



VITAL METALS LIMITED

ABN 32 112 032 596

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 December 2020

VITAL METALS LIMITED

31 DECEMBER 2020

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Corporate Information

ABN 32 112 032 596

Directors

Evan Cranston (Non-Executive Chairman)

Geoff Atkins (Managing Director)

James Henderson (Non-Executive Director)

Company Secretary

Louisa Martino

Registered Office and Principal Place of Business

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Sydney NSW 2000

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Facsimile: +61 2 8004 8241

Share Register

Automic Registry Services

Level 2, 267 St Georges Terrace

Perth WA 6000

Telephone: 1300 288 664

Facsimile: (08) 9321 2337

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).

VITAL METALS LIMITED

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DIRECTORS' REPORT

Your Directors are pleased to present their report on the consolidated entity consisting of Vital Metals Limited ("Vital" or the "Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

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 as follows. Directors were in office for this entire period unless otherwise stated.

Mr Geoff Atkins

Mr Evan Cranston

Mr Francis Harper (resigned 4 August 2020)

Mr Phillip Coulson (resigned 20 December 2020)

Mr Zane Lewis (resigned 4 August 2020)

Mr James Henderson (appointed 4 August 2020)

REVIEW AND RESULTS OF OPERATIONS

Financial results

The loss for the consolidated entity after providing for income tax amounted to \$3,290,842 (2019: loss \$3,263,828).

Financial position

At 31 December 2020, the consolidated entity had cash reserves of \$6,075,761 (2019: \$1,756,773).

Dividends

There were no dividends paid, recommended or declared during the current period or previous financial year.

OPERATIONS REVIEW

Nechalacho Rare Earths Project, Canada

Vital's focus during the reporting period continued to be the evaluation and exploration of its 100%-owned Nechalacho Rare Earths Project in Yellowknife, Northwest Territories ("NWT"), Canada where it is targeting commencement of rare earth oxide production in 2021.

In December 2020, Vital announced it had signed a binding term sheet setting out in-principle terms for an offtake and profit-sharing agreement in respect of raw material from the Nechalacho mine between the Company and Norwegian REE separation company REEtec AS ("REEtec").

Both companies agreed on a pricing mechanism to secure each party a guaranteed minimum payment, equal to their cost of production, plus a share of the margin. The margin results from the actual sales price achieved by REEtec less the combined guaranteed minimum payments and the transportation costs of finished products for both Vital and REEtec.

The rights and obligations in the term sheet are subject to both Vital and REEtec proceeding with a final investment decision ("FID") for the development of their respective commercial plants (with raw material sourced from the Nechalacho mine) and the completion of agreed stages to delivery of product.

Subject to the successful completion of the construction of a mining and processing facility at the Nechalacho project site and commissioning of REEtec's commercial plant, Vital will sell Vital Product to REEtec and REEtec will purchase such product according to terms and conditions set out in the definitive agreement.

Vital's definitive agreement with REEtec was executed subsequent to the reporting period, announced on the ASX platform on 2 February 2021.

Under the definitive Offtake Agreement Vital Metals will provide REEtec mixed rare earth carbonate product containing an annual volume of 1,000 REO (ex-Cerium) over five years. Both parties have an option to increase this offtake volume by up to 5,000 tonnes REO per annum over 10 years (subject to a corresponding supply agreement).

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DIRECTORS' REPORT

Offtake volumes will be calculated based on the quantities of rare earth contained within a mixed rare earth carbonate product, excluding any cerium (ex-Cerium) which typically accounts for approximately 50% of total rare earths.

During the half-year Vital also announced the signing of a binding Term Sheet between its 100%-owned subsidiary Cheetah Resources ("Cheetah") and Saskatchewan Research Council ("SRC"). The Term Sheet provides that the parties will negotiate and enter into two definitive agreements: one for the design, procurement, construction and commissioning of the Plant (the "EPCM Agreement"); and a second for the operation of the Plant (the "Processing Agreement") (together, the "Definitive Agreements") which will address the scope of services, capital cost estimate, and permits/approvals.

The plant is expected to be fully operational in late 2022 with construction anticipated to commence in Quarter 4 2021.

Cheetah and SRC agreed that engineering works would proceed in parallel with the finalisation of the EPCM Agreement to define the following:

- Process design criteria;
- Process flow sheet finalisation;
- Mechanical equipment list; and
- Procure long-lead time items.

