Vital Metals Limited

ABN 32 112 032 596

Annual Report

for the year ended 30 June 2019

Corporate Information

ABN 32 112 032 596

Directors
Francis Harper (Non-Executive Chairman)
Phillip Coulson (Executive Director)
Zane Lewis (Executive Director)

Company Secretary
Sebastian Andre

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Share Register
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Telephone: (08) 9324 2099
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Auditors
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38 Station Street
SUBIACO WA 6008

Bankers
National Australia Bank
Level 14 / 100 St Georges Tce
Perth WA 6005

Internet Address
www.vitalmetals.com.au

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

Contents

Directors' Report

Your Directors submit their report on the Consolidated Entity (referred to hereafter as the Group) consisting of Vital Metals Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Phillip Coulson, Executive Director (appointed 7 January 2019)

Mr Coulson has over 18 years of corporate advisory experience, having held senior advisory positions at Mantagu Stockbrokers and Patersons Securities Limited. He has promoted and advised numerous companies in the identification and acquisition of technology and resource projects.

Mr Coulson is not a director on any other ASX listed Company.

Zane Lewis, Executive Director (appointed 6 February 2019)

Mr Lewis has over 20 years' experience and leadership of smallcap multinational companies. His hands-on skillset includes corporate advisory, non executive director and Company Secretary roles at several ASX Listed and unlisted companies as well as extensive international experience managing a group of Software and Tech companies in USA, Europe, Hong Kong, China and Australia.

Mr Lewis is a director of Lion Energy Limited (ASX:LIO), Kingsland Global Ltd (ASX:KLO), Tap Oil Limited (ASX: TAP) and Fraser Range Metals Limited (ASX: FRN).

Peter Cordin, Non-Executive Director (resigned 25 September 2019)

Mr Cordin is a civil engineer with over 40 years' experience in the evaluation and operation of resource projects within Australia and overseas. He is the former Executive Chairman of Dragon Mining Limited which operated gold mines in Sweden and Finland. He has direct experience in the management of diamond and gold operations and has been involved in the development of resource projects in Kazakhstan and New Caledonia.

Mr Cordin is also a non-executive director of MC Mining Limited and Aurora Minerals Limited.

Francis Harper, Non-Executive Chairman

Mr Harper has extensive experience in West African mining, having served as Chairman and as a major shareholder of West African Resources Limited between 2009 and 2015.He is also a founding director of Blackwood Capital, which has raised over $1 billion for smaller companies over the last 15 years.

Mr Harper is also non-executive Chairman of Tietto Minerals Limited.

Mark Strizek, Managing Director (resigned 24 January 2019)

Mr Strizek holds a Bachelor of Science from Macquarie University and is a qualified geologist with over 16 years' experience in the mining industry. He is a Member of the Australasian Institute of Mining and Metallurgy. He has worked in open pit operations and exploration in Western Australia and Queensland. He has also worked with Hellman & Schofield Pty Ltd as a consulting geologist, developing resource models in commodities such as gold, iron ore, nickel and manganese. Prior to joining the Group, he worked with the Mineralogy group of companies where he was involved in project development of iron ore, coal and petroleum resources in both Australia and Papua New Guinea.

Andrew Simpson, Non-Executive Director (resigned 16 November 2018)

Mr Simpson holds a Graduate Diploma in Business and Administration (majoring in Marketing and Finance) from Curtin University and is currently the Managing Director and Principal of Resource and Technology Marketing Services Pty Ltd (RTM) in Perth.

He formed RTM in 1999 to specialise in strategic and business planning, resource project assessment and marketing. RTM is recognised as one of Australia's leading market research consultants to the international mining industry.

Mr Simpson is non-executive Chairman of Swick Mining Services Ltd and Symbol Mining Ltd. He is the former non-executive Chairman of Territory Resources Ltd and India Resources Ltd. Mr Simpson is a Member of the Australian Institute of Company Directors.

David Macoboy, Non-Executive Director (Resigned 2 July 2018)

Mr Macoboy holds a Bachelor of Economics and a Bachelor of Commerce from the University of WA. David was a Fellow of the Australian Institute of Company Directors and a Certified Practicing Accountant. He is a former Chairman of Ammtec Limited, AVZ Minerals Limited and Territory Resources Ltd and has served on numerous other boards. He has not held any directorships of other listed companies in the past three years.

Directors' Report continued

COMPANY SECRETARY

Sebastian Andre, (appointed 23 March 2019)

Sebastian Andre is a Chartered Company Secretary with 8 years of experience as a senior adviser at the ASX. Sebastian is a company secretary of a number of listed entities and provides significant insight into compliance frameworks. Mr. Andre advises the boards and executives of ASX listed entities on a range of matter aimed at minimising compliance risk and maximising corporate efficiency. He holds a Bachelor of Commerce in Accounting and is a member of the Governance Institute of Australia.

Matthew Foy, BComm, ACIS, MAICD (appointed 17 November 2017, resigned 23 March 2019)

Matthew was previously a senior adviser at the ASX facilitating the compliance of listed companies. Matthew possesses core competencies in publicly listed and unlisted company secretarial and governance disciplines. His expertise is in corporate, commercial and securities law with an emphasis on capital raisings and mergers and acquisitions. He contributes general corporate and legal skills along with a strong knowledge of the ASX requirements.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Vital Metals Limited were:

	Ordinary Shares	Options over Ordinary Shares	Performance rights
Francis Harper	18,234,725	28,750,000	-
Phillip Coulson	162,100,000	-	28,750,000
Zane Lewis	-	-	28,750,000

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were mineral exploration in Niger and in Burkina Faso, West Africa.

Diuring the year, the Group disposed of its Watershed Tungsten Project in North Queensland.

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

OPERATING AND FINANCIAL REVIEW

The consolidated profit of the Group after providing for income tax amounted to $3,225,692 (2018: loss of $3,253,430).

OPERATIONS REVIEW

Vital Metals Limited (ASX:VML) is an explorer and developer holding a portfolio of gold, technology metals and base metals. Our projects are located across a range of jurisdictions in West Africa and Germany.

Exploration

Bouli Gold Project, Niger

During the Period, Vital Metals announced that it had withdrawn from an earn-in agreement with private Turkish company Summa over the Bouli Gold project in Niger, West Africa. The Board conducted a review considering various factors relating to the project including the geographical situation in Niger. The Company has no further expenditure requirements under the agreement.

Aue Cobalt Project, Germany

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 prospectively of the Aue permit area for cobalt, tungsten, tin, uranium and silver mineralisation.

During the period the Company received sample essays (returning 1.3% Ni, 0.8% Co, 0.3% Bi) from the Q2 2018 soil geochemistry program and commenced a second sampling program. Soil sample assays received identified strong geochemical anomalies for bismuth (up to0.29%) associated with Bi-Co-Ni mineralisation near Waschleithe and Bockau in historic mining areas.

Directors' Report continued

Nahouri Gold Project, Burkina Faso
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, which is in place until January 2020.

During the June quarter, the Company has taken steps to minimise expenditure in Burkina Faso, including the terminating rental on the exploration camp and associated infrastructure, consolidating exploration assets and samples back to the Company's admin office in Ouagadougou and reducing exploration staff headcount.

The Company's Burkina Faso tenements remain in good standing. The Company has received approaches from mining companies in relation to Burkina Faso tenements and intends to progress those approaches while the Company monitors the security environment in Burkina Faso.

Vital will provide shareholders with an update by way of ASX announcement should the situation in Burkina Faso improve and a decision to resume exploration be taken.

CORPORATE

Sale of subsidiary – North Queensland Tungsten Pty Ltd

During the period Vital finalised the sale of its Watershed Tungsten Project north of Cairns in far North Queensland to Tungsten Mining NL (ASX: TGN) for $15 million cash consideration, less completion adjustments.

Vital used a portion of the sale funds to repay $1.4 million to Macquarie, following which the Company is debt free.

Unmarketable Parcel Share Sale Facility
The sale of VML shares under the Company's share sale facility (Facility), as announced on 12 March 2019, was completed at a sale price of $0.008 per share. A total of 1,304 shareholders collectively holding 35,285,288 fully paid ordinary VML shares participated in the Facility. As a result of the successful conclusion of the Facility, the Company's shareholder base has been reduced by 1,044 individual shareholders. This reduction will in turn reduce the Company's administrative costs, including printing and mailing costs and share registry expenses.

Acquisition of Cheetah Resources
As announced June 25, 2019 Vital has entered into a binding term sheet to acquire (the "Acquisition") Cheetah Resources Pty Ltd ("Cheetah"), a private Australian registered company focused on identifying, acquiring and bringing to production rare earths projects.

The Both Companies have completed the due diligence process. Finalisation of the acquisition awaits shareholder approval at the Annual General Meeting (16 October 2019).

