VITAL METALS LIMITED

ABN 32 112 032 596

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2021

DIRECTORS' REPORT

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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

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Auditors
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Perth WA 6000

Website
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Stock Exchange
Vital Metals Limited shares are listed on the Australian Securities Exchange (ASX code: VML) and the OTCQB (OTCQB: VTMXF).

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 2021.

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 James Henderson

REVIEW AND RESULTS OF OPERATIONS

Financial results
The loss for the consolidated entity after providing for income tax amounted to $2,806,248 (2020: loss $3,290,842).

Financial position
At 31 December 2021, the consolidated entity had cash reserves of $18,115,575 (June 2021: $34,906,990).

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

OPERATIONS REVIEW

Nechalacho Rare Earths Project, Canada

During the half year, Vital completed a maiden mining campaign at its 100%-owned Nechalacho Rare Earths Project in Yellowknife, Northwest Territories ("NWT"), Canada.

Local contract mining company Det'on Cho Nahanni Construction mined nearly 58,000 tonnes of ore from the North T pit at Nechalacho during a five-month campaign, totalling about two thirds (68%) of overall material planned to be mined during the campaign, with 408,000 tonnes of the planned 599,000 tonnes mined.

While mining volumes were lower than planned, Vital's ore sorter at Nechalacho exceeded expectations, enabling the Company to successfully sort lower-grade material previously below the resource cut-off not included in the mine plan. Vital also intersected a high-grade zone, the 'dragon's tail', at North T during mining which has prompted the Company to review its mine plan. This mine plan redesign is scheduled to occur through 2022.

Mining operations at Nechalacho ceased in October 2021 and equipment demobilised from site.

Vital produced more than 1,000 bags of beneficiated product at site, each totalling 1,000kg of material. The first of these bags have arrived in Saskatoon to be processed at Vital's rare earths extraction plant, which is under construction.

In addition, it has stockpiled nearly 11,000m^3 of material on site at Nechalacho, comprising high-grade (1,630m^3) and low-grade (4,240m^3) crushed material and fines (4,770m^3), which it will process on site.

During drilling on Nechalacho's Tardiff Zone to design a mine plan for Stage 2 operations, Vital reported outstanding first-pass assay results from the Tardiff Zones 2 and 3. The results added potential to extend the mine life of the Nechalacho project significantly, with further drilling needed to better define the Tardiff zones, which remain open in all directions.

DIRECTORS' REPORT

Saskatoon rare earth extraction plant

Vital commenced development of its rare earth extraction facility in Saskatoon, Saskatchewan, Canada, during the period, procuring equipment based on a start-up production capacity of 1,000t/yr excluding cerium (equivalent to 470t/yr of NdPr) with Stage 2 expansion capacity of 2,000t/yr excluding cerium (940t/yr NdPr). This represents a plant throughput 50% larger than initially planned, with the expanded capacity providing Vital with the opportunity to further double its production capacity.

Through its equipment specification and procurement, Vital has considered which equipment is necessary for initial plant production and requirements for an expanded plant throughput in Stage 2. Of equipment procured, Vital has oversized some items to satisfy the requirements for expanded operations.

Vital engaged an experienced "Principal's Representative" to oversee the Project's delivery and work with Halyard in project managing the delivery of the works. In addition, Vital signed an agreement with the Saskatchewan Research Council (SRC) to provide technical support with the construction and operation of the plant and ensure ongoing collaboration between Vital and SRC as it develops the SRC Rare Earth Processing Facility nearby.

Construction of the plant continued through the December quarter with all major equipment ordered and deliveries commencing, however there were several delays due to shipping bottlenecks which affected progress, and first feed into the plant was delayed. However, this is not anticipated to impact the first production of RE carbonate in June 2022.

Acquisition of heavy rare earths projects

Vital signed a binding term sheet with Quebec Precious Metals Corporation (TSX.V: QPM, OTCQB: CJCFF, FSE: YXEP) ("QPM")) to acquire QPM's 68% interest in the Kipawa exploration project and 100% interest in the Zeus exploration project (the "Projects") for C$8m, payable over four years. Joint Venture partner Investissement Québec ("IQ") holds the remaining 32% of the Kipawa project on a contributing basis.

