VITAL METALS LIMITED

ABN 32 112 032 596

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 December 2019

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 2019 and any public announcements made by Vital Metals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*

VITAL METALS LIMITED
31 DECEMBER 2019

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Corporate Information

ABN 32 112 032 596

Directors
Francis Harper (Non-Executive Chairman)
Geoff Atkins (Managing Director)
Evan Cranston (Non-Executive Director)
Phillip Coulson (Non-Executive Director)
Zane Lewis (Non-Executive Director)

Company Secretaries
Sebastian Andre

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Auditors
BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Internet Address
www.vitalmetals.com.au

Stock Exchange Listing
Vital Metals Limited shares are listed on the Australian Securities Exchange (ASX code: VML).

DIRECTORS' REPORT

Your Directors are pleased to present their report on the consolidated entity consisting of Vital Metals Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

DIRECTORS
The names of the directors who held office during or since the end of the half-year, to the date of this report as follows. Directors were in office for this entire period unless otherwise stated.

Mr Geoff Atkins (appointed 22 October 2019)
Mr Evan Cranston (appointed 22 October 2019)
Mr Francis Harper
Mr Phillip Coulson
Mr Zane Lewis

REVIEW AND RESULTS OF OPERATIONS
A summary of consolidated revenues and results for the half-year is set out below:

	2019	
	Income	**Results**
	$	**$**
Consolidated entity income and loss	39,452	(3,263,828)

NECHALACHO RARE EARTHS PROJECT

During the period, the Company completed the acquisition of Cheetah Resources Pty Ltd ("Cheetah") transforming the Company into a near term rare-earth oxides ("REO") producer. Cheetah owns 100% of the mineral rights of the Nechalacho Project above the 150 m elevation level, containing a mineral resource of high-grade light rare earths, very close to surface with excellent potential for low cost extraction (Figure 1).

The Company focused on initial areas of interest in the North T Zone and the high grade Tardiff Zones, which lie within the larger Upper Zone.

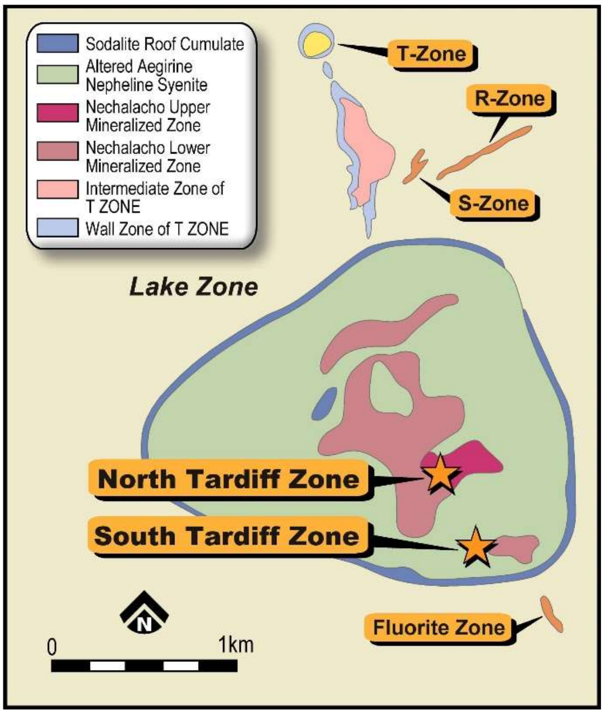

Fig. 1: Location of North T Zone with respect to Upper Zone

DIRECTORS' REPORT

In December 2019, following a geological re-interpretation and creation of new geological wireframes, the Company completed work necessary to re-estimate and update the resource located in the Upper Zone of the Nechalacho deposit in accordance with the JORC 2012 (Table 1). The Upper Zone is estimated to contain combined measured, indicated and inferred mineral resources of 94.7 MT grading 1.46% REO including 0.29% Nd2O3 at a cutoff grade of 0.1% Nd2O3 above the 150 m elevation level.

