



VITAL METALS LTD
ABN 32 112 032 596
INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2010

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2010 and any public announcements made by Vital Metals Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

VITAL METALS LTD

31 DECEMBER 2010

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VITAL METALS LTD

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DIRECTORS' REPORT

Your directors are pleased to present their report on the consolidated entity consisting of Vital Metals Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

DIRECTORS

The names of the directors who held office during or since the end of the half-year, to the date of this report, are:

Mr David Macoboy
Dr Howard Carr
Mr Andrew Simpson
Mr Peter Cordin

REVIEW AND RESULTS OF OPERATIONS

A summary of consolidated revenues and results for the half-year is set out below:

	2010	
	Income	Results
	\$	\$
Consolidated entity income and loss	68,949	(821,377)

During the half year, the Company signed a Shareholder Agreement with Ampella Mining which will provide greater certainty over the Doulunia Gold Project in Burkina Faso

The Company also successfully raised over \$3.35 million in December, with a \$2m oversubscribed placement and a \$1.35 million share purchase plan, demonstrating confidence in the Company's projects.

At the Doulunia Gold Project, the phase 2 drill programme expanded to 12,000m following encouraging results in Phase 1 confirming the prospectivity of the Project. In preparation for the Phase 2 Drill programme, Vital Metals has completed an intensive evaluation of the Doulunia project (as previously reported). The Company has applied tried and tested gold exploration technologies to the definition of Phase 2 drill targets. The coincidence of multiple indicators of gold mineralisation within the Kollo Prospect area convinced the company of the need to commit more resources to the timely drill testing of the identified targets.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.



David Macoboy
Chairman
Perth, 16 March 2011



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

To: the directors of Vital Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 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

Grant Robinson
Grant Robinson
Partner

Perth
16 March 2011

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	Half-year	
		2010	2009
		\$	\$
INCOME			
Net gain on revaluation of financial assets		24,000	-
Sundry income		-	11,192
TOTAL INCOME		24,000	11,192
EXPENSES			
Administration expenses		(568,687)	(596,336)
Exploration expenses			
Depreciation		(62,256)	(73,066)
Impairment of exploration	4	-	(1,088,074)
Exploration expenses written off	4	(259,383)	(145,191)
TOTAL EXPENSES		(890,326)	(1,902,666)
RESULTS FROM OPERATING ACTIVITIES		(866,326)	(1,891,475)
Finance income		44,949	13,964
Finance expenses		-	(14,630)
NET FINANCE INCOME/(COSTS)		44,949	(666)
LOSS BEFORE INCOME TAX		(821,377)	(1,892,141)
Income tax benefit / (expense)		-	-
LOSS FOR THE HALF-YEAR		(821,377)	(1,892,141)
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(78,702)	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		(900,079)	(1,892,141)
Basic and diluted loss per share (cents)		(0.4)	(1.4)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	Note	31 December 2010 \$	30 June 2010 \$
CURRENT ASSETS			
Cash and cash equivalents		4,691,840	2,034,376
Trade and other receivables		151,409	340,541
TOTAL CURRENT ASSETS		4,843,249	2,374,917
NON-CURRENT ASSETS			
Investments		58,000	34,000
Property, plant and equipment		362,917	376,853
Intangible assets – exploration and evaluation	4	7,319,883	7,416,010
TOTAL NON-CURRENT ASSETS		7,740,800	7,826,863
TOTAL ASSETS		12,584,049	10,201,780
CURRENT LIABILITIES			
Trade and other payables		113,301	265,030
Provisions		12,381	3,890
TOTAL CURRENT LIABILITIES		125,682	268,920
NON-CURRENT LIABILITIES			
Provisions		200,000	-
TOTAL NON-CURRENT LIABILITIES		200,000	-
TOTAL LIABILITIES		325,682	268,920
NET ASSETS		12,258,367	9,932,860
EQUITY			
Contributed equity	5	36,742,713	33,517,127
Reserves		64,298	143,000
Accumulated losses		(24,548,644)	(23,727,267)
TOTAL EQUITY		12,258,367	9,932,860

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

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Contributed Equity	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
BALANCE AT 1 JULY 2009	30,336,687	152,475	-	(21,548,367)	8,940,795
Loss for the half-year	-	-	-	(1,892,141)	(1,892,141)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	-	-	(1,892,141)	(1,892,141)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Capital raising expenses	(412)	-	-	-	(412)
Issue of options to employees	-	104,600	-	-	104,600
BALANCE AT 31 DECEMBER 2009	30,336,275	257,075	-	(23,440,508)	7,152,842
BALANCE AT 1 JULY 2010	33,517,127	143,000	-	(23,727,267)	9,932,860
Loss for the half-year	-	-	-	(821,377)	(821,377)
OTHER COMPREHENSIVE LOSS					
Exchange differences on translation of foreign operations	-	-	(78,702)	-	(78,702)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	-	-	(78,702)	(821,377)	(900,079)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Share issues	3,352,000	-	-	-	3,352,000
Capital raising expenses	(126,414)	-	-	-	(126,414)
BALANCE AT 31 DECEMBER 2010	36,742,713	143,000	(78,702)	(24,548,644)	12,258,367