The Project's total 73 claims over 43km^2 lie in the Grenville geological province, approximately 55km south of the geological contact with the Superior geological province. The lithologies consist mainly of gneiss with a grade of metamorphism ranging from the greenschist facies to the amphibolite-granulite facies.

Kipawa is a heavy rare earths project, located 50km from Temiscaming in Quebec, with a non-JORC compliant Mineral Resource Estimate[1]. It is defined by three enriched horizons within the "Syenite Complex", which contains some light rare earth oxides but primarily heavy rare earth oxides.

Drilling since 2011 totals 293 drill holes (24,571m) and was used to prepare a feasibility study which was completed by Matamec Explorations Inc. in 2013.

Twelve heavy rare earth showings have been identified on the Zeus project, some of which contain niobium and tantalum.

The acquisition is expected to be completed by the end of December 2022, subject to due diligence.

Rare earth offtake agreements

Vital amended its offtake agreement with Norway-based REEtec AS ("REEtec"), increasing the volume of product sold to REEtec by 50%.

[1] ASX Announcement 11 August 2021: Vital Metals Ltd enters agreement to acquire heavy rare earths projects

DIRECTORS' REPORT

Under the amended agreement, Vital will sell to REEtec rare earth carbonate product containing a minimum of 750t Neodymium/Praseodymium (NdPr), contained within 2,000t/year total rare earth oxides (TREO) with a maximum of 25% Cerium. This represents a total of 75% of Vital's expanded operation at its Saskatoon rare earths extraction plant and represents a 50% increase in the product to be supplied under the existing Definitive Offtake Agreement announced in February 2021.

The amended agreement extends Vital's product sales to REEtec to 2028 and provides the option to further expand operations during an additional 10-year long-term supply agreement to provide up to 2,500t NdPr per annum contained within ~6,800 tonnes TREO (containing a maximum 25% cerium).

In addition, Vital signed a non-binding Memorandum of Understanding ("MOU") with rare earth processing technology developer Ucore Rare Metals Inc. (TSX-V: UCU, OTCQX: UURAF, "Ucore") for the supply of rare earth carbonate.

Ucore is focused on developing rare earth processing technologies through its ALASKA2023 project, with the goal of fostering an independent American REE supply chain and it aims to secure a US allied REE feedstock source.

The main terms of the non-binding MOU are as follows:

- Vital will sell to Ucore a minimum of 500t REO (ex-cerium)/year by H1 2024.
- Vital will expand its operations to supply to Ucore a minimum of 50% of Ucore's proposed 5,000t TREO/yr RE separation plant by 2026.
- Customer acceptance protocols will include the supply of a sample (1-2kg) this quarter with a 1t sample supplied in H2 2022.
- The MOU is subject to completion of due diligence by each party.
- The parties will negotiate one or more formal agreements ("Definitive Agreements") which will include such covenants, conditions, indemnities, representations and warranties as are customary for this type of transaction.
- The rights and obligations of the parties under the MOU expire upon the execution of Definitive Agreements. Either party may terminate the MOU after seven months from the date of execution.

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, however COVID-19 travel restrictions impacted these efforts.

Nahouri Gold Project, Burkina Faso

Vital has suspended all exploration activity in Burkina Faso.

Aue Cobalt Project, Germany

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

CORPORATE

Increased US investor focus

Vital entered into an agreement for the provision of capital markets consulting and advisory services with Ecoban Securities Corporation ("Tectonic"). Tectonic will serve as the Company's North American investor relations and capital markets consultant and advisor, having played a key role in Vital's $43M capital raising in March 2021.

DIRECTORS' REPORT

SUBSEQUENT EVENTS

Kipawa and Zeus Heavy rare earth projects

Subsequent to the end of the half-year in February 2022, Vital announced the amendment of the terms of the acquisition of QPM's interest in the Kipawa and Zeus exploration projects. The due diligence period has been extended to 30 September 2022 and gives Vital the opportunity to undertake a more extensive engagement with local communities to better inform them of the Group's development plans.

Funding agreement with Canadian Northern Economic Development Agency

In February 2022, Vital's Canadian subsidiary, Cheetah Resources Corp. received CAD $946,184 from the Canadian Northern Economic Development Agency ("CanNor"). The second payment (CAD $13,395) is expected to be received in April 2022.