Contained within the Upper Zone, the high grade Tardiff Zone is estimated to contain combined measured, indicated and inferred mineral JORC 2012 Resource of 3.19 MT @ 2.4% TREO using a cutoff grade of 0.3% Nd2O3.

Upper Zone JORC Resource Table

Confidence Category	*ND2O3 cutoff grade*	*Tonnage*	*REO*	*LREO*	*HREO*	*ND2O3*	*PR6O11*	*NdPr:TREO*
	%	Mt	%	%	%	%	%	%
Measured	0.3	1.094	2.004	1.817	0.186	0.394	0.106	25.0%
	0.1	2.914	1.468	1.326	0.142	0.288	0.077	24.9%
Indicated	0.3	6.246	1.928	1.762	0.166	0.380	0.102	25.0%
	0.1	14.662	1.508	1.372	0.137	0.295	0.080	24.9%
Inferred	0.3	30.945	1.797	1.637	0.161	0.360	0.094	25.3%
	0.1	77.159	1.456	1.323	0.133	0.291	0.077	25.3%
Measured, Indicated and Inferred	0.3	38.285	1.825	1.662	0.162	0.364	0.096	25.2%
	0.1	94.735	1.464	1.330	0.134	0.291	0.078	25.2%

Table 1: Rare Earth Resources in the Upper Zone, Nechalacho deposit

The North T Zone Nechalacho Project Mineral Resources

The North T-Zone of the Nechalacho Rare Earth Project is a separate deposit located approximately 2km north of the centre of the Upper Zone. The North T Zone contains two distinct zones of REE mineralisation, a Bastnaesite Subzone at surface with an underlying Xenotime Subzone.

A new resource estimate for the Bastnaesite and Xenotime Subzones, based on new geological interpretations and a validated historic database, was prepared according to the 2012 version of the JORC code (Table 2). Although the historic assays have been validated by core duplicates and the drill coverage is considered adequate, due to a lack of QAQC records for the historic assays, the resources have been classed as indicated and inferred. The JORC 2012 mineral resource estimate of the Bastnaesite Subzone of the North T-Zone comprises 60,305T at 1.600% Nd2O3 with a 0.3% Nd2O3 cutoff grade. It is important to note that historical drilling only assayed for Nd, Ce and Y.

JORC Resources in Bastnaesite Subzone 1, North T-Zone

Bastnaesite Subzones	**Cutoff grade**	**Tonnage**	**Nd_2O_3**	**CeO_2**	**Y_2O_3**
	Nd_2O_3		**%**	**%**	**%**
Indicated	>0.3%	36,813	1.711	3.615	0.036
Inferred	>0.3%	23,492	1.428	2.612	0.038
Indicated + Inferred	**>0.3%**	**60,305**	**1.600**	**3.224**	**0.037**
Xenotime Subzones	**Y_2O_3**				
Indicated	>0.1%	346,270		0.156	0.271
Inferred	>0.1%	4,700		0.177	0.224
Indicated + Inferred	**>0.1%**	**350,970**	Not Estimated	**0.156**	**0.270**

Table 2: Rare Earth Resources of the North-T Zone Nechalacho. Mineral Resource Estimation

Subsequent to the end of the year, the Company received outstanding results from a 2019 drilling and re-assaying program at its North T resource. Significant results include 2.4m at 38.4% total rare earth oxides (TREO) from 13m, 5.1m at 22.9% TREO from 12m, 5.4m at 19.0% TREO from 2m and 2.4m at 29.6% TREO. The project boasts an impressive light rare earth oxides (LREO) resource of 94.7 million tonnes at 1.46% TREO in the measured, indicated and inferred JORC 2012 categories

Process Testwork and Ore Sorting
Ore beneficiation testwork on the North T Deposit was undertaken during the period which successfully tested sorting into a high grate bastnaesite product containing up to 40% REO. The testwork confirmed the potential of producing a high-grade concentrate from simple, low cost ore-sorting and gravity separation with the ability to produce a mixed rare earth product via traditional rare earth extraction processes.