Overview of Cheetah
Cheetah was the creation of Geoff Atkins (former Corporate Planning Manager at Lynas Corporation) who after 5 years of reviewing and assessing Rare Earth Oxide (REO) projects globally with his ex-colleagues at Lynas, developed a project criteria and strategy to develop rare earth projects. Cheetah has subsequently assembled a pipeline of projects with significant REO resources and potential.

Rationale for Acquisition
Global rare earth demand has become inextricably linked to the advance in technology, as they are heavily used in wind turbines, electric engines, strategic military systems, and oil fracking.

Cheetah's philosophy is to simplify the development process by mining and producing a high purity mixed REO product, thereby avoiding the very high capex requirements associated with rare earth separation facilities, whilst shortening the time to production. Cheetah's plans are to target customers who will be existing, or prospective, rare earth companies in need of feedstock, without deleterious waste products.

Thor Lake Rare Earth Project
Cheetah has entered into a binding terms sheet with Avalon Advance Materials Inc ("Avalon") a TSX listed entity, to acquire near surface resources of the Thor Lake Rare Earth Project at the Nechalacho property on Thor Lake, near Yellowknife, NWT, Canada for total consideration of C$5,000,000 (~A$5.4million) ("Avalon Agreement").

Under the Avalon Agreement, Cheetah acquires the mineral rights to all mineralisation between surface and a depth of 150m above sea level (the "Upper Zone"). This includes near surface, high grade resources in the T-Zones (including North T and South T) and Upper Lake Zones (includes North Tardiff and South Tardiff) as defined in Avalon's 2013 feasability study.

The Thor Lake Rare Earth Project is located at Thor Lake in the Mackenzie Mining District of the Northwest Territories, approximately 100km southeast of the city of Yellowknife. The district is blessed with substantial infrastructure including roads and railways, direct barge access and anticipated, low cost hydro power in the near future.

The Thor Lake Rare Earth Project hosts within the Upper Zone, a NI 43-101 compliant Indicated Resource of 47.21Mt grading at 1.52% REO and Inferred Resource of 102Mt grading at 1.38% for a combined Mineral Resource estimate of 149.30Mt grading at 1.42% REO. For further information, investors should refer to the Company announcement dated 25 June 2019 titled "Vital to Transform into Rare Earth Oxide Developer".

Directors' Report continued

Investors should note that the Mineral Resource estimate for the Thor Lake Project Upper Zone is a foreign estimate and is not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify this foreign estimate as a mineral resource in accordance with the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

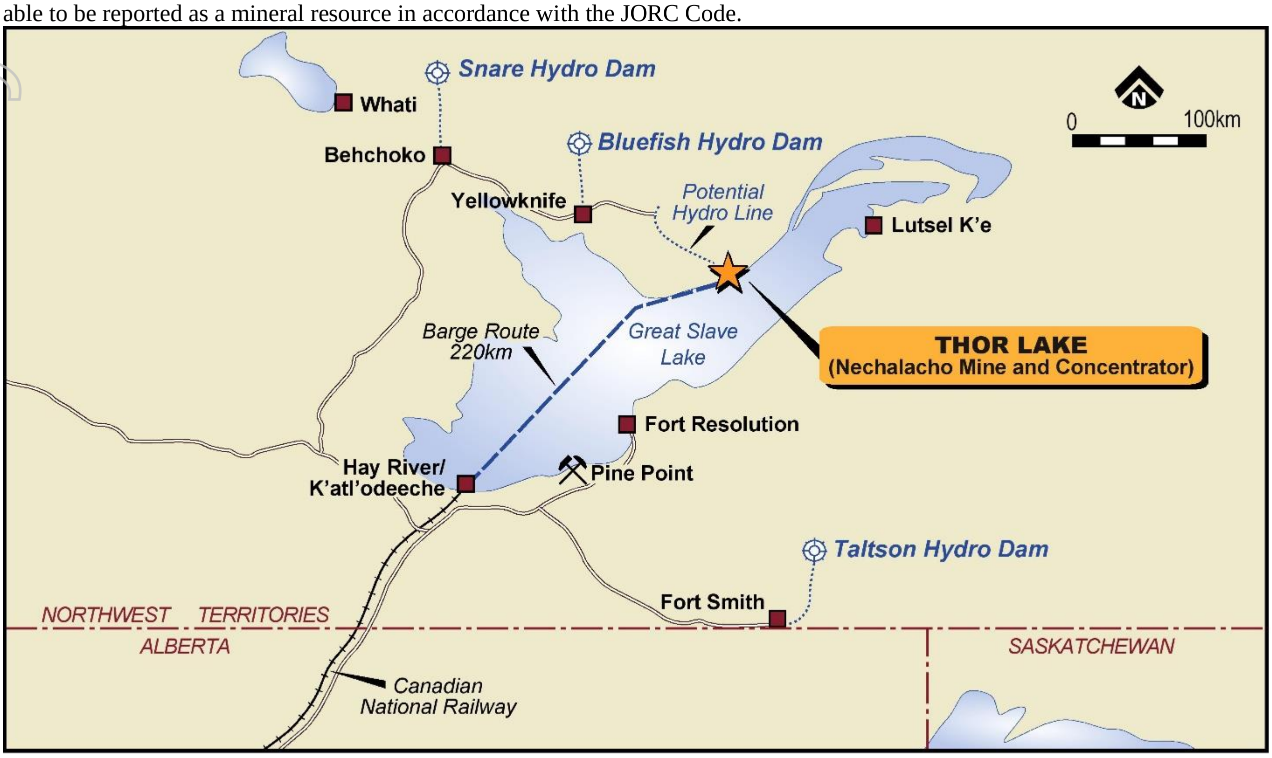

Figure 1: Location of the Thor Lake Project

Avalon will retain ownership of the resources in the Basal Zone that was the subject of its 2013 Feasibility Study in which Avalon spent over CAD$100m defining and obtaining permitting.

Mineralisation in the North T Zone contains a number of different mineralised regions containing high grade rare earths, beryllium, niobium and lithium. Uniquely, amongst rare earth deposits, the North T Zone contains separate light and heavy rare earth regions. The Company's plans are to target this zone as the starting point of possible future operations.

The Upper Lake Zone also hosts underexplored, high-grade mineralisation at surface.

Potential Near-term Production

The Thor Lake Project has potential for a start-up operation exploiting high-grade, easily accessible near surface mineralisation initially from the North T-Zone rather than focusing on the larger Upper Lake Zone. The Company plans to move quickly and assess options to utilise a simple, mechanical sorting to produce a high-grade concentrate without the use of chemicals or water.

The focus on producing a concentrate for sale to existing refiners removes the massive capital costs and multi-year construction times typically associated with building a REO refinery and is in line with the Company's objectives to establish low-cost operations with a short development time.

Wigu Hill Project

Cheetah has 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 will also have 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.