Trading on OTCQB

On 11 March 2022 (US time) trading of the Company's shares commenced on OTCQB, a US trading platform operated by the OTC Markets Group in New York. OTC is the largest Alternative Trading System in the US, with over 11,000 securities quoted on that market. Cross-trading to the OTCQB offers the Company the opportunity to build visibility, expand liquidity and diversify its shareholder base in North America on an established public market.

COVID-19

A few staff and contractors based in Canada have contracted a strain of COVID-19 during the half-year period but this has caused minimal disruptions and operations are continuing as planned.

Travel restrictions have delayed Management's ability to travel, specifically to Tanzania however, this is expected to progress in the second half of the 2022 Financial Year.

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 2022 financial year.

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 2022

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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 review ended 31 December 2021, 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

Partner

BDO Audit (WA) Pty Ltd

Perth, 16 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Note	Half-year 2021 $	Half-year 2020 $
INCOME			
Sundry income		-	219,244
Finance income		8,184	2,201
TOTAL INCOME		8,184	221,445
EXPENSES			
Share-based payments	10	(431,336)	(2,030,959)
Depreciation		(323,256)	(63,769)
Exploration expenses		(343,943)	(88,712)
Professional fees		(444,161)	(230,330)
Corporate compliance		(162,419)	(134,037)
Personnel expenses		(605,632)	(611,743)
Other administration expenses		(503,588)	(347,812)
Finance expenses		(97)	(4,925)
TOTAL EXPENSES		(2,814,432)	(3,512,287)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(2,806,248)	(3,290,842)
Income tax benefit / (expense)		-	-
LOSS FOR THE HALF-YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF VITAL METALS LIMITED		(2,806,248)	(3,290,842)
OTHER COMPREHENSIVE INCOME / LOSS			
Items that may be reclassified subsequently to loss:			
Exchange differences on translation of foreign operations		(41,342)	(736,879)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LIMITED		(2,847,590)	(4,027,721)
Basic and diluted loss per share for the half year attributable to members of Vital Metals Limited (cents)		(0.07)	(0.15)

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
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Note	31 December 2021 $	30 June 2021 $
CURRENT ASSETS			
Cash and cash equivalents	4	18,115,575	34,906,990
Trade and other receivables		1,080,764	1,306,814
Inventory	5	1,728,477	-
TOTAL CURRENT ASSETS		20,924,816	36,213,804
NON-CURRENT ASSETS			
Property, plant and equipment	6	6,546,936	3,162,089
Right of use asset		164,975	167,829
Exploration and evaluation asset	7	12,300,068	13,291,395
Mine under development	8	22,317,068	12,938,011
TOTAL NON-CURRENT ASSSETS		41,329,047	29,559,324
TOTAL ASSETS		62,253,863	65,773,128
CURRENT LIABILITIES			
Trade and other payables		458,486	2,280,163
Financial liabilities		96,022	65,991
Provisions		63,228	344,925
TOTAL CURRENT LIABILITIES		617,736	2,691,079
NON-CURRENT LIABILITIES			
Financial liabilities		84,582	98,011
Provisions		846,261	-
TOTAL NON-CURRENT LIABILITIES		930,843	98,011
TOTAL LIABILITIES		1,548,579	2,789,090
NET ASSETS		**60,705,284**	**62,984,038**
EQUITY			
Contributed equity	9	107,403,083	107,265,582
Reserves		7,958,456	7,568,463
Accumulated Losses		(54,656,255)	(51,850,007)
TOTAL EQUITY		**60,705,284**	**62,984,038**

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 2021

	Contributed Equity $	Share-Based Payment Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Total $
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

	Contributed Equity $	Share-Based Payment Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Total $
BALANCE AT 1 JULY 2021	107,265,582	7,157,816	410,647	(51,850,007)	62,984,038
Loss for the half-year	-	-	-	(2,806,248)	(2,806,248)
Other Comprehensive Loss					
Exchange differences on translation of foreign operations	-	-	(41,342)	-	(41,342)
Total Comprehensive Loss for the Period	-	-	(41,342)	(2,806,248)	(2,847,590)
Transactions with Owners in their Capacity as Owners					
Contributions of equity (net of transaction costs)	137,500	-	-	-	137,500
Share based payments expense	-	431,336	-	-	431,336
BALANCE AT 31 DECEMBER 2021	107,403,082	7,589,152	369,305	(54,656,256)	60,705,284