Leaching Testwork
In addition to the concentration work, the Company also successfully completed leaching testwork on high grade concentrate from the North T deposit during the period. The purpose of this testwork was to confirm the amenability of leaching rare earths contained within concentrate produced by ore sorting via recognised process flowsheets for the treatment of bastnaesite.

High grade bastnaesite samples (~50% REO) were selected from the North T-Zone (of the Nechalacho Rare Earth project.The North T zone is the same zone from which samples were used to undertake ore sorting and gravity beneficiation testwork.

<u>Wigu Hill Project</u>
During the period Cheetah signed a project development and option agreement with Montero Mining & Exploration Ltd ("Montero") a TSXV listed entity, to acquire all of the Intellectual Property ("IP") rights of Wigu Hill (BVI) Ltd, a subsidiary company that owns these rights to develop the Wigu Hill Project located near Kisaki in Tanzania. Cheetah will purchase the rare earths IP rights held by Montero for C$100,000 and fund a C$500,000 work program within 6 months following the issuance of a mining licence.

Cheetah also has an option to acquire Montero's remaining interests in Wigu Hill (BVI) Limited for a total consideration of C$1,100,000 ("Montero Agreement"). Application for a Mining and Prospecting Licence over the area of the previous Retention Licence has been made by a local Tanzanian company, owned by Tanzanians.

On 19 December 2019, the Mining Commission of Tanzania announced the mechanism for the granting of the mining license would be via a public invitation to tender. It is noted that the introduction of this tender did not affect Vital or the agreement with Montero, as the funding of the work program and final payment of C$1,100,000 are contingent on Montero being granted a mining licence over the area previously held under a retention licence by a subsidiary of Montero.

<u>Nahouri Gold Project, Burkina Faso</u>
Vital Metals has suspended all exploration activity in Burkina Faso. The Company notes ongoing security concerns in the country and the State of Emergency declared by the Burkina Faso government for several northern provinces.

<u>Aue Cobalt Project, Germany</u>
During the period there was no exploration activities on the Aue project, The Aue Project is located in the western Erzgebirge area of the German state of Saxony. The permit, comprising an area of 78 sq km is located in the heart of one of Europe's most famous mining regions surrounded by several world class mineral fields. Historical mining and intensive exploration work carried out between from the 1940s and 1980s showed high prospectivity of the Aue permit area for cobalt, tungsten, tin, uranium and silver mineralisation.

CORPORATE

Completion of the Acquisition of Cheetah Resources and Management Changes
During the period, the Company completed the acquisition of Cheetah Resources Pty Ltd ("Cheetah"), with shareholders approving all resolutions at the General Meeting held on 16 October 2019. Upon completion of the acquisition of Cheetah, Mr Geoff Atkins and Mr Evan Cranston were appointed to the Board of the Company as Managing Director and Non-Executive Director respectively.

DIRECTORS' REPORT

Subsequent to the end of the period, Mr Tony Hadley was appointed as Chief Operating Officer of the Company. Mr Hadley is regarded as one of the world's leading experts in rare earth processing outside of China, Tony Hadley has extensive experience in operations, technical development, project design and management, engineering and commissioning.

In conjunction with these appointments and as planned, Executive Director Mr Zane Lewis and Executive Director Mr Phillip Coulson both stepped into Non-Executive Director roles with the Company.

ASX Listing Rule Information

Nechalacho Rare Earth Project

The Company originally announced this resource on 13 December 2019 (Announcement) and confirms that it is not aware of any new information or data that materially affects the information included in the Announcement. All material assumptions and technical parameters disclosed in the Announcement that underpin the estimates continue to apply and have not materially changed.

SUBSEQUENT EVENTS

There has not been any matter or circumstance that have arisen since the end of the period that has significantly affected or may significantly affect, the operations of the Group, the results of the operations, or the state of the affairs of the Group.

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 7.

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

Francis Harper

Francis Harper
Chairman

Perth, 12 March 2020

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DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF VITAL METALS LIMITED

As lead auditor for the review of Vital Metals Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Vital Metals Limited and the entities it controlled during the period.