Directors' Report continued

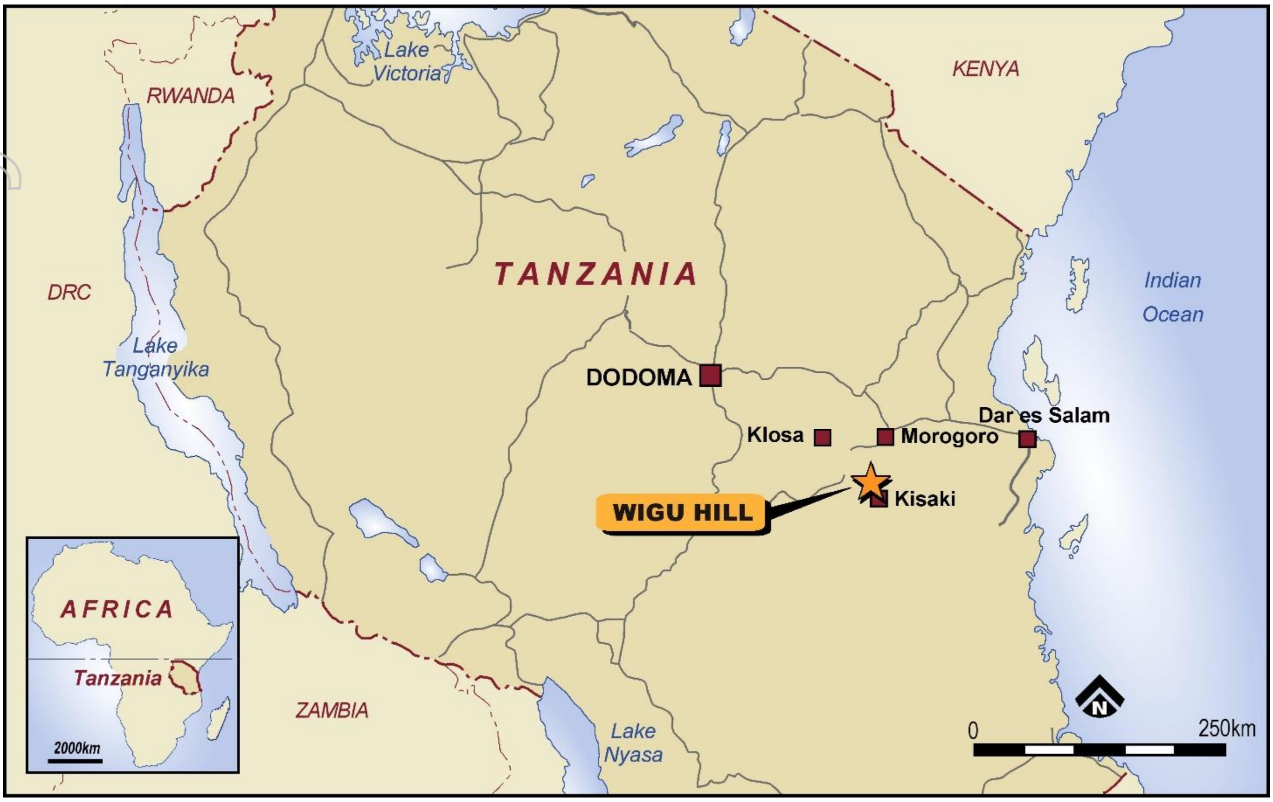

Figure 2: Location of the Wigu Hill Project

The Wigu Hill rare earth project covers an area of approximately 142km2 and is located approximately 200 km south-west of Dar es Salam and 68 km of Morogoro, the nearest major regional centre (i.e. straight-line distances).

The project is a light rare earth element deposit and consists of a large carbonite complex with bastnaesite mineralisation.

Montero released an initial NI 43-101 Inferred resource estimate of 3.3Mt at 2.6% LREO5 including 510,000t @ 4.4% LREO5 on 2 of 10 possible drill targets. For further information, investors should refer to the Company announcement dated 25 June 2019 titled "Vital to Transform into Rare Earth Oxide Developer".

Investors should note that the Mineral Resource estimate for the Wigu Hill Rare Earth Project is a foreign estimate and is not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify this foreign estimate as a mineral resource in accordance with the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

Proposed Board and Management Changes

Following the completion of the Acquisition, Vital intends to appoint to the board Mr Geoff Atkins as Managing Director and Mr Evan Cranston as a Non-Executive Director.

Geoff Atkins
Mr Atkins is a Civil Engineer with over 20 years of project and corporate development experience across commercial, industrial, mining and infrastructure sectors with responsibility for driving projects from concept, through feasibility and development to operational assets.

Evan Cranston
Evan Cranston is an experienced mining executive with a background in corporate and mining law. He is the principal of corporate advisory and administration firm Konkera Corporate and has extensive experience in the areas of equity capital markets, corporate finance, structuring, asset acquisition, corporate governance and external stakeholder relations. He holds both a Bachelor of Commerce and Bachelor of Laws from the University of Western Australia.

Key Terms of the Acquisition:

Consideration:
Vital has agreed to acquire 100% of the issued capital of Cheetah for the consideration outlined below. The consideration is subject to shareholder approval and is comprised of the following:

- issue of 400,000,000 fully paid ordinary shares ("Ordinary Shares") on completion;

Directors' Report continued

- issue performance shares comprised of the following:
  - (i) 400,000,000 Tranche 1 Performance Shares which will convert into Ordinary Shares in the Company on entering into binding offtake for a minimum of 1,000 kgs of contained REO in respect of the Thor Lake Project or Wigu Hill Project within 2 years of the Acquisition completion date; and
  - (ii) 400,000,000 Tranche 2 Performance Shares which will convert into Ordinary Shares in the Company on commencement of mining operations at the Thor Lake Project or Wigu Hill Project.

(together, the "Performance Shares")

Vital will separately seek confirmation from ASX with respect to the Performance Share terms.

Cash on hand
As at June 30, 2019 the Company held $12,708,796 in cash and cash equivalents.

Operating Results for the Year

Summarised operating results are as follows:

	2019	
	Revenues $	Results $
Consolidated entity revenues and profit before income tax expense	**4,364**	**3,225,692**

Shareholder Returns

	2019	2018
Basic earnings per share (cents)	**0.18**	**(0.21)**

Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board. The Company believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stake-holders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There have been no significant events after the reporting date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group intends to continue its exploration and development activities on its existing projects and to acquire further suitable projects for exploration as opportunities arise.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

Directors' Report continued

REMUNERATION REPORT (Audited)

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. The directors and key management personnel for the year ended 30 June 2019 were:

Phillip Coulson – Executive Director

Zane Lewis – Executive Director

Francis Harper – Non-Executive Chairman

Peter Cordin – Non-Executive Director (resigned 25 September 2019)

Mark Strizek – Managing Director (resigned 24 January 2019)

David Macoboy – Non-Executive Chairman (resigned 2 July 2018)

Andrew Simpson – Non-Executive Director (resigned 16 November 2018)

Principles used to determine the nature and amount of remuneration

Remuneration Policy

Remuneration of Directors and Executives is referred to as compensation throughout this report. Key management personnel including directors of the Company and other executives have authority and responsibility for planning, directing and controlling the activities of the Group. Compensation levels for directors and Key Management Personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The Board is responsible for compensation policies and practices. The Board, where appropriate, seeks independent advice on remuneration policies and practices, including the compensation packages and terms of employment. No such advice was sought in the current year.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account a number of factors, including length of service and the particular experience of the individual concerned.

(i) Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board where applicable.

(ii) Share based remuneration

Share options are granted to key employees as the Directors believe that this is the most appropriate method of aligning performance to the interests of shareholders. The share options are issued under the Vital Metals Ltd Share Option Plan and the Directors feel that it appropriately links the long term incentives of key employees to the interest of shareholders. The ability to exercise the options is conditional on continued service for a period as determined by the Board upon each issuance of options. The Group does not have a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

(iii) Service contracts/agreements

<u>Phillip Coulson (effective 1 March 2019)</u>

Phillip Coulson was appointed an Executive Director effective 1 March 2019 under a Consultancy Agreement. Under the Consultancy Agreement, the remuneration for Mr Coulson's role as an Executive is $120,000 per annum (in addition to his existing remuneration). The term of the Consultancy Agreement is for an unlimited term which is capable of termination by giving no less than 3 months written notice (any termination in lieu of notice would a termination payout of 3 months fees). Under the Consultancy Agreement, Mr Coulson is entitled to performance rights described further below.

<u>Zane Lewis (effective 1 March 2019)</u>

Zane Lewis was appointed an Executive Director effective 1 March 2019 under a Consultancy Agreement. Under the Consultancy Agreement, the remuneration for Mr Lewis' role as an Executive is $120,000 per annum (in addition to his existing remuneration). The term of the Consultancy Agreement is for an unlimited term which is capable of termination by giving no less than 3 months written notice (any termination in lieu of notice would a termination payout of 3 months fees). Under the Consultancy Agreement, Mr Lewis is entitled to performance rights described further below.

<u>Mark Strizek (resigned 24 January 2019)</u>

Mark Strizek was appointed on 1 July 2011 as Chief Executive Officer of the Group on a service contract. This contact was for an initial term of three months as CEO after which term Mr Strizek was invited to join the Board as Managing Director (effective 7 October 2011) for an unlimited term which is capable of termination on 6 months' notice. Upon termination Mr Strizek is entitled to payment of his notice period. By agreement, Mr Strizek's salary was adjusted to $200,000 plus superannuation effective 1 April 2017.

(iv) Non-Executive directors

Total compensation for all Non-Executive Directors, last voted upon by shareholders at the 2007 AGM, is not to exceed $400,000 per annum.

The remuneration policy for non-executive directors remains unchanged.

Directors' Report continued

Company performance, shareholder wealth and directors' and executives' remuneration

No relationship exists between shareholder wealth, director and executive remuneration and Company performance due to the infant stage of the Company's operations.

The table below shows the gross revenue, losses and earnings per share for the last five years for the listed entity.