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Half-year	
	2021	**2020**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	8,184	2,201
Government incentives received	-	219,244
Payments for exploration and evaluation costs	(440,858)	(88,712)
Payments to suppliers and employees	(1,702,402)	(1,233,135)
Payments for inventory	(1,728,476)	-
Interest paid	(97)	(4,925)
Net cash inflow / (outflow) from operating activities	(3,863,649)	(1,105,327)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets	-	45,248
Proceeds from disposal of non-current assets	28,704	-
Payments for exploration and evaluation costs	(298,852)	(1,720,782)
Payments for mine under development	(8,886,260)	-
Payments for tenements	(162,740)	-
Payments for property, plant and equipment	(3,631,298)	(680,921)
Payments for rental bond	(13,837)	-
Net cash inflow / (outflow) from investing activities	(12,964,283)	(2,356,455)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of lease liability	(107,986)	(39,177)
Proceeds from exercise of options	137,500	342,500
Proceeds from issue of shares	-	7,477,552
Net cash inflow / (outflow) from financing activities	29,514	7,780,875
Net increase/(decrease) in cash and cash equivalents	(16,798,418)	4,319,093
Cash and cash equivalents at the beginning of the half-year	34,906,990	1,756,773
Effects of exchange rate changes on cash and cash equivalents	7,003	(105)
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	18,115,575	6,075,761

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 2021 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 2021 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 2021. This consolidated interim financial report was approved by the Board of Directors on 16 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 2021 to all periods presented in the financial statements.

The Group has applied an Inventory policy, which is outlined in Note 5.

New and Amended Standards Adopted by the Group
In the half-year ended 31 December 2021, 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 2021.

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 2021. 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 2021.

The Group assesses production to commence based on its ability to bring materials to a saleable condition. This is further discussed in Note 8. Costs allocated to inventory are based on the cost of the mining campaign and the total ore produced, which is discussed in Note 5.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION

The consolidated entity has four reportable segments being mineral exploration and prospecting for minerals in Australia, Canada, Burkina Faso and Tanzania.

	Australia		Canada		Burkina Faso		Tanzania		Consolidated Total	
	December		December		December		December		December	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	$	$	$	$	$	$	$	$	$	$
Segment income	-	58,587	-	160,657	-	-	-	-	-	**219,244**
Interest revenue	7,290	2,201	894	-	-	-	-	-	**8,184**	**2,201**
Total revenue	**7,290**	**60,788**	**894**	**160,657**	**-**	**-**	**-**	**-**	**8,184**	**221,445**
Segment loss	(1,656,717)	(3,019,680)	(1,081,592)	(271,162)	-	-	(67,939)	-	**(2,806,248)**	**(3,290,842)**
Net loss before tax	**(1,656,717)**	**(3,019,680)**	**(1,081,592)**	**(271,162)**	**-**	**-**	**(67,939)**	**-**	**(2,806,248)**	**(3,290,842)**

	Australia		Canada		Burkina Faso		Tanzania		Consolidated Total	
	December 2021	June 2021	December 2021	June 2021	December 2021	June 2021	December 2021	June 2021	December 2021	June 2021
	$	$	$	$	$	$	$	$	$	$
Segment assets	**21,120,813**	**37,633,400**	**40,568,588**	**28,104,179**	**35,549**	**35,549**	**-**	**-**	**61,724,950**	**65,773,128**
Segment liabilities	**220,802**	**101,977**	**841,802**	**2,730,051**	**(42,938)**	**(42,938)**	**-**	**-**	**1,019,666**	**2,789,090**

NOTE 4: CASH AND CASH EQUIVALENTS

	31 December 2021	30 June 2021
	$	$
Cash at bank and on hand	17,221,721	34,020,139
Cash held as security deposits	893,854	886,851
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**18,115,575**	**34,906,990**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 5: INVENTORY

	31 December 2021 $	30 June 2021 $
Ore stockpile, at cost	1,728,476	-
Total Inventory	**1,728,476**	**-**

Ore stockpiles are valued at the lower of cost and net realisable value. Regular reviews are undertaken to establish whether any items are obsolete or damaged, and if so their carrying value is written down to net realisable value.