Neil Smith

Director

Perth, 12 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Half-year 2019 $	Half-year 2018 $
INCOME			
Sundry income		-	4,364
Finance income		39,452	22,088
TOTAL INCOME		39,452	26,452
EXPENSES			
Share-based payments	11	(2,323,377)	(10,978)
Depreciation		(19,116)	(648)
Exploration expenses		(78,751)	(759,080)
Professional Fees		(167,912)	(116,124)
Corporate Compliance		(80,644)	(30,765)
Personnel expenses		(469,523)	(195,536)
Other administration expenses		(171,082)	(106,569)
Finance expenses		(1,276)	(35,911)
Movement in fair value of financial assets		8,400	-
TOTAL EXPENSES		(3,303,281)	(1,229,159)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(3,263,828)	(1,229,159)
Income tax benefit / (expense)		-	-
Net loss for the half-year from contiuing operations		(3,263,828)	(1,229,159)
Profit/(Loss) from discontinued operations, net of tax		-	6,902,849
PROFIT/(LOSS) FOR THE HALF-YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF VITAL METALS LIMITED		(3,263,828)	5,673,690
OTHER COMPREHENSIVE INCOME / LOSS			
Items that may be reclassified subsequently to profit or loss:			
Disposal of reserves from discontinued operations		-	(449,286)
Exchange differences on translation of foreign operations		(50,991)	1,364
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LIMITED		(3,314,819)	5,225,768
Basic and diluted profit/(loss) per share for the half year attributable to members of Vital Metals Limited (cents)		(0.17)	0.32

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
CURRENT ASSETS			
Cash and cash equivalents	4	5,401,935	12,708,796
Trade and other receivables	5	217,163	135,252
Financial Assets		65,205	-
TOTAL CURRENT ASSETS		5,684,303	12,844,048
NON-CURRENT ASSETS			
Property, plant and equipment	6	690,647	-
Right of use asset	7	131,330	-
Exploration and evaluation asset	8	10,761,542	-
TOTAL NON-CURRENT ASSSETS		11,583,519	-
TOTAL ASSETS		17,267,822	12,844,048
CURRENT LIABILITIES			
Trade and other payables	9	589,324	126,717
Provisions		20,509	-
Financial liabilities	7	81,120	-
TOTAL CURRENT LIABILITIES		690,953	126,717
NON-CURRENT LIABILITIES			
Financial liabilities	7	50,980	-
TOTAL NON-CURRENT LIABILITIES		50,980	-
TOTAL LIABILITIES		741,933	126,717
NET ASSETS		16,525,889	12,717,331
EQUITY			
Contributed equity	10	57,645,649	52,845,649
Reserves		4,669,576	2,397,190
Accumulated Losses		(45,789,336)	(42,525,508)
TOTAL EQUITY		16,525,889	12,717,331

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Contributed Equity	Share-Based Payment Reserve	Convertible Note Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total
	$	$	$	$	$	$
BALANCE AT 1 JULY 2018	52,845,649	1,969,513	233,442	463,238	(45,984,642)	9,527,200
Profit for the half-year	-	-	-	-	5,673,690	5,673,690
Transfer to retained earnings	-	-	(233,442)	-	233,442	-
OTHER COMPREHENSIVE INCOME/(LOSS)						
Disposal of Reserves from discontinued operations	-	-	-	(449,286)	-	(449,286)
Exchange differences on translation of foreign operations	-	-	-	1,364	-	1,364
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	-	-	(233,442)	(447,922)	5,907,132	5,225,768
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Share based payments expense	-	10,978	-	-	-	10,978
BALANCE AT 31 December 2018	52,845,649	1,980,491	-	15,316	(40,077,510)	14,763,946
BALANCE AT 1 JULY 2019	52,845,649	2,387,741	-	9,449	(42,525,508)	12,717,331
Profit/(loss) for the half-year	-	-	-	-	(3,263,828)	(3,263,828)
OTHER COMPREHENSIVE INCOME/(LOSS)						
Exchange differences on translation of foreign operations	-	-	-	(50,991)	-	(50,991)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	-	-	-	(50,991)	(3,263,828)	(3,314,819)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Issue of shares	4,800,000	-	-	-	-	4,800,000
Share based payments expense	-	2,323,377	-	-	-	2,323,377
BALANCE AT 31 December 2019	57,645,649	4,711,118	-	(41,542)	(45,789,336)	16,525,889