In addition, during the half-year the Company undertook site establishment and upgrade works in preparation of the commencement of mining and processing activities at Nechalacho in 2021. Key activities included:

- Site clearing above the future pit;
- Site geotechnical investigations to finalise mine plan;
- Dewatering of the proposed pit;
- Ore sorter base and substructure delivered to land use area;
- Camp upgrade works;
- Commencement of ice road construction;
- Bulk sampling and met testwork program underway by SGS;
- Mine preparations for mining operations, finalisation of mine plan and completion of project management plan work.

Wigu Hill Project, Tanzania

The Company continued discussions with the Tanzanian Government regarding the issuance of a Mining Licence (ML) for the Wigu Hill rare earth project during the period.

Nahouri Gold Project, Burkina Faso

Vital suspended all exploration activity in Burkina Faso during the period following ongoing security concerns and a State of Emergency declared by the Burkina Faso government for several northern provinces. Activities are yet to resume.

Aue Cobalt Project, Germany

There were no exploration activities at Vital's Aue project during the period.

VITAL METALS LIMITED

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DIRECTORS' REPORT

CORPORATE

Placement completed

In late September, Vital announced it had received firm commitments to raise A\$8.0 million (before costs) in new equity via a fully committed share placement of 400 million shares at \$0.02/share to institutional, sophisticated and professional investors ("Placement").

Vital is using net proceeds from the Placement to progress the Company towards commencing processing operations in Q2 CY2021 including the purchase of the ore sorter, sampling and met testwork, extraction plant EPCM and for general working capital.

Strong demand for the Placement resulted in additional funds being raised which will be used to accelerate further exploration work at the Tardiff zone within the Company's Nechalacho Project.

Board changes

In August, Vital announced changes to its Board, as the Company progresses to rare earth oxide production, with the appointment of James Henderson as a Non-Executive Director. Mr Henderson is the founder and Chairman of Transocean Group, established in 1987. He has more than 35 years' experience in providing financial advisory services in Australia and overseas across a wide range of industries including medical devices, aged care, clean energy and natural resources. He assisted Lynas Corporation to raise \$75 million to commence construction in Australia and Malaysia, and was the corporate adviser to West Africa Lime Company Ltd in its debt and equity raisings, totalling approximately \$64 million.

Upon the appointment of Mr Henderson, Mr Francis Harper and Mr Zane Lewis retired as Directors of the Company. With the retirement of Mr Harper, Vital appointed Mr Evan Cranston as Non-Executive Chairman.

In December, Mr Phillip Coulson resigned as a Director of the Company to focus on other business interests.

Performance Shares

The Company has the following Performance Shares on issue as at 31 December 2020:

	Performance Shares – Tranche A	Performance Shares – Tranche B
Number of Performance Shares on Issue	400,000,000	400,000,000
Summary of Terms of the Performance Shares	Convert into Ordinary Shares (1:1) upon the Company entering into a binding offtake agreement/s with an unrelated third party purchaser/s with demonstrated capacity to complete for a minimum of 1,000 kgs of contained REO within 2 years of the Completion Date (16 October 2019)	Convert into Ordinary Shares (1:1) upon the commencement of mining operations (based on a mining plan approved by the Company), within 3 years of the issue of the Tranche A Performance Shares. If this milestone is satisfied, the Tranche A milestone will automatically be deemed to have been satisfied

The Directors have determined that the performance terms for both Tranches have not been met as at 31 December 2020.

SUBSEQUENT EVENTS

On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during FY2021.

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DIRECTORS' REPORT

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2021 financial year.

Since the end of half year the Company has signed a Definitive Offtake agreement with REEtec and a mining contract with Det'on Cho Nahanni Construction to commence mining at Nechalacho in March 2021. The Offtake agreement with REEtec is on the same terms as the binding term sheet signed in December 2020 and discussed under Operations Review above. The rights and obligations under the definitive Offtake Agreement are subject to both Vital Metals and REEtec proceeding with a final investment decision for the development of their respective commercial plants (with raw materials sourced from Vital) and the completion of the agreed stages as set out in the agreement dated 21 December 2020.

The contract to commence mining signed with Det'on Cho Nahanni Construction includes mobilisation to site by end of March 2021. The scope of the mining contract includes mining, site clearing, preparation of retention ponds, site roads, ROM pads and crushing and screening.

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.