Inventory is recognised when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. Ore is recognised as inventory as soon as it is extracted and an assessment of mineral content is possible.

The Group engaged a mining contractor that has resulted in extraction of ore and improvement of access to the ore body for future periods. On the basis of mining costs incurred, the relevant portion of costs has been allocated to inventory, with the remainder capitalised as Mine under Development costs, representing the removal of overburden material. Net realisable value is the estimated selling price in the ordinary course of business less processing cost and the estimated selling cost.

If the ore stockpile is not expected to be processed in 12 months after reporting date, it is included in Non-Current Assets and the net realisable value is calculated on a discounted cash flow basis.

Significant judgements, estimates and assumptions

Inventories require certain estimates and assumptions most notably in regard to grades, volumes and densities. Costs are allocated based on the cost of the mining campaign and the total of ore produced over the amount of tonnes mined.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, with surveys performed to track volumetric data.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	31 December 2021 $	30 June 2021 $
Software:		
At cost	78,482	115,182
Accumulated depreciation	(68,147)	(52,321)
	10,335	62,861
Plant and equipment:		
At cost	3,480,965	2,845,506
Accumulated depreciation	(214,889)	(29,972)
	3,266,076	2,815,534
Motor vehicles:		
At cost	469,626	76,730
Accumulated depreciation	(39,969)	(21,519)
	429,657	55,211
Fixtures and fittings:		
At cost	277,923	257,374
Accumulated depreciation	(71,111)	(28,891)
	206,812	228,483
Capital Works in Progress:		
At cost	2,634,056	-
Accumulated depreciation	-	-
	2,634,056	-

Capital Works in Progress represents capital items (ultimately plant and equipment) that has been ordered and partly paid for at the Reporting Date, but where the asset has not been received and is still being constructed at the Reporting Date.

The remaining expenditure commitment relating to the Capital Works in Progress is disclosed in Note 11.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 6: PROPERTY, PLANT AND EQUIPMENT (continued)

Movements in carrying amounts

	Software	Plant and Equipment	Motor Vehicles	Fixtures and Fittings	Capital Works in Progress	Total
June 2021	**$**	**$**	**$**	**$**	**$**	**$**
Opening net book value	57,553	27,682	35,086	-	1,407,448	1,527,769
Additions	36,700	1,405,562	39,641	257,374	-	1,739,277
Transfers	-	1,407,448	-	-	(1,407,448)	-
Depreciation Expense	(31,392)	(25,158)	(19,516)	(28,891)	-	(104,957)
Balance at 30 June 2021	**62,861**	**2,815,534**	**55,211**	**228,483**	**-**	**3,162,089**
December 2021	**$**	**$**	**$**	**$**	**$**	**$**
Opening net book value	62,861	2,815,534	55,211	228,483	-	3,162,089
Additions	-	635,300	430,584	20,319	2,634,056	3,720,259
Disposals	-	-	(27,406)	-	-	(27,406)
Asset written off	(36,700)	-	-	-	-	(36,700)
Depreciation Expense	(15,826)	(184,758)	(28,732)	(41,990)	-	(271,306)
Balance at 31 December 2021	**10,335**	**3,266,076**	**429,657**	**206,812**	**2,634,056**	**6,546,936**

Key estimates and judgements (PPE)
The estimations of useful lives, residual values and depreciation methods require management judgements and are regularly reviewed. If they need to be modified, the depreciation expense is accounted for prospectively from the date of the assessment until the end of the revised useful life (for both the current and future years).

Accounting Policy
Each class of property, including software, plant and equipment and motor vehicles is carried at cost less, where applicable, any accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Capital Works in Progress are measured at cost until the capital works are completed and underlying equipment is delivered and installed for use. At the Reporting Date, management will consider there is any circumstance that has arisen that would require any adjustment to the carrying value of the capital works in progress.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment. This is done over the useful lives of the asset to the Company commencing from the time the asset is held ready for use.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 6: PROPERTY, PLANT AND EQUIPMENT (continued)

The depreciation periods used for each class of depreciable assets are:

Class of fixed asset	Depreciation period
Software	2-3 years
Plant and equipment	2-10 years
Motor vehicles	3 years