	2019 $	2018 $	2017 $	2016 $	2015 $
Net profit/(loss)	3,225,692	(3,253,430)	(4,961,426)	(1,156,042)	(6,939,729)
Share price at year end (cents)	1.2	1.0	1.1	1.1	3.0
Earnings/(loss) per share (cents)	0.18	(0.21)	(0.82)	(0.31)	(2.4)

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2019.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

The key management personnel of the Group are the directors and company secretary. Given the size and nature of operations of the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Key management personnel of the Group

	Short-Term	Post Employment	Termination	Share-based Payments	Share-based Payments	Total
	Salary & Fees $	Superannuation $	Termination $	Options[1] $	Performance rights[2] $	$
Directors						
Phillip Coulson (Executive Director) (appointed 7 January 2019)						
2019	**60,000**	-	-	-	**203,625**	**263,625**
2018	-	-	-	-	-	-
Zane Lewis (Executive Director) (appointed 6 February 2019)						
2019	**56,665**	-	-	-	**203,625**	**260,290**
2018	-	-	-	-	-	-
David Macoboy (Non-Executive) (resigned 2 July 2018)						
2019	**295**	**28**	-	-	-	**323**
2018	**65,800**	**6,251**		-	-	**72,051**
Mark Strizek (Managing Director) (resigned 24 January 2019)						
2019	**116,667**	**11,083**	**175,916**	**10,978**	-	**314,644**
2018	**200,000**	**19,000**	-	**61,351[1]**	-	**280,351**
Andrew Simpson (Non-Executive) (resigned 16 November 2018)						
2019	**16,667**	-	-	-	-	**16,667**
2018	**40,000**	-	-	-	-	**40,000**
Peter Cordin (Non-Executive) (resigned 25 September 2019)						
2019	**36,530**	**3,470**	-	-	-	**40,000**
2018	**36,530**	**3,470**	-	-	-	**40,000**
Francis Harper (Non- Executive)						
2019	**40,000**	-	-	-	-	**40,000**
2018	**46,667**	-	-	-	-	**46,667**
Other key management personnel						
Ian Hobson (Company Secretary) (resigned 17 November 2017)						
2019	-	-	-	-	-	-
2018	**29,300**	-	-	-	-	**29,300**
Total key management personnel compensation						
2019	**326,824**	**14,581**	**175,916**	**10,978**	**407,250**	**935,549**
2018	**547,059**	**40,478**	-	**61,351**	-	**648,888**

(1) The fair value of the options is calculated at the date of grant using a Black Scholes option valuation model, or share price up-and-in barrier model and allocated to each reporting period evenly over the period from the grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

(2) Shareholders approved the issue of 28,750,000 performance rights to both Mr Coulson and Mr Lewis at the general meeting held on 1 May 2019. The terms of the performance rights are noted below.

Directors' Report continued

There were no options or performance rights granted to key management personnel as compensation during the reporting period, other than those set out below.

Options and Performance Rights granted as compensation

Options and performance rights are issued at no cost to Directors and Executives as part of their remuneration. The options and performance rights are not issued based on performance criteria, but are issued to increase goal congruence between Executives, Directors and Shareholders. The performance rights over ordinary shares of the Company were granted to or vesting with key management personnel during the year (there were no options issued to key management personnel during the year):

	Grant Date	Granted & Vested Number	Vesting Date	Expiry Date	Volatility	Exercise Multiple	Fair Value per right at grant date (cents)	Exercised Number	% of Remuneration
Phillip Coulson – Class A	1/5/2019	6,250,000	1/5/2019	28/2/2023	125%	2.5	0.73	N/A	17.31%
Phillip Coulson – Class B	1/5/2019	10,000,000	1/5/2019	28/2/2023	125%	2.5	0.72	N/A	27.12%
Phillip Coulson – Class C	1/5/2019	12,500,000	1/5/2019	28/2/2023	125%	2.5	0.69	N/A	32.81%
Zane Lewis – Class A	1/5/2019	6,250,000	1/5/2019	28/2/2023	125%	2.5	0.73	N/A	17.53%
Zane Lewis – Class B	1/5/2019	10,000,000	1/5/2019	28/2/2023	125%	2.5	0.72	N/A	27.47%
Zane Lewis – Class C	1/5/2019	12,500,000	1/5/2019	28/2/2023	125%	2.5	0.69	N/A	33.23%

The performance milestones are as follows:

- Class A: to vest on the date that the 10 day VWAP for the shares on the ASX is $0.012 or higher;
- Class B: to vest on the date that the 10 day VWAP for the shares on the ASX is $0.015 or higher; and
- Class C: to vest on the date that the 10 day VWAP for the shares on the ASX is $0.02 or higher.

Exercise of options granted as compensation

During the reporting period, there were no shares issued on the exercise of options previously granted as compensation, nor were there any modifications to the terms of previously granted options.

Additional disclosures relating to key management personnel

Shareholding

The numbers of shares in the Company held during the financial year by each director of Vital Metals Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2019	Balance at start of the year	Received during the year on the exercise of options	Received as Compensation	Other changes during the year	Balance at end of the year
Directors of Vital Metals Limited					
Ordinary shares					
David Macoboy (resigned 2 July 2018)	17,500,000	-	-	(17,500,000)[1]	-
Mark Strizek (resigned 24 January 2019)	3,173,964	-	-	(3,173,964)[1]	-
Andrew Simpson (resigned 16 November 2018)	1,684,375	-	-	(1,684,375)[1]	-
Peter Cordin	6,931,116	-	-	2,812,500	9,743,616
Francis Harper	15,422,225	-	-	2,812,500	18,234,725
Phillip Coulson (appointed 7 January 2019)	162,100,000[2]	-	-	-	162,100,000
Zane Lewis (appointed 6 February 2019)	-	-	-	-	-

Notes:

1. Shareholding on date of resignation.
2. Shareholding as at date of appointment.

Directors' Report continued

Option holding

The numbers of options over ordinary shares in the Company held during the financial year by each director of Vital Metals Ltd and other key management personnel of the Group, including their personally related parties, are set out below:

2019	Balance at start of the year	Granted as compensation	Exercised	Expiry	Other changes	Balance at end of the year	Vested and exercisable
Directors of Vital Metals Limited							
David Macoboy (resigned 2 July 2018)	9,253,099	-	-	-	(9,253,099)	-	-
Mark Strizek (resigned 24 January 2019)	50,438,023	-	-	(6,506,198)[2]	(43,931,825)[1,2]	-	-
Andrew Simpson (resigned 16 November 2018)	5,168,733	-	-	-	(5,168,733)[1]	-	-
Peter Cordin	5,168,733	-	-	(2,168,733)[3]	-	3,000,000	3,000,000
Francis Harper	28,750,000	-	-	-	-	28,750,000	28,750,000
Phillip Coulson (appointed 7 January 2019)	-	-	-	-	-	-	-
Zane Lewis (appointed 6 February 2019)	-	-	-	-	-	-	-

All vested options are exercisable at the end of the year.

1. Option holding on date of resignation
2. 14,465,913 options within this balance had a market condition attached where they would vest only if the share price hit 2 cents or better for 10 consecutive days prior to 31 December 2018. This was not met, therefore these options will never vest.
3. Expiry of options exercisable at $0.027 each on or before 25 November 2018.

Loans to key management personnel

There were no loans to key management personnel during the year (2018: nil).

Other transactions with key management personnel

Mr Zane Lewis was appointed a director on 6 February 2019. For the period from February 2019 to balance date, Smallcap Corporate Pty Ltd (an entity which Mr Lewis has a beneficial interest) provided company secretary and financial accounting services to the Company. Total fees incurred to Smallcap Corporate Pty Ltd for the services up to 30 June 2019 was $18,995.

There were no other transactions with key management personnel during the year other than salaries and wages as disclosed in the remuneration report.

Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')

At the 2018 AGM, 88% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

End of audited Remuneration Report

DIRECTORS' MEETINGS

During the year the Company held 4 meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings	
	A	**B**
David Macoboy	-	-
Mark Strizek	2	2
Andrew Simpson	2	2
Peter Cordin	4	4
Francis Harper	4	4
Phillip Coulson	2	2
Zane Lewis	2	2

Notes

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

Directors' Report continued

SHARES UNDER OPTION

At the date of this report there are 163,598,492 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	231,182,434
Movements of share options during the year:	
Issued, exercisable at 1.5 cents, on or before 19 July 2022	32,666,667
Expired, exercisable at 2.7 cents, on or before 25 November 2018	(14,096,763)
Expired, exercisable at 1.625 cents, on or before 31 December 2018	(86,153,846)
Total number of options outstanding as at 30 June 2019	**163,598,492**
Movements of share options since 30 June 2019	
Nil	Nil
Total number of options outstanding as date of this report	**163,598,492**

The balance is comprised of the following:

Date options issued	Expiry date	Exercise price (cents)	Number of options
12 May 2017	30 Apr 2021	2	50,000,000
12 May 2017	30 Apr 2021	2.3	27,000,000
24 Nov 2017	17 Nov 2021	1.0	25,000,000
24 Nov 2017	24 Nov 2019	1.2	28,931,825
19 July 2018	19 July 2022	1.5	30,000,000
3 Sept 2018	19 July 2022	1.5	2,666,667
Total number of options outstanding at the date of this report			**163,598,492**

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into an agreement to indemnify all directors and the company secretary against any liability arising from a claim brought by a third party against the Company. The agreement provides for the Company to pay all damages and costs which may be awarded against the officer or director.