Evan Cranston
Chairman

Perth, 16 March 2021

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 2020, 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

BDO Audit (WA) Pty Ltd
Perth, 16 March 2021

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Note	Half-year	
		2020	2019
		\$	\$
INCOME			
Sundry income		219,244	-
Finance income		2,201	39,452
TOTAL INCOME		<u>221,445</u>	<u>39,452</u>
EXPENSES			
Share-based payments	7	(2,030,959)	(2,323,377)
Depreciation		(63,769)	(19,116)
Exploration expenses		(88,712)	(78,751)
Professional fees		(230,330)	(167,912)
Corporate compliance		(134,037)	(80,644)
Personnel expenses		(611,743)	(469,523)
Other administration expenses		(337,060)	(171,082)
Finance expenses		(4,925)	(1,276)
Loss on sale of financial asset		(10,752)	-
Movement in fair value of financial assets		-	8,400
TOTAL EXPENSES		<u>(3,512,287)</u>	<u>(3,303,281)</u>
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX			
		(3,290,842)	(3,263,828)
Income tax benefit / (expense)		-	-
LOSS FOR THE HALF-YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF VITAL METALS LIMITED		<u>(3,290,842)</u>	<u>(3,263,828)</u>
OTHER COMPREHENSIVE INCOME / LOSS			
Items that may be reclassified subsequently to loss:			
Exchange differences on translation of foreign operations		(736,879)	(50,991)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LIMITED		<u>(4,027,721)</u>	<u>(3,314,819)</u>
Basic and diluted loss per share for the half year attributable to members of Vital Metals Limited (cents)		(0.15)	(0.17)

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

VITAL METALS LIMITED

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Note	31 December 2020 \$	30 June 2020 \$
CURRENT ASSETS			
Cash and cash equivalents	4	6,075,761	1,756,773
Trade and other receivables		448,103	391,116
Financial Assets		-	56,000
TOTAL CURRENT ASSETS		6,523,864	2,203,889
NON-CURRENT ASSETS			
Property, plant and equipment		2,148,203	1,527,769
Right of use asset		52,526	91,928
Exploration and evaluation asset	5	13,567,334	12,467,416
TOTAL NON-CURRENT ASSETS		15,768,063	14,087,113
TOTAL ASSETS		22,291,927	16,291,002
CURRENT LIABILITIES			
Trade and other payables		648,814	446,947
Provisions		55,223	80,425
Financial liabilities		21,074	6,130
TOTAL CURRENT LIABILITIES		725,111	533,502
NON-CURRENT LIABILITIES			
Financial liabilities		-	13,975
TOTAL NON-CURRENT LIABILITIES		-	13,975
TOTAL LIABILITIES		725,111	547,477
NET ASSETS		21,566,816	15,743,525
EQUITY			
Contributed equity	6	65,465,702	57,645,649
Reserves		6,496,057	5,201,977
Accumulated Losses		(50,394,943)	(47,104,101)
TOTAL EQUITY		21,566,816	15,743,525

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

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Contributed Equity \$	Share-Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Retained Earnings \$	Total \$
BALANCE AT 1 JULY 2019	52,845,649	2,387,741	9,449	(42,525,508)	12,717,331
Loss for the half-year	-	-	-	(3,263,828)	(3,263,828)
Other Comprehensive Loss					
Exchange differences on translation of foreign operations	-	-	(50,991)	-	(50,991)
Total Comprehensive 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
BALANCE AT 1 JULY 2020	57,645,649	4,890,659	311,318	(47,104,101)	15,743,525
Loss for the half-year	-	-	-	(3,290,842)	(3,290,842)
Other Comprehensive Loss					
Exchange differences on translation of foreign operations	-	-	(736,879)	-	(736,879)
Total Comprehensive Loss for the Period	-	-	(736,879)	(3,290,842)	(4,027,721)
Transactions with Owners in their Capacity as Owners					
Issue of shares (net of cap raising costs)	7,820,053	-	-	-	7,820,053
Share based payments expense	-	2,030,959	-	-	2,030,959
BALANCE AT 31 DECEMBER 2020	65,465,702	6,921,618	(425,561)	(50,394,943)	21,566,816

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Half-year	
	2020	2019
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	2,201	68,924
Government incentives received	219,244	-
Payments for exploration and evaluation costs	(88,712)	(78,751)
Payments to suppliers and employees	(1,233,135)	(785,332)
Interest paid	(4,925)	-
Net cash inflow / (outflow) from operating activities	(1,105,327)	(795,159)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets	45,248	-
Payments for exploration and evaluation costs	(1,720,782)	(1,051,618)
Cash acquired on acquisition of Cheetah Resources	-	93,859
Purchase of property, plant and equipment	(680,921)	(698,290)
Cash provided to Cheetah Resources before acquisition	-	(3,953,428)
Payment to acquire Exploration and evaluation asset	-	(899,483)
Net cash inflow / (outflow) from investing activities	(2,356,455)	(6,508,960)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of lease liability	(39,177)	(13,520)
Proceeds from exercise of options	342,500	-
Proceeds from issue of shares	7,477,552	-
Net cash inflow / (outflow) from financing activities	7,780,875	(13,520)
Net increase/(decrease) in cash and cash equivalents	4,319,093	(7,317,639)
Cash and cash equivalents at the beginning of the half-year	1,756,773	12,708,796
Effects of exchange rate changes on cash and cash equivalents	(105)	10,778
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	6,075,761	5,401,935