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Half-year	
	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Other receipts	190,693	11,192
Payments to suppliers and employees	(638,299)	(463,887)
Payments of security bonds	(5,625)	-
Interest paid	-	(14,630)
Interest received	44,949	14,354
Net cash outflow from operating activities	(408,282)	(452,971)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of exploration asset	480,000	20,000
Payments for exploration and evaluation costs	(563,738)	(422,585)
Payments for plant and equipment	(92,114)	-
Net cash outflow from investing activities	(175,852)	(402,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of convertible notes	-	500,000
Proceeds from the issue of shares	3,352,000	-
Share issue costs	(110,402)	(412)
Net cash inflow from financing activities	3,241,598	499,588
Net increase/(decrease) in cash and cash equivalents	2,657,464	(355,968)
Cash and cash equivalents at the beginning of the half-year	2,034,376	865,403
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	4,691,840	509,435

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

Vital Metals Ltd (“the Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the “Group”).

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these statements are to be read in conjunction with the annual report for the year ended 30 June 2010. This condensed consolidated interim financial report was approved by the Board of Directors on 16 March 2011.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

NOTE 2: ESTIMATES

The preparation of the interim financial statements require 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.

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 2010.

In the half-year ended 31 December 2010, the Group reassessed its estimates in respect of impairment of exploration and evaluation expenditure (refer Note 4). The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

NOTE 3: SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For management purposes, the Group has identified two reportable segments being exploration activities undertaken in Australia and Burkina Faso. These segments include the activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in these geographic locations.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

	Australia	Burkina Faso	Consolidated Total
	\$	\$	\$
Half-year 2010			
Segment loss	<u>(321,640)</u>	-	<u>(321,640)</u>
Reconciliation of segment loss to net loss before tax:			
Other corporate and administration			<u>(499,737)</u>
Net loss before tax			<u><u>(821,377)</u></u>
Segment assets at 31 December 2010			
Segment operating assets	<u>6,485,566</u>	<u>1,125,334</u>	<u>7,610,900</u>
Reconciliation of segment operating assets to total assets:			
Other corporate and administration assets			<u>4,973,149</u>
Total assets			<u><u>12,584,049</u></u>
Half-year 2009			
Segment loss	<u>(1,306,331)</u>	-	<u>(1,306,331)</u>
Reconciliation of segment loss to net loss before tax:			
Other corporate and administration			<u>(585,810)</u>
Net loss before tax			<u><u>(1,892,141)</u></u>
Segment assets at 30 June 2010			
Segment operating assets	<u>6,704,658</u>	<u>818,055</u>	<u>7,522,713</u>
Reconciliation of segment operating assets to total assets:			
Other corporate and administration assets			<u>2,374,917</u>
Total assets			<u><u>9,897,630</u></u>

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

NOTE 4: INTANGIBLE ASSETS – EXPLORATION AND EVALUATION

	31 December	30 June
	2010	2010
	\$	\$
Opening balance	7,416,010	7,660,499
Exploration expenditure	643,256	1,120,998
Impairment	-	(1,088,074)
Disposal	(480,000)	-
Reversal of impairment	-	30,000
Exploration expenditure written off	(259,383)	(307,413)
	<hr/>	<hr/>
Closing balance	<u>7,319,883</u>	<u>7,416,010</u>

Watershed

Consistent with the 30 June 2010 financial statements, the Group continues to carry the Watershed exploration asset at \$6,224,659.

Other Exploration Assets

The Directors have also assessed the carrying value of the Group's other exploration areas of interest. Where exploration efforts have not yet reached a stage where a reliable estimate of the future potential of those areas can be made, the Directors have determined that a reduction in carrying value to estimated recoverable amount is appropriate.

The resulting carrying value of the Group's other exploration assets is \$1,095,225.

NOTE 5: CHANGES IN EQUITY SECURITIES ON ISSUE

	2010	2010	2009	2009
	Shares	\$	Shares	\$
Issues of ordinary shares during the half-year				
Issued for cash @ 8 cents per share	41,881,250	3,352,000	-	-
Share issue transaction costs	-	(126,414)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>41,881,250</u>	<u>3,225,586</u>	<u>-</u>	<u>-</u>

NOTE 6: CONTINGENCIES

There has been no change in contingent liabilities or contingent assets since the last annual reporting date.

NOTE 7: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2010, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

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DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 11 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Vital Metals Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



David Macoboy
Chairman
Perth, 16 March 2011



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

We have reviewed the accompanying interim financial report of Vital Metals Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information 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.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

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 a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Vital Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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 Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.




Grant Robinson
Partner

Perth
16 March 2011