NOTE 7: EXPLORATION AND EVALUATION ASSET

	31 December 2021 $	30 June 2021 $
Opening balance	13,291,395	12,467,416
Acquisition of tenements	162,740	-
Exploration expenditure	598,995	6,875,674
Exploration expenditure – expensed	(410,427)	(134,161)
Transferred to mine under development	(1,342,635)	(5,917,534)
Closing balance	12,300,068	13,291,395

The application of the Group's accounting policy for exploration and evaluation expenditure requires certain estimates and assumptions on future events and circumstances, in particular whether an economically viable extraction operation can be established. These estimates and assumptions may change as new information becomes available and could have a material impact on the carrying value of deferred exploration and evaluation costs. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the relevant capitalised amount is written off in the Statement of Profit or Loss and Other Comprehensive Income in the period when the new information becomes available.

The Group will continue to explore on its remaining tenement areas to determine if they contain resources and their eventual economic viability. At this stage, none of the impairment indicators listed in AASB 6 applies to the tenements held and the tenements do not need to be impaired or are not at a sufficiently advanced stage to indicate that their value is less than their carrying value.

NOTE 8: MINE UNDER DEVELOPMENT

	31 December 2021 $	30 June 2021 $
Opening balance	12,938,011	-
Transferred from deferred exploration and evaluation costs	1,342,635	5,917,534
Additions	7,190,161	6,705,615
Rehabilitation provision	846,261	314,862
Closing balance	22,317,068	12,938,011

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 8: MINE UNDER DEVELOPMENT (continued)

Once a development decision was made, all past exploration and evaluation expenditure in respect of an area of interest that has been capitalised has been transferred to Mine under Development, where it is amortised over the life of the area of interest to which it relates on a unit-of-production basis. No amortisation is charged during the exploration and evaluation phase, and mine under development phase. Changes in factors such as estimates of proved and probable reserves that affect unit of production calculations are dealt with on a prospective basis. In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the year in which that assessment is made.

Mine under development includes aggregate expenditure in relation to mine construction, mine development, exploration and evaluation expenditure where a development decision has been made and acquired mineral interests.

Expenditure incurred in constructing a mine by, or on behalf of, the Group is accumulated separately for each area of interest in which economically recoverable reserves and resources have been identified. This expenditure includes direct costs of construction, drilling costs and removal of overburden to gain access to the ore, borrowing costs capitalised during construction and an appropriate allocation of attributable overheads.

Mines under development are accumulated separately for each area of interest in which economically recoverable reserves have been identified and a decision to develop has occurred. This expenditure includes all capitalised exploration and evaluation expenditure in respect of the area of interest, direct costs of development, an appropriate allocation of overheads and where applicable borrowing costs capitalised during development. Once the Saskatoon facility is fully operational and processing of the ore commences, the aggregated capitalised costs are classified under non-current assets as mines in production or an appropriate class of property, plant and equipment. It is at this point where the Group has deemed that commercial production has commenced.

Significant judgements, estimates and assumptions
Production phase is deemed not to have occurred until the ability to produce a saleable material with sustainable ongoing production of concentrate and positive cash flow is reached. Currently, the Company is constructing its extraction facility in Saskatoon, which will process material into a saleable product hence, the production phase has not yet occurred, and the project remains in development phase. When a mine development project moves into the production phase, the capitalisation of certain mine development costs and pre-production revenues cease and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, or mineable reserve development. It is also at this point that amortisation commences.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 9: CHANGES IN EQUITY SECURITIES ON ISSUE

Movements in shares on issue during the half year	**Number of Shares**	**$**
Beginning of the half year	4,154,233,084	107,265,582
Issued during the half year:	-	-
Shares issued on exercise of options	11,250,000	137,500
End of the half year	4,165,483,084	107,403,082

Movements in options on issue during the half year	**Options**
Beginning of the half year	443,083,334
Issued during the half year:	
– Exercisable at 7 cents and expiring 22 December 2024	20,000,000
Exercised during the half year:	
– Exercised at 1 cent and expiring 17 November 2021	(6,250,000)
– Exercised at 1.5 cents and expiring 19 July 2022	(5,000,000)
End of the half year	451,833,334