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

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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 2020 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 2020 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 2020. This consolidated interim financial report was approved by the Board of Directors on 12 March 2021.

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 2020 to all periods presented in the financial statements.

New and Amended Standards Adopted by the Group

In the half-year ended 31 December 2020, the Company 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 2020.

It has been determined by the Company 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 Company accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2020. 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 necessary to Company 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 2020.

VITAL METALS LIMITED

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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.

	Australia		Canada		Burkina Faso		Consolidated Total	
	December		December		December		December	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Segment income	58,587	-	160,657	-	-	-	219,244	-
Interest revenue	2,201	39,399	-	53	-	-	2,201	39,452
Total revenue	60,788	39,399	160,657	53	-	-	221,445	39,452
Segment loss	(3,019,680)	(3,233,632)	(271,162)	(7,204)	-	(22,992)	(3,290,842)	(3,263,828)
Net profit/(loss) before tax	(3,019,680)	(3,233,632)	(271,162)	(7,204)	-	(22,992)	(3,290,842)	(3,263,828)

	Australia		Canada		Burkina Faso		Consolidated Total	
	December	June	December	June	December	June	December	June
	2020	2020	2020	2020	2020	2020	2020	2020
	\$	\$	\$	\$	\$	\$	\$	\$
Segment assets	6,201,414	1,704,737	16,054,964	14,550,716	35,549	35,549	22,291,927	16,291,002
Segment liabilities	382,530	350,100	385,519	240,315	(42,938)	(42,938)	725,111	547,477

NOTE 4: CASH AND CASH EQUIVALENTS

	31 December	30 June
	2020	2020
	\$	\$
Cash at bank and on hand	6,075,761	1,756,773
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<u>6,075,761</u>	<u>1,756,773</u>

NOTE 5: EXPLORATION AND EVALUATION ASSET

	31 December	30 June
	2020	2020
	\$	\$
Opening balance	12,467,416	-
Acquisition of Cheetah Resources	-	9,573,102
Exploration expenditure	1,870,173	3,209,872
Exploration expenditure – expensed	(88,712)	(172,658)
Exchange rate difference	(681,543)	(142,900)
Closing balance	<u>13,567,334</u>	<u>12,467,416</u>

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 6: CHANGES IN EQUITY SECURITIES ON ISSUE

Movements in shares on issue during the half year	Number of Shares	\$
Beginning of the half year	2,142,611,289	57,645,649
Issued during the half year:		
Shares issued on placement	400,000,000	8,000,000
Shares issued on exercise of options	29,083,333	342,500
Shares issued on conversion of performance rights	57,500,000	-
Less: Transaction costs	-	(522,447)
End of the half year	2,629,194,622	65,465,702

Movements in options on issue during the half year

	Options
Beginning of the half year	472,166,667
Issued during the half year:	
= Exercisable at 2 cents and expiring 31 January 2024	20,000,000
- Exercisable at 2.5 cents and expiring 31 January 2024	20,000,000
- Exercisable at 3 cents and expiring 31 January 2024	20,000,000
- Exercisable at 2 cents and expiring 31 January 2025*	6,000,000
- Exercisable at 2 cents and expiring 31 January 2025**	6,000,000
- Exercisable at 3 cents and expiring 31 January 2025***	6,000,000
- Exercisable at 3 cents and expiring 24 December 2023	5,000,000
Exercised during the half year:	
- Exercised at 1 cent and expiring 17 November 2021	(18,750,000)
- Exercised at 1.5 cents and expiring 19 July 2022	(10,333,333)
End of the half year	526,083,334

* Vest 24 December 2021, ** Vest 24 December 2022, *** Vest 24 December 2023

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 7: SHARE BASED PAYMENTS

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

Set out below are summaries of the options granted:

	Consolidated			
	31 December 2020			31 December 2019
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the half year	472,166,667	2.3	163,598,492	1.7
Directors / Employees:				
Granted	78,000,000	2.5	337,500,000	0.3
Forfeited	-	-	(28,931,825)	0.1
Consultants:				
Granted	5,000,000	3.0	-	-
Forfeited	-	-	-	-
Exercised	(29,083,333)	1.3	-	-
Outstanding at half year-end	526,083,334	2.4	404,666,667	2.0
Exercisable at half year-end	488,583,334	2.4	404,666,667	2.0

The weighted average remaining contractual life of share options outstanding at the end of the half year was 3.22 years (2019: 3.53 years), and the exercise price ranges from 1.0 to 3.0 cents.