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

VITAL METALS LIMITED
31 DECEMBER 2019

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-year 2019 $	Half-year 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	68,924	22,088
Payments for exploration and evaluation costs	(78,751)	(940,195)
Payments to suppliers and employees	(785,332)	(495,872)
Net cash inflow / (outflow) from operating activities	(795,159)	(1,413,979)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of asset	-	13,739,705
Transfer to term deposit	-	(9,000,000)
Payments for other costs related to the sale of asset	-	(397,071)
Payments for exploration and evaluation costs	(1,051,618)	-
Cash acquired on acquistion of Cheetah Resources	93,859	-
Purchase of property, plant and equipment	(698,290)	-
Cash provided to Cheetah Resources before acquistion	(3,953,428)	-
Payment to acquire Exploration and evaluation asset	(899,483)	-
Net cash inflow / (outflow) from investing activities	(6,508,960)	4,342,634
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	-	(1,345,350)
Repayment of lease liability	(13,520)	-
Interest paid	-	(57,687)
Proceeds from issue of shares	-	2,000
Net cash inflow / (outflow) from financing activities	(13,520)	(1,401,037)
Net increase/(decrease) in cash and cash equivalents	(7,317,639)	1,527,618
Cash and cash equivalents at the beginning of the half-year	12,708,796	3,218,228
Effects of exchange rate changes on cash and cash equivalents	10,778	928
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	5,401,935	4,746,774

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Vital Metals Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial report of the Group as at, and for the six months ended 31 December 2019 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 2019 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These 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 2019. This consolidated interim financial report was approved by the Board of Directors on 12 March 2020.

1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this report have been set out below.

Accounting policies

The Company has consistently applied the accounting policies as described in the annual report for the year ended 30 June 2019 to all periods presented in the financial statements, except for:

- Exploration and evaluation expenditure for Canadian areas of interests are capitalised (refer Note 8);
- Property, plant and equipment – construction in progress is stated at cost, net of accumulated impairment losses, if any (refer Note 6);
- Assets acquisitions; and
- Initial adoption of AASB 16 regarding leases (described below).

Asset acquisitions

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset. Assets acquired during the period were exploration and evaluation assets.

New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following Standard:

– AASB 16: Leases

The impact of the adoption of this Standard and the respective accounting policies is disclosed in Note 2.

CHANGES IN ACCOUNTING POLICIES

a. Leases

This note describes the nature and effect of the adoption of AASB 16: Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As a result of the changes in the Group's accounting policies, prior year financial statements have been restated.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

The Group as lessor

Upon entering into each contract as a lessor, the Group assesses if the lease is a finance or operating lease.

A contract is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases not within this definition are classified as operating leases.

Rental income received from operating leases is recognised on a straight-line basis over the term of the specific lease.

Initial direct costs incurred in entering into an operating lease (for example, legal cost, costs to set up equipment) are included in the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rental income due under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

When a contract is determined to include lease and non-lease components, the Group applies AASB 15 to allocate the consideration under the contract to each component.

Initial Application of AASB 16: Leases

The Group has adopted AASB 16: Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated.

Based on the assessment by the Group, it was determined there was no impact from the initial adoption of AASB 16 on the Group for the period, except for any leases acquired from the acquisition of Cheetah Resources Pty Ltd (refer Note 8).

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 2019, except for the following:

Asset acquisitions

As part of the accounting for the asset acquisition of Cheetah Resources Pty Ltd, there is signficant judgement made in assessing the fair value of the performance shares granted as consideration for the acquisition as this involved the assessment of the likelihood that the performance conditions will be satisfied.

