175,000 17 September 2009	21 November 2008
Expiry Date	17 September 2010	30 June 2011
Exercise price	40 cents	40 cents
Share Price at grant date	22 cents	5 cents
Risk-free rate	6.575%	5.25%
Volatility	75%	150%
Fair value at grant date	6.2 cents	2.22 cents

7. Contingencies

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

8. Subsequent events

Except for the following, there are no matters or circumstances that have arisen since the end of the financial period which has significantly affected, or may affect the operations of the Company, the results of those operations, or the state of affairs of the company in financial years subsequent to the financial period ended 31 December 2008:

1. The Share Purchase Plan was closed on 23 January 2009 and raised a total of $410,000; and

2. On 16 April 2009 a placement of 17.45 million ordinary shares was made to Aragon Resources Limited raising $436,250 for working capital. Subject to shareholder approval, the company has received a commitment to raise a further $500,000 from Aragon Resources Limited by the issue of 3 year 6% unsecured notes convertible to ordinary shares on 1 months notice after the first year at the higher of 4 cents per share or 80% of the prior one month volume weighted average share price.

Vital Metals Ltd

Directors' declaration

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

1. the financial statements and notes set out on pages 2 to 13, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the financial position of the Group as at 31 December 2008 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

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

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

W J Ryan
Chairman

Dated: 30 April 2009

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

Report on the financial report

We have reviewed the accompanying interim financial report of Vital Metals Ltd, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a statement of accounting policies and other explanatory notes 1 to 8 and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting 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 interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2008 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Vital Metals Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the half-year period ended on that date; and

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

Inherent uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is material uncertainty which may cast significant doubt as to whether the company and the Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Trevor Hart
Partner

Perth

30 April 2009

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

To: the directors of Vital Metals Ltd

I declare that, to the best of my knowledge and belief in relation to the review for the interim period ended 31 December 2008 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Trevor Hart
Partner

Perth

30 April 2009