During the period the Company has paid an insurance premium in respect of a Directors' and Officers' Liability Insurance Contract. The insurance premium relates to liabilities that may arise from an Officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are the Directors and the Company Secretary. The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

LEGAL PROCEEDINGS

The company was not a party to any legal proceedings during the year.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

NON-AUDIT SERVICES

No non-audit services were provided by BDO, the Company's auditor, during the financial year.

The Group has not provided any indemnity to the Auditors.

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 14.

Signed in accordance with a resolution of the directors.

Francis Harper

Francis Harper
Chairman

Perth, 27 September 2019

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF VITAL METALS LIMITED

As lead auditor of Vital Metals Limited for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 27 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

YEAR ENDED 30 JUNE 2019	Notes	Consolidated 2019 $	Consolidated 2018 $
REVENUE			
Sundry income		4,364	4,745
Total income		4,364	4,745
EXPENDITURE			
Exploration and evaluation expenditure		849,677	2,173,604
Administration expenses		1,350,132	935,141
Provision for impairment		1,700,000	-
Total expenses	5	3,899,809	3,108,745
RESULTS FROM OPERATING ACTIVITIES		(3,895,445)	(3,104,000)
Finance income		220,535	13,721
Finance expense		(35,911)	(184,323)
Net finance income / (expense)	4	184,624	(170,602)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(3,710,821)	(3,274,602)
INCOME TAX BENEFIT / (EXPENSE)	6	-	-
NET LOSS FOR THE YEAR FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		(3,710,821)	(3,268,605)
PROFIT FROM DISCONTINUED OPERATIONS NET OF TAX	20	6,936,513	21,173
PROFIT / (LOSS) FOR THE YEAR		3,225,692	(3,253,430)
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		(4,503)	74,870
Other comprehensive income/(loss) for the year, net of tax		(453,789)	74,870
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		2,771,903	(3,178,560)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	24	0.18	(0.21)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

AT 30 JUNE 2019	Notes	Consolidated 2019 $	Consolidated 2018 $
CURRENT ASSETS			
Cash and cash equivalents	7	12,708,796	3,219,228
Trade and other receivables		135,252	166,281
Assets held for sale	9	-	8,484,271
TOTAL CURRENT ASSETS		12,844,048	11,869,780
NON-CURRENT ASSETS			
Property, plant and equipment		-	19,660
Exploration and evaluation expenditure	8	-	-
TOTAL NON-CURRENT ASSETS		-	19,660
TOTAL ASSETS		12,844,048	11,889,440
CURRENT LIABILITIES			
Trade and other payables	10	126,717	558,075
Provisions		-	37,039
Borrowings	11	-	1,367,126
Liabilities held for sale	9	-	400,000
TOTAL CURRENT LIABILITIES		126,717	2,362,240
TOTAL LIABILITIES		126,717	2,362,240
NET ASSETS		12,717,331	9,527,200
EQUITY			
Contributed Equity	13	52,845,649	52,845,649
Reserves		2,397,190	2,666,193
Accumulated losses		(42,525,508)	(45,984,642)
TOTAL EQUITY		12,717,331	9,527,200

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2019

Consolidated	Notes	Contributed Equity $	Share-Based Payment Reserve $	Convertible Note Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2017		47,810,512	1,506,681	233,442	388,367	(42,731,212)	7,207,790
Profit / (loss) for the year		-	-	-	-	(3,253,430)	(3,253,430)
OTHER COMPREHENSIVE INCOME/(LOSS)							
Exchange differences on translation of foreign operations		-	-	-	74,871	-	74,871
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		-	-	-	74,871	(3,253,430)	(3,178,559)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Issue of Shares	13	5,787,709	-	-	-	-	5,787,709
Share issue transaction costs	13	(752,572)	-	-	-	-	(752,572)
Options issued during the year	25	-	462,832	-	-	-	462,832
BALANCE AT 30 JUNE 2018		52,845,649	1,969,513	233,442	463,238	(45,984,642)	9,527,200
Profit / (loss) for the year		-	-	-	-	3,225,692	3,225,692
Transferred to Accumulated Losses		-	-	(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		-	-	-	(4,503)	-	(4,503)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		-	-	(233,442)	(453,789)	3,459,134	2,771,903
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Share based payments	25	-	418,228	-	-	-	418,228
BALANCE AT 30 JUNE 2019		52,845,649	2,387,741	-	9,449	(42,525,508)	12,717,331

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2019	Notes	Consolidated 2019 $	Consolidated 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments for exploration and evaluation costs		(1,142,140)	(3,365,123)
Payments to suppliers and employees		(834,626)	(811,829)
Interest received		190,871	13,592
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	24	(1,785,895)	(4,163,360)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of asset		14,739,071	-
Costs in relation to sale of asset		(397,071)	-
Loan to Cheetah Resources Pty Ltd		(1,700,000)	-
Payments for exploration expenditure		-	(680,421)
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES		12,642,000	(680,421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(57,687)	-
Repayment of loan		(1,345,350)	-
Proceeds from issue of shares		36,500	5,787,609
Payment of capital raising costs		-	(373,049)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		(1,366,537)	5,414,560
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,489,568	571,779
Cash and cash equivalents at the beginning of the financial year		3,219,228	2,674,830
Effects of exchange rate changes on cash and cash equivalents		-	(27,381)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	12,708,796	3,219,228

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Vital Metals Limited and its subsidiaries. The financial statements are presented in Australian dollars. Vital Metals Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 27 September 2019. The Directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Vital Metals Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Vital Metals Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New accounting standards and interpretations

New, revised or amended Accounting Standards and Interpretations adopted by the Group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

The adoption of these Accounting Standards and Interpretations are described below:

<u>AASB 9: Financial Instruments:</u>

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 July 2018. The Group has elected to restate comparative information.

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The changes in accounting policies resulting from the adoption of AASB 9 did not have a material impact on the Group's financial statements.

As of 30 June 2018 and 30 June 2019, the Group's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139	New measurement category under AASB 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

Refer to the relevant accounting policy disclosures for further details.

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

There is no impact on the cash flows of the Group from the application of AASB 9.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AASB 15: Revenue from Contracts with Customers:

The Group has adopted AASB 15 with a date of initial application of 1 July 2018. Based on the Directors' assessment there was no impact on the Group's existing revenue recognition policy arising from the adoption.

The Group has applied the AASB 15 cumulative effective method (ie by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018). Therefore, the comparative information has not been restated and continues to be reported under AASB 118: Revenue.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Standards issued but not yet effective

A number of new standards, amendment of standards and interpretations have recently been issued but are not yet effective and have not been adopted by the Group as at the financial reporting date.

The Group has reviewed these standards and interpretations, and with the exception of the items listed below for which the final impact is yet to be determined, none of the new or amended standards will significantly affect the Group's accounting policies, financial position or performance.

Reference and title	**Summary**	**Application date of standard ***	**Application date for Group ***
AASB 16 *Leases*	This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The Group is currently not party to any material lease agreements, therefore the initial adoption of this standard is not expected to have a material impact on the Group's financial statements.	1 January 2019	1 July 2019
* Designates the beginning of the applicable annual reporting period			

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2018.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value.

(b) Going Concern

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

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Vital Metals Limited ("Company" or "parent entity") as at 30 June 2019 and the results of all subsidiaries for the year then ended. Vital Metals Ltd and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

The Group has identified two reportable segments being exploration activities undertaken in Australia and Burkina Faso. These segments include the activities associated with the determination and assessment of the existence of commercially economic reserves, from the Group's mineral assets in these geographic locations.

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

(e) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is Vital Metals Limited's functional and presentation

(e) Foreign currency translation

(i) Functional and presentation currency (continued)

currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities, denominated in foreign currencies, are recognised in profit or loss.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to the functional currency as exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency difference are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other

comprehensive income. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(f) Finance income

Finance income comprises interest income earned on funds invested in bank accounts and call deposits. Interest is recognised on an accruals basis in the statement of profit or loss and other comprehensive income, using the effective interest method.

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated Group with effect from 3 October 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Vital Metals Limited.

The controlled entities have been fully compensated for all deferred tax assets and liabilities transferred to Vital Metals Limited on the date of forming a tax consolidated group. The entities have also entered into a tax sharing and compensation agreement where the wholly owned entities reimburse Vital Metals Limited for any current income tax payable or receivable by Vital Metals Limited in respect of their activities. The group has decided to use the “separate taxpayer within group” approach in accordance with UIG 1052 to account for the current and deferred tax amounts amongst the entities within the consolidated group.

(h) Leases

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 18). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) Impairment of assets

Assets, except for deferred tax assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the Group’s statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities
Financial liabilities are subsequently measured at:
- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:
- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition
Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial assets
A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:
- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (ie the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Derecognition of financial liabilities
A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.
The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment
The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income.

Loss allowance is not recognised for:
financial assets measured at fair value through profit or loss; or
equity instruments measured at fair value through other comprehensive income.