Recoverability of capitalised Exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION

The consolidated entity has three reportable segment being mineral exploration and prospecting for minerals in Australia, Canada and Burkina Faso.

Half-year 2019	Australia $	Canada $	Burkina Faso $	Consolidated Total $
Segment revenue	-	-	-	-
Reconciliation of segment revenue to total revenue before tax:				
Gain on disposal of subsidiary	-	-	-	-
Other income	-	-	-	-
Interest revenue	39,399	53	-	39,452
Total revenue				39,452
Segment result	39,352	53	(9,103)	30,302
Reconciliation of segment result to net loss before tax:				
Depreciation				(19,116)
Finance expenses				(1,276)
Other corporate and administration				(3,282,140)
Movement in Provision for Diminution of investments				8,400
Net profit/(loss) before tax				(3,263,828)
Segment operating assets	-	12,652,189	-	12,652,189
Reconciliation of segment operating assets to total assets:				
Cash and cash equivalents				5,401,935
Receivables				217,163
Financial Assets				65,205
Right of use asset				131,330
Total assets				18,467,822
Segment operating liabilities	-	610,148	-	601,148
Reconciliation of segment operating liabilities to total liabilities:				
Payables and provisions				8,685
Borrowings				132,100
Total liabilities				741,934

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION (Continued)

Half-year 2018	Australia $	Discontinued Operations $	Burkina Faso $	Consolidated Total $
Segment revenue	4,364	-	-	6,929,301
Reconciliation of segment revenue to total revenue before tax:				
Gain on disposal of subsidiary	-	6,902,849	-	6,902,849
Other income	4,364	-	-	4,364
Interest revenue	22,088	-	-	22,088
Total revenue				6,929,301
Segment result	(376,452)	6,902,849	(350,766)	6,175,630
Reconciliation of segment result to net loss before tax:				
Depreciation				(648)
Finance expenses				(35,911)
Other corporate and administration				(465,382)
Net loss before tax				5,673,690

At 30 June 2019	Australia $	Discontinued Operations $	Burkina Faso $	Consolidated Total $
Segment operating assets	-	-	-	-
Reconciliation of segment operating assets to total assets:				
Cash and cash equivalents				12,708,796
Receivables				135,252
Property, plant & equipment (head office)				-
Total assets				12,844,048
Segment operating liabilities	-	-	12,150	12,150
Reconciliation of segment operating liabilities to total liabilities:				
Payables and provisions (head office)				114,567
Borrowings (head office)				-
Total liabilities				126,717

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 4: CASH AND CASH EQUIVALENTS

	31 December 2019 $	30 June 2019 $
Cash at bank and on hand	5,401,935	708,796
Short-term deposits	-	12,000,000
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	5,401,935	12,708,796

NOTE 5: RECEIVABLES

	31 December 2019 $	30 June 2019 $
Trade debtors	16,906	-
Secuirty deposits	40,560	765
Prepayment	8,513	14,944
Other receivables	151,184	119,543
Total	217,163	135,252

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	31 December 2019 $	30 June 2019 $
Computer Equipment	78,482	-
Accumulated Depreciation	(5,318)	-
	73,164	-
Software Equipment	9,718	-
Accumulated Depreciation	(664)	-
	9,054	-
Construction in progress	608,429	-
Total	690,647	-

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 7: LEASES

	31 December 2019 $	30 June 2019 $
Right of use assets		
Properties	131,330	-
Total right of use assets	131,330	-
Lease liabilities		
Current	81,120	-
Non-current	50,980	-
Total lease liabilities	130,140	-

The Group leases office space as part of its operations. The term of the lease is 24 months at the date of entering the agreement (with 20 months remaining as at 31 December 2019).

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate, which as at 31 December 2019 was 4.91%.