Performance shares

On 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.

The Directors have determined that the performance terms for both Tranches have not been met as at 31 December 2020.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 7: 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.

	<u>Directors</u>	<u>Directors</u>	<u>Directors</u>
Grant date	26/11/20	26/11/20	26/11/20
Share price at grant date	\$0.036	\$0.036	\$0.036
Exercise price	\$0.020	\$0.025	\$0.030
Life the option (years)	4	4	4
Vesting life (years)	Immediately	Immediately	Immediately
Expected share price volatility	117.8%	117.8%	117.8%
Weighted average risk free interest rate	0.29%	0.29%	0.29%
Fair value per option	\$0.0297	\$0.0289	\$0.0282

	<u>Employee</u>	<u>Employee</u>	<u>Employee</u>
Grant date	26/11/20	26/11/20	26/11/20
Share price at grant date	\$0.036	\$0.036	\$0.036
Exercise price	\$0.020	\$0.025	\$0.030
Life the option (years)	4	4	4
Vesting life (years)	1	2	3
Expected share price volatility	117.8%	117.8%	117.8%
Weighted average risk free interest rate	0.29%	0.29%	0.29%
Fair value per option	\$0.0297	\$0.0289	\$0.0282

	<u>Consultant</u>
Grant date	24/12/20
Share price at grant date	\$0.03
Exercise price	\$0.03
Life the option (years)	3
Vesting life (years)	Immediately
Expected share price volatility	117.4%
Weighted average risk free interest rate	0.34%
Fair value per option	\$0.0208

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. These options vested immediately on issue date.

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 7: SHARE BASED PAYMENTS (continued)

(b) Expenses arising from share-based payment transactions

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

	Consolidated	
	December 2020	December 2019
	\$	\$
Options issued to directors (vested)	1,737,991	2,283,917
Options issued to employee (vested)	189,149	-
Options issued to consultant	103,819	39,460
	<u>2,030,959</u>	<u>2,323,377</u>

NOTE 8: COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group has capital commitments of \$1,676,000 due in the next 12 months (30 June 2020: \$689,939).

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

NOTE 9: RELATED PARTY TRANSACTIONS

During the period a sum of \$58,672 was paid to Transocean Securities (Transocean), a firm involved in the provision of merger and acquisition advisory services to the natural resource sector. Transocean provided project management and other management support services as well as advisory services and office rental. James Henderson is a Director and shareholder of Transocean.

During the half year a total of 60,000,000 options were issued to James Henderson who is a Director of the Company. The issue of Director options to James Henderson was approved by shareholders at the Annual General Meeting held on 26 November 2020.

Other than the above, there has been no material changes in related party transactions since 30 June 2020.

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 10: EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during FY2021.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2021 financial year.

Since the end of half year the company has signed a Definitive Offtake agreement with REEtec and a mining contract with Det'on Cho Nahanni Construction to commence mining at Nechalacho in March 2021. The offtake agreement with REEtec includes the supply of 1,000t REO(ex-Cerium)/year for a period of 5 years. Both parties have an option to increase this offtake volume by up to 5,000 tonnes REO per annum over 10 years (subject to a corresponding supply agreement). The rights and obligations under the definitive Offtake Agreement are subject to both Vital Metals and REEtec proceeding with a final investment decision for the development of their respective commercial plants (with raw materials sourced from Vital) and the completion of the agreed stages as set out in the agreement dated 21 December 2020.

The contract to commence mining signed with Det'on Cho Nahanni Construction includes mobilisation to site by end of March 2021. The scope of the mining contract includes mining, site clearing, preparation of retention ponds, site roads, ROM pads and crushing and screening.

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.

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DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 8 to 18 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 2020 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.



Evan Cranston

Chairman

Perth, 16 March 2021

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 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant 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 accompanying half-year financial report of the Company does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the 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 gives a true and fair view is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Neil Smith', is written over a small, faint BDO logo.

Neil Smith

Director

Perth, 16 March 2021