The Group uses the simplified approach to impairment, as applicable under AASB 9: Financial Instruments:

Simplified approach
The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times. This approach is applicable to:
- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (i.e diversity of customer base, appropriate groups of historical loss experience, etc).

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of expected credit losses in financial statements
At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.
For financial assets that are unrecognised (eg loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

(k) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the reporting period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. The rate of depreciation for buildings is 10% and for plant and equipment and office equipment the rates vary between 5% and 33.3% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

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.

(l) Exploration and evaluation expenditure

The Group applies the most appropriate accounting policy for exploration and evaluation expenditure incurred for each area of interest.

Exploration and evaluation expenditure for the Australian area of interest continue to be capitalised as follows:

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Company in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

a) The rights to tenure of the area of interest are current; and
b) At least one of the following conditions is also met:
   i. The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and
   ii. Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Government grants received in relation to exploration and evaluation expenditure are recorded as a deduction in the carrying value of the asset.

Exploration and evaluation expenditure is not depreciated as it is not yet ready for use.

Impairment testing of exploration and evaluation expenditure

Exploration and evaluation expenditure is assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.
Exploration and evaluation expenditure is tested for impairment when any of the following facts and circumstances exist:

The term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;

- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit that is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy note 1(i).

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

(m) Employee benefits

(i) Annual leave and long service leave

Liabilities for annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') - refer to note 27.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using an appropriate option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

to the liability.

Site Restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration is recognised in respect of the estimated cost of rehabilitation, decommissioning and restoration of the area disturbed during exploration activities up to reporting date, but not yet rehabilitated. Such activities include dismantling infrastructure, removal and treatment of waste material, and land rehabilitation, including re-contouring, topsoiling and revegetation of the disturbed area.

The amount recognised as a liability represents the estimated future costs discounted to present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost in the income statement.

A corresponding asset is recognised in Property, Plant and Equipment only to the extent that it is probable that future economic benefits associated with the rehabilitation, decommissioning and restoration expenditure will flow to the entity.

Costs arising from unforeseen circumstances, such as contamination from discharge of a toxic material, are recognised as a provision with a corresponding expense recognised in the income statement when an obligation, which is probable and capable of reliable estimation, arises.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and are added to, or deducted from, the related asset where it is probable that future economic benefits will flow to the entity.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

(p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(q) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the respective taxation authorities, are presented as operating cash flows.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(t) Critical accounting estimates and judgements

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Share-based payment transactions

The fair value of employee share options/performance rights are measured using an appropriate binomial option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to fluctuations in foreign exchange rates of the CFA Franc in relation to its activities in Burkina Faso. The group maintains minimal working capital in Burkina Faso and only transfers cash funds as required, as such the Consolidated Statement of Financial Position exposure at any point in time is not significant. Foreign exchange risk will also arise from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The Group is also exposed to fluctuations in interest rates in relation to its cash deposits and commodity prices in relation to the carrying value of its exploration and evaluation assets. The Group monitors all of the above-mentioned risks and takes action as required.

The Group's exposure to interest rate risk, and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.

	Weighted Average Interest Rate %	Variable Interest Rate $	Fixed Interest Rate $	Non-Interest Bearing $	Total $
2019					
Financial Assets					
Cash and cash equivalents	1.92	**12,708,796**	**-**	**-**	**12,708,796**
Trade and other receivables		**-**	**-**	**135,521**	**135,521**
		12,708,796	**-**	**135,521**	**12,844,317**
Financial Liabilities					
Trade and other payables		**-**	**-**	**126,717**	**126,717**
		-	**-**	**126,717**	**126,717**
Net financial assets/(liabilities)		**12,708,796**	**-**	**8,804**	**12,717,600**
2018					
Financial Assets					
Cash and cash equivalents	0.8	**3,219,228**	**-**	**-**	**3,219,228**
Trade and other receivables		**-**	**-**	**166,281**	**166,281**
		3,219,228	**-**	**166,281**	**3,385,509**
Financial Liabilities					
Trade and other payables			**-**	**558,075**	**558,075**
Borrowings	9.05	**1,367,066**	**-**	**-**	**1,367,066**
		1,367,066	**-**	**558,075**	**1,925,142**
		1,852,162	**-**	**(391,794)**	**1,460,368**

At 30 June 2019, if interest rates had changed by -/+ 25 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been $5,514 higher/lower (2018: -/+ 25 basis points, $8,048 higher/lower) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group's exposure to credit risk is low and limited to cash and cash equivalents and other receivables. The majority of cash and cash equivalents $12,708,796 at 30 June 2019 ($3,219,228 at 30 June 2018) are held with financial institutions that have a AA- credit rating (Standard & Poor's).

The maximum exposures to credit risk are the amounts as shown in the Statement of Financial Position.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

2. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group has limited access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are due within 12 months of the reporting date. All other financial liabilities were fully repaid during the year.

The following are the contractual maturities of trade and other payables:

	Carrying Amount $	Contractual Cash Flow $	6 Months or Less $	6 – 12 Months $	1 – 2 Years $
2019					
Non-derivative financial liabilities					
Trade and other payables	**126,717**	**126,717**	**126,717**	-	-
Borrowings	-	-	-	-	-
	126,717	**126,717**	**126,717**	-	-
2018					
Non-derivative financial liabilities					
Trade and other payables	558,075	558,075	558,075	-	-
Borrowings	1,367,066	1,367,066	1,367,066	-	-
	1,925,142	1,925,142	1,925,142	-	-

(d) Accounting classification of Fair Values

The carrying amounts of all financial assets and liabilities approximate their respective net fair values at reporting date.

Fair value estimation

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

Fair value, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Borrowings

Fair value, which is determined for disclosure purposes, at the time of for establishing the financial liability and based on the present value of the remaining cash flows, discounted at the assessed weighted average cost of capital.

Notes to the Consolidated Financial Statements continued

30 JUNE 2019

3. SEGMENT INFORMATION

The consolidated entity has two reportable segments being mineral exploration and prospecting for minerals in Australia and Burkina Faso. During the year, the entity disposed of its interests in its Australian exploration and processing segment. Further segment reporting information is provided in Note 1(d).

	Australia		Burkina Faso		Consolidated Total	
	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$
Segment income	4,364	10,742	-	-	4,364	10,742
Reconciliation of segment income to total revenue before tax:						
Profit from discontinued operation					6,936,513	-
Interest revenue					220,535	13,721
Total revenue					7,161,412	24,463
Segment profit / (loss)	6,711,911	(1,681,044)	(441,310)	(463,286)	6,270,601	(2,130,609)
Reconciliation of segment profit to net profit before tax:						
Depreciation					(747)	(4,144)
Personnel expenses					(507,438)	(457,445)
Finance expense					(35,911)	(184,323)
Provision for impairment					(1,700,000)	-
Other corporate and administration					(800,813)	(476,908)
Net loss before tax					(3,225,692)	(3,253,430)
Segment operating assets	-	3,331,532	-	60,000	-	3,391,532
Reconciliation of segment operating assets to total assets:						
Cash and cash equivalents (head office)					12,708,796	3,177,288
Receivables (head office)					135,251	148,303
Property, plant & equipment (head office)					-	6,848,221
Total assets					12,844,047	13,565,343
Segment operating liabilties	-	-	12,150	1,684,454	12,150	1,684,454
Reconciliation of segment operating liabilities to total liabilities:						
Payables and provisions (head office)					114,567	986,563
Borrowings (head office)					-	1,367,126
Total liabilities					126,717	4,038,143

4. NET FINANCIAL INCOME

	Consolidated	
	2019	2018
	$	$
Interest income	220,535	13,721
Interest expense	(35,911)	(184,323)
Net finance income/(expense)	184,624	(170,603)

Notes to the Consolidated Financial Statements continued

	Consolidated 2019 $	Consolidated 2018 $
5. EXPENSES		
The following significant expense items not separately highlighted in the Statement of Profit or Loss and Other Comprehensive Income are relevant in explaining the financial performance:		
Share-based payments – consulting / director fees (refer also note 25)	418,228	83,309
Depreciation of non-current assets in administration expenses		
Plant and equipment	26	2,919
Furniture and equipment	721	1,225
Total depreciation	747	4,144
Personnel expenses		
Wages and salaries	312,346	417,401
Contributions to defined contribution superannuation funds	19,176	40,044
Termination	175,916	-
Total personnel expenses	507,438	457,445
Provision for recoverability		
Loan to Cheetah Resources Pty Ltd*	1,700,000	-

*The Group has agreed to provide an unsecured loan facility to Cheetah Resources Pty Ltd of up to A $3,000,000 (subsequently increased to A $4,500,000) at an annual interest rate of 12%. In the event shareholder approval for the acquisition of Cheetah Resources Pty Ltd is not obtained or due diligence is not satisfactorily completed, the loan is due and payable on the date that is 12 months after the shareholder meeting. The Group has decided to conservatively provide for the loan as at 30 June 2019 on the basis that it is the primary source of funding for Cheetah Resources Pty Ltd.