NOTE 8: EXPLORATION AND EVALUATION ASSET

	31 December 2019 $	30 June 2019 $
Opening balance	-	-
Acquistion of Cheetah Resources (i)	9,573,102	-
Exploration expenditure	1,188,440	849,677
Exploration expenditure – expensed	-	(849,677)
Closing balance	10,761,542	-

(i) On the 16 October 2019, shareholders approved the acquisition of Cheetah Resources Pty Ltd, which holds the Nechalacho Project. Exploration and evaluation expenditure in relation to areas of interest in Canada are capitalised.

The acquisition of Cheetah Resources Pty Ltd occurred on 16 October 2019, which was the day of approval. The acquisition has been treated as an asset acquisition via the issue of equity under AASB 2 Share Based Payments ("AASB 2"). The below outlines the consideration and identifiable assets and liabilities acquired at the date of acquisition:

NOTE 8: EXPLORATION AND EVALUATION ASSET (continued)

Consideration:	**$**
400,000,000 Ordinary Shares	4,800,000
400,000,000 Class A Performance Shares[1]	-
400,000,000 Class B Performance Shares[2]	-
Total Consideration	4,800,000
Assets and Liabilities acquired:	
Cash	93,859
Trade and other receivables	81,529
Financial asset	55,995
Exploration Asset	9,573,102
Property, plant and equipment	6,517
Creditors	(173,913)
Loan	(3,937,606)
Other Liabilities	(899,483)
Closing Balance	4,800,000

[1] - The fair value of the Class A performance rights issued is $4,800,000. The probability of conditions being met was assessed 0% at the date of acquisition.
[2] - The fair value of the Class B performance rights issued is $4,800,000. The probability of conditions being met was assessed 0% at the date of acquisition.

In line with the Group's accounting policy the performance shares issued as consideration for the asset acquisition will not be remeasured at each reporting period.

Included in the consideration paid to the vendors are shares and performance rights issued to an entity related to Mr. Geoff Atkins:

- 31,149,849 Fully Paid Ordinary Shares;
- 31,149,849 Class A Performance Rights; and
- 31,149,849 Class B Performance Rights.

NOTE 9: TRADE AND OTHER PAYABLES

	31 December 2019 $	**30 June 2019 $**
Trade creditors	477,342	126,717
Accrued expenses	111,904	-
Other paybles	78	-
Closing balance	589,324	126,717

NOTE 10: CHANGES IN EQUITY SECURITIES ON ISSUE

Movements in shares on issue during the half year	**Number of Shares**	**$**
Beginning of the half year	1,742,611,289	52,845,649
Issued during the half year:		
Fully paid ordinary shares	400,000,000	4,800,000
Less: Transaction costs	-	-
End of the half year	2,142,611,289	57,645,649

Movements in options on issue during the half year	**Options**
Beginning of the half year	163,598,492
Issued during the half year:	
– Exercisable at 2 cents and expiring 22 October 2024*	90,000,000
– Exercisable at 2.5 cents and expiring 22 October 2024*	90,000,000
– Exercisable at 3 cents and expiring 22 October 2024*	90,000,000
Expired during the half year:	
– Exercisable at 1.2 cents and expiring 24 November 2019	(28,931,825)
End of the half year	404,666,667

* Of the total 270,000,000 options issued during the period, 90,000,000 were issued to Director Geoff Atkins and 180,000,000 were issued to Mr Evan Cranston.

NOTE 11: SHARE BASED PAYMENTS

Vital Metals Limited has issued the following share-based payments to consultants/directors.

Set out below are summaries of the options granted:

	Consolidated			
	31 December 2019		**31 December 2018**	
	Number of options	**Weighted average exercise price cents**	**Number of options**	**Weighted average exercise price cents**
Outstanding at the beginning of the half year	163,598,492	1.7	145,028,588	1.8
Employees:				
Granted	337,500,000	0.3	2,666,667	0.2
Forfeited	(28,931,825)	0.1	(14,096,763)	0.3
Brokers:				
Granted	-	-	30,000,000	0.3
Forfeited	-	-	-	-
Outstanding at half year-end	404,666,667	2.0	163,598,492	1.7
Exercisable at half year-end	404,666,667	2.0	163,598,492	1.7

The weighted average remaining contractual life of share options outstanding at the end of the half year was 3.53 years (2018: 2.14 years), and the exercise price ranges from 1.0 to 3.0 cents.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 11: SHARE BASED PAYMENTS (continued)

The fair value of options issued during the half year were calculated by using a black-scholes pricing model applying the following inputs.