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 10: 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 2021		31 December 2020	
	Number of options	Weighted average exercise price (cents)	Number of options	Weighted average exercise price (cents)
Outstanding at the beginning of the half year	443,083,334	2.4	472,166,667	2.3
Directors/ Employees:				
Granted	-	-	78,000,000	2.5
Forfeited	-	-	-	-
Exercised	(11,250,000)	1.2	-	-
Consultants:				
Granted	20,000,000	7.0	5,000,000	3.0
Forfeited	-	-	-	-
Exercised	-	-	(29,083,333)	1.3
Outstanding at half year-end	451,833,334	2.7	526,083,334	2.4
Exercisable at half year-end	384,833,334	2.6	488,583,334	2.4
Un-exercisable at year-end	67,000,000	3.4	-	-

The weighted average remaining contractual life of share options outstanding at the end of the half year was 2.75 years (2020: 3.22 years), and the exercise price ranges from 2.0 to 7.0 cents.

The fair value of options issued during the half year ended 31 December 2021 were calculated by using a Black-Scholes pricing model, applying the following inputs.

	Consultant	Consultant
Grant dated	22/12/2021	22/12/2021
Number Issued	10,000,000[1]	10,000,000[2]
Share price at grant date	$0.048	$0.048
Exercise price	$0.07	$0.07
Life of options (years)	3	3
Expected share price volatility	83.86%	83.86%
Weighted average risk free interest rate	1.32%	1.32%
Fair value per option	$0.0217	$0.0217

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 10: SHARE BASED PAYMENTS (continued)

Notes:
1. These options vest immediately
2. These options vest upon any of the following conditions being met:
    - Vital Metals exceeds market capitlisation of A$1 billion
    - A US or appropriate other (equivalent) listing obtained, via IPO or other means such as RTO (or equivalent) or ADR listing
    - Change of Control event
    - At Vital Metals' board discretion

    Any of the conditions above must be satisfied and the options exercised within 3 years of the grant date, at which time the options will expire.

    As the probability of achieving any of these milestones is perceived to be less than 100%, no expense has been recognised as at 31 December 2021.

(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 2021 $	December 2020 $
Options issued to directors (vested)	-	1,737,991
Options issued to employee (vested)	214,086	189,149
Options issued to consultant	217,250	103,819
	431,336	2,030,959

NOTE 11: COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group has capital commitments of $7.7 million due in the next 12 months (30 June 2021: $951,854).

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

NOTE 12: RELATED PARTY TRANSACTIONS

There has been no material changes in related party transactions since 30 June 2021.

NOTE 13: EVENTS OCCURING AFTER THE REPORTING PERIOD

Kipawa and Zeus Heavy rare earth projects

Subsequent to the end of the half-year in February 2022, Vital announced the amendment of the terms of the acquisition of QPM's interest in the Kipawa and Zeus exploration projects. The due diligence period has been extended to 30 September 2022 and gives Vital the opportunity to undertake a more extensive engagement with local communities to better inform them of the Group's development plans.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 13: EVENTS OCCURING AFTER THE REPORTING PERIOD (continued)

Funding agreement with Canadian Northern Economic Development Agency

In February 2022, Vital's Canadian subsidiary, Cheetah Resources Corp. received CAD $946,184 from the Canadian Northern Economic Development Agency ("CanNor"). The second payment (CAD $13,395) is expected to be received in April 2022.

Trading on OTCQB

On 11 March 2022 (US time) trading of the Company's shares commenced on OTCQB, a US trading platform operated by the OTC Markets Group in New York. OTC is the largest Alternative Trading System in the US, with over 11,000 securities quoted on that market. Cross-trading to the OTCQB offers the Company the opportunity to build visibility, expand liquidity and diversify its shareholder base in North America on an established public market.

COVID-19

A few staff and contractors based in Canada have contracted a strain of COVID-19 during the half-year period but this has caused minimal disruptions and operations are continuing as planned.

Travel restrictions have delayed Management's ability to travel, specifically to Tanzania however, this is expected to progress in the second half of the 2022 Financial Year.

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 2022 financial year.

DIRECTORS’ DECLARATION

In the directors’ opinion:

1. the financial statements and notes set out on pages 12 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 2021 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Vital Metals Limited will be able topay 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 2022

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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 2021, 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 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 Group 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 2021 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 and 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 Group's financial position as at 31 December 2021 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*.

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

BDO

Neil Smith

Partner

Perth, 16 March 2022