6. INCOME TAX

(a) The major components of income tax are:

	2019 $	2018 $
Statement of Profit or Loss and Other Comprehensive Income		
Current income tax		
Current income tax benefit	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Unused tax losses not recognised as deferred tax asset	-	-
Tax rebate from R&D activities	-	-
Income tax benefit reported in the Statement of Profit or Loss and Other Comprehensive Income	-	-
The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss. The differences are:		
Accounting loss	(3,710,821)	(3,248,340)
Prima facie tax benefit at the Australian tax rate of 30% (2018: 30%)	(1,113,246)	(974,502)
Add tax effect of:		
Non-deductible items	635,907	35,065
Sale of subsidiary	-	4,444,696
Burkina Faso operations not brought to account	132,393	150,594
Less tax effect of:		
Capital raising costs	-	(6,005)
Utilisation of tax losses not brought to account	-	(3,649,847)
Tax losses not brought to account	344,946	-
Income tax benefit	-	-

Notes to the Consolidated Financial Statements continued

6. INCOME TAX (CONTINUED)

	Consolidated 2019 $	Consolidated 2018 $
(b) Deferred income tax		
Statement of Financial Position		
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Property, plant and equipment – depreciation	1,138	5,732
Accrued income	9,629	
Exploration expenses	-	2,508,572
Set-off against tax assets	(10,767)	(2,514,304)
	-	-
Deferred tax assets		
Tax value of losses carried forward	8,223,618	7,808,597
Set-off of deferred tax liability	(10,767)	(2,514,304)
Accrued expenses	17,912	21,000
Provisions	-	133,980
Other prepayments/capital expenditure	109,566	163,434
Non-recognition of deferred tax assets	(8,340,329)	(5,612,707)
	-	-

(c) Tax losses

At 30 June 2019, the Consolidated Entity has $27,412,059 (2018: $26,028,658) of taxable losses that are available for offset against future taxable profits of the consolidated entity, subject to the loss recoupment requirements in the Income Tax Assessment Act 1997. During the year ended 30 June 2018, the Consolidated Enity had taxable income of $8,100,530 which comprise mainly the capital gains from the sale of a subsidiary company, NQT. Albeit the sale was completed in 2019 income year, the terms of the agreement were effective prior to 30 June 2018 for the purpose of Capital Gains Tax. Carried forward losses of $8,100,530 were applied against the taxable income on the basis that the Consolidated Entity satisfied the loss recoupment requirements in the Income Tax Assessment Act 1997.

No deferred tax asset has been recognised in the Statement of Financial Position in respect of the amount of these losses, as it is not presently probable future taxable profits will be available against which the Company can utilise the benefit.

	2019 $	2018 $
Unrecognised deferred tax assets		
Tax losses – revenue (at 30%)	8,223,618	7,808,597

(d) Tax consolidation legislation

Vital Metals Ltd and its controlled entities implemented the tax consolidations legislation as of 4 October 2005. The Australian Tax Office was notified of this decision on lodgement of the 2006 income tax return.

Upon the completions of the sale of subsidiary, North Queensland Tungsten has exited the consolidated group as at 9 August 2018. Vital Metals Ltd remains the head entity of the consolidated group for income tax purposes.

(e) Corporate Tax Rate

In 2018, the government enacted a change in the eligibility to access the lower income tax rate for small business entities of 27.5%. Vital Metals Ltd does not satisfy these requirements and is therefore subject to the corporate tax rate of 30%.

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash at bank and on hand	708,796	3,210,478
Short-term deposits	12,000,000	8,750
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	12,708,796	3,219,228

Refer to note 2 for the Group's exposure to interest rate risk and credit risk.

Notes to the Consolidated Financial Statements continued

8. NON-CURRENT ASSETS – EXPLORATION & EVALUATION EXPENDITURE

		Consolidated	
		2019	2018
		$	$
Exploration and evaluation expenditure			
Costs carried forward in respect of areas of interest in the exploration and evaluation phases:			
Opening net book amount		**-**	**7,588,322**
Exploration expenditure		**849,677**	**4,261,072**
Exploration expenditure – expensed		**(849,677)**	**(3,365,123)**
Transfer to Assets held for Sale (see note 9)	9	**-**	**(8,484,271)**
Closing net book amount		-	-
The closing balances relate to the following areas of interest:			
Watershed Tungsten Project, Queensland		-	-
Nahouri Gold Project, Burkina Faso		-	-
Bouli Project, Niger		-	-
Aue Cobalt Project, Germany		-	-
		-	-

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

The Group undertakes at least on an annual basis a comprehensive review for indicators of impairment of these assets. There is significant estimation in determining the inputs and assumptions used in determining the recoverable amounts. The key areas requiring estimation and assumptions may include: recent drill results and reserves and resource estimates; fundamentals and economic factors such as commodity prices; exchange rates and current and anticipated operating costs in the industry; and the Group's market capitalisation compared to its net assets and independent valuations that may be available.

Notes to the Consolidated Financial Statements continued

9. ASSETS/LIABILITIES HELD FOR SALE

	Consolidated 2019 $	Consolidated 2018 $
Assets		
Exploration capitalised	-	8,484,271
	-	**8,484,271**
Liabilities		
Site Restoration provision	-	(400,000)
	-	**(400,000)**
Net assets held for sale	**-**	**8,084,271**

On 2 May 2018, the Company announced the signing of a binding term sheet to sell 100% interest of the Watershed Tungsten Project (**Watershed)** to ASX-listed company Tungsten Mining NL (TGN). The agreed consideration for Watershed was for $14,739,704 cash.

The Watershed sale was completed on 10 August 2018.

10. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated 2019 $	Consolidated 2018 $
Trade creditors and accruals	**126,717**	**558,075**

Carrying value is considered to approximate fair value. Refer to note 2 for the Group's interest rate and liquidity risk.

11. NON-CURRENT LIABILITIES – BORROWINGS

Bank facility at amortised cost	**-**	**1,367,126**

During the year the Group fully settled the outstanding Macquarie Bank Loan facility subsequent to the disposal of the Watershed Tungsten Project. Furthermore, an Amendment and Restated Royalty Deed for the Watershed Project has been executed, with Tungsten Mining NL assuming the royalty obligation owing to Macquarie Bank.

Notes to the Consolidated Financial Statements continued

12. NON-CURRENT LIABILITIES – PROVISIONS

Site Restoration Provision			
Opening balance		-	400,000
Transfer to Held for Sale Assets/Liabilities	9	-	(400,000)
Closing balance		-	-

13. CONTRIBUTED EQUITY

(a) Share capital

	Notes	2019 Number of shares	2019 $	2018 Number of shares	2018 $
Ordinary shares fully paid	13(b), 13(d)	1,742,611,288	52,845,649	1,742,611,288	52,845,649
Total contributed equity		1,742,611,288	52,845,649	1,742,611,288	52,845,649

(b) Movements in ordinary share capital

	2019 Number of shares	2019 $	2018 Number of shares	2018 $
Beginning of the financial year	1,742,611,288	52,845,649	1,055,751,226	47,810,512
Issued during the year:				
- Placement 25 September 2017	-	-	263,937,807	1,981,409
- Placement 5 April 2018	-	-	329,922,257	2,969,300
- Placement 26 June 2018	-	-	92,999,998	837,000
Less: transaction costs		-		(752,572)
End of the financial year	1,742,611,288	52,845,649	1,742,611,288	52,845,649

(c) Movements in options on issue	Number of options 2019	Number of options 2018
Beginning of the financial year	231,182,434	186,937,742
Issued during the year:		
– Exercisable at 1.2 cents and expiring 24 November 2019	-	28,931,825
– Exercisable at 1.0 cents and expiring 17 November 2021	-	25,000,000
– Exercisable at 1.5 cents and expiring 19 July 2022	32,666,667[(1)]	-
Expired/cancelled during the year:		
– Exercisable at 4.0 cents on or before 24 November 2017	-	(9,687,133)
– Exercisable at 2.7 cents on or before 25 November 2018	14,096,763	-
– Exercisable at 1.625 cents on or before 31 December 2018	86,153,846	-
End of the financial year	163,598,492	231,182,434

(1) These options were granted on 20 June 2018, but were issued on 19 July 2018.

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Consolidated Financial Statements continued

13. CONTRIBUTED EQUITY (continued)

(e) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. The Board's focus has been to raise sufficient funds through equity (via rights issues and placements) to fund exploration and evaluation activities. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Management also monitor capital through the assessment of adequate working capital. The working capital as at 30 June 2019 is shown below:

	Consolidated	
	2019	2018
	$	$
Current assets	**12,844,047**	**11,869,780**
Current liabilities	**(126,717)**	**(2,362,240)**
Working capital	**12,717,330**	**9,507,540**

14. RESERVES

(i) Share based payment reserve

The share-based payments reserve is used to recognise the fair value of options issued. Refer to note 25 for details.