	Directors	Directors	Directors
Grant date	16/10/19	16/10/19	16/10/19
Share price at grant date	$0.013	$0.013	$0.013
Exercise price	$0.020	$0.025	$0.030
Life the option (years)	5	5	5
Expected share price volatility	100%	100%	100%
Weighted average risk free interest rate	0.77%	0.77%	0.77%
Fair value per option	$0.0089	$0.0085	$0.0081

	Consultant	Consultant	Consultant
Grant date	21/11/19	21/11/19	21/11/19
Share price at grant date	$0.013	$0.013	$0.013
Exercise price	$0.020	$0.025	$0.030
Life the option (years)	5	5	5
Vesting life (years)	1	2	3
Expected share price volatility	100%	100%	100%
Weighted average risk free interest rate	0.84%	0.84%	0.84%
Fair value per option	$0.0090	$0.0084	$0.0082

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The fair value and grant date of the options is based on historical exercise patterns, which may not eventuate in the future.

For service provider options the value of the service received was unable to be measured reliably and therefore the value was measured by reference to the fair value of the options issued.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated	
	2019	2018
	$	$
Options issued to directors	2,283,917	10,978
Options issued to Employee/Consultant	39,460	-
	2,323,377	10,978

NOTE 11: SHARE BASED PAYMENTS (continued)

Performance Shares

16 October 2019, the Company issued 800,000,000 performance shares which convert to one ordinary share upon completion of the following milestones within:

- 400,000,000 Performance Shares (Tranche 1) with a fair value of $4,800,000 that will convert to one Share on the Company entering into binding offtake for a minimum of 1,000 kgs of contained REO in respect of the Nechalacho Project or Wigu Hill Project within 2 years of the Acquisition completion date; and

- 400,000,000 Performance Shares (Tranche 2) with a fair value of $4,800,000 that will each convert to one Share on the Company commencing mining operations at the Nechalacho Project or Wigu Hill Project within 3 years of the issue of the Tranche 1 performance shares.

The Company assessed the probability of conditions being met at 0% in relation to Tranche 1 and 0% in relation to Tranche 2 as at the date of acquisition. The performance shares issued as part of the acquisition will not be remeasured at each reporting period.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group has capital commitments of $834,520 due in the next 12 months (30 June 2019: nil).

Other than the above, there have been no material changes to commitments and contingences since the previous annual report.

NOTE 13: RELATED PARTY TRANSACTIONS

On 22 October 2019, Mr Geoff Atkins and Mr Evan Cranston were appointed as Managing Director and Non-Executive Director respectively. As part of their agreements with the Company, Mr Geoff Atkins and Mr Evan Cranston are entitled to fees of $270,000 per annum and $60,000 per annum respectively. Mr Atkins and Mr Cranston were also issued options as described in Notes 10 and 11.

Other than the above, there has been no material changes in related party transactions since 30 June 2019.

NOTE 14: EVENTS OCCURING AFTER THE REPORTING PERIOD

There has not been any matter or circumstance that have arisen since the end of the period that has significantly affected or may significantly affect, the operations of the Group, the results of the operations, or the state of the affairs of the Group.

VITAL METALS LIMITED
31 DECEMBER 2019

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 8 to 22 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 2019 and of its performance for the half-year ended on that date; and
2. as set out in Note 1, there are reasonable grounds to believe that Vital Metals Limited 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.

Francis Harper

Francis Harper
Chairman

Perth, 12 March 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Vital Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Vital Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year 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 half-year 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 half-year 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 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Neil Smith

Director

Perth, 12 March 2020