(ii) Convertible note reserve

The convertible note reserve is used to recognise the fair value of the equity component of the convertible loan facility as described in Note 11.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(e). The reserve is recognised in profit or loss when the net investment is disposed of.

15. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

	Consolidated	
	2019	2018
	$	$
Key management personnel compensation		
Short-term benefits	**326,824**	**547,059**
Post-employment benefits	**14,581**	**40,478**
Termination	**175,916**	**-**
Share-based payments	**418,228**	**61,351**
	935,549	**648,888**

Other transactions:

Mr Zane Lewis was appointed a director on 6 February 2019. For the period from February 2019 to balance date, Smallcap Corporate Pty Ltd (an entity which Mr Lewis has a beneficial interest) provided company secretary and financial accounting services to the Company. Total fees incurred to Smallcap Corporate Pty Ltd for the services up to 30 June 2019 was $18,995.

Other disclosures regarding key management personnel are made in the remuneration report on pages 9 to 12.

Notes to the Consolidated Financial Statements continued

17. REMUNERATION OF AUDITORS

	Consolidated	
	2019	2018
	$	$
Remuneration of the auditor of the parent entity for:		
Audit and review of financial reports	**36,801**	**42,333**

No non-audit services were performed during 2019 or 2018.

18. COMMITMENTS

(a) Exploration commitments

Following the disposal of the Watershed Tungsten project, the Group currently has no exploration related minimum spend commitments (2018: $265,000).

	Consolidated	
	2019	2018
	$	$
(b) Lease commitments: Group as lessee		
Operating leases (non-cancellable):		
Minimum lease payments	-	-
within one year	-	-
later than one year but not later than five years	-	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	-	-

19. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Vital Metals Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 20.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

(d) Loans to related parties

Vital Metals Ltd has provided unsecured, interest free loans to each of its wholly owned subsidiaries totalling $30,464,241 at 30 June 2019 (2018: $29,981,397).

Notes to the Consolidated Financial Statements continued

20. DISCONTINUED OPERATIONS

On 10 August 2018, the Company disposed of 100% of its interest in their subsidiary North Queensland Tungsten, including the Watershed Tungsten Project in Queensland, to Tungsten Mining NL. The financial information relating to the discontinued operation for the period to the date of disposal is set out below.

	10 August 2018 $	30 June 2018 $
Revenue	-	5,997
Expenses	(23,709)	(3,357)
Other income	-	18,533
Profit/(Loss) before Income Tax	(23,709)	15,176
Income Tax (expense)/benefit	-	-
Results from Operating Activities after tax	(23,709)	15,176
Loss from Discontinued Operations	(23,709)	15,176
Cash flows from discontinued operations		
Net cash used in Operating Activities	(14,624)	(680,421)
Net cash flows for the period	(14,624)	(680,421)

Profit on Sale of subsidiary assets	10-Aug 2018 $
Consideration Received	
Cash	13,739,705
Escrowed funds	1,000,000
Total disposal consideration	14,739,705
Carrying amount of net assets sold	(7,855,407)
Costs of disposal	(397,071)
Gain on sale of subsidiary before income tax and reclassification of foreign currency translation reserve	6,487,227
Reclassification of foreign currency translation reserve	449,286
Income tax expense on gain	-
Gain on sale of subsidiary after reclassification of foreign currency translation reserve	6,936,513

21. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name	Country of Incorporation	Class of Shares	Equity Holding[(1)] 2019 %	Equity Holding[(1)] 2018 %
North Queensland Tungsten Pty Ltd[(2)]	Australia	Ordinary	-	100
Vital Metals Burkina Sarl	Burkina Faso	Ordinary	100	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.
(2) North Queensland Tungsten Pty Ltd was disposed on 10 August 2018 as described in Note 20.

Notes to the Consolidated Financial Statements continued

22. CONTINGENCIES

No contingent liabilities exist as at the date of this report.

23. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no significant events after the reporting date.

	Consolidated 2019 $	Consolidated 2018 $
24. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net profit / (loss) for the year	**3,225,692**	**(3,253,430)**
Non-Cash Items		
Write-off of property, plant and equipment	**19,660**	**4,144**
Share based payments	**418,228**	**83,309**
Provision for impairment	**1,700,000**	**-**
Other Adjustments		
(Profit) on sale of non-current assets	**(6,936,513)**	**-**
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease/(increase) in trade and other receivables	**31,030**	**(96,785)**
(Decrease)/increase in trade and other payables	**(206,953)**	**(873,217)**
(Decrease)/increase in provisions	**(37,039)**	**-**
Net cash outflow from operating activities	**(1,785,895)**	**(4,163,360)**

There were no non cash investing during the year (2018: Nil). Non cash financing activities of nil (2018: $58,903).

Notes to the Consolidated Financial Statements continued

	Consolidated 2019 $	Consolidated 2018 $
25. LOSS PER SHARE		
(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	**3,225,692**	(3,253,430)
	Number of shares	**Number of shares**
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share.	**1,742,611,288**	1,573,787,505

(c) Information on the classification of options

As at 30 June 2019, the there were 25,000,000 options that were dilutive. The dilutive earnings per share including these options is 1.85 cents.

26. SHARE-BASED PAYMENTS

(a) Broker options

The terms and conditions relating to the grants of the broker options are as follows, with all options to be settled by physical delivery of shares:

Grant Date	Expiry Date	Exercise Price	Number Outstanding at Year End 2019	Number Outstanding at Year End 2018
12 May 2017	30 April 2021	$0.02	**50,000,000**	**50,000,000**
15 September 2017	17 November 2021	$0.01	**25,000,000**	**25,000,000**
20 March 2018	19 July 2022	$0.015	**30,000,000**	**-** [(1)]
			105,000,000	**75,000,000**

(1) 30,000,000 Broker options were granted on 20 June 2018, but issued 19 July 2019.

The weighted average fair value of options granted during 2018 was 0.8 cents. The value of the options has been recognised as a capital raising expense. There were no options granted during the year.

The value of services received was unable to be reliably measured and therefore, the price was calculated by using a Black Scholes model applying the following inputs.

Valuation information

$0.015 Options, grant date 20 March 2018	
Exercise price (cents)	1
Life of the option (years)	4.08
Expected share price volatility	120%
Risk free interest rate	2.12%
Share price grant date	1.1

Notes to the Consolidated Financial Statements continued

26. SHARE-BASED PAYMENTS (continued)

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.

(b) Employee Share Option Plan

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

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

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

The terms and conditions relating to the grants of the share option plan are as follows, with all options to be settled by physical delivery of shares:

			Number Outstanding at Year End	
Grant Date	Expiry Date	Exercise Price	2019	2018
25 November 2016	25 November 2018	$0.027	**-**	**14,096,763**
23 March 2017	30 April 2021	$0.023	**27,000,000**	**27,000,000**
17 November 2017	24 November 2019	$0.012	**28,931,825**[1]	**28,931,825**[1]
20 June 2018	19 July 2022	$0.015	**2,666,667**	**-** [2]
			58,598,492	**70,028,588**

(2) Options issued to Mark Strizek split between Tranche A and Tranche B. The Tranche B options did not meet its vesting conditions.

(3) 2,666,667 Advisor options were granted on 20 June 2018, but were issued on 3 September 2018.

Set out below are summaries of the employee options granted:

	Consolidated			
	2019		2018	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	70,028,588	1.93	50,783,896	2.74
Granted	-	-	28,931,825	1.2
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired	(14,096,763)	2.70	(9,687,133)	4
Outstanding at year-end	58,598,492	1.70	70,028,588	1.93
Exercisable at year-end	58,598,492	1.70	70,028,588	1.93

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.18 years (2018: 1.17 years), and the exercise price ranges from 1.2 to 2.3 cents.

There were no share options exercised in 2019 or 2018.

Notes to the Consolidated Financial Statements continued

26. SHARE-BASED PAYMENTS (continued)

Valuation information

Advisor Options	
Exercise price (cents)	1.5
Life of the option (years)	4.08
Fair value per option (cents)	0.57
Expected share price volatility	120%
Risk free interest rate	2.12%
Share price at grant date – 20 June 2018	1.1

(c) Performance rights

On 1 May 2019, it was approved by shareholders at the notice of meeting to issue to Mr Phillip Coulson and Mr Zane Lewis the following performance rights:

	Phillip Coulson	**Zane Lewis**	**Total**	**Value per instrument**
Class A	6,250,000	6,250,000	12,500,000	$.0.0073
Class B	10,000,000	10,000,000	20,000,000	$0.0072
Class C	12,500,000	12,500,000	25,000,000	$0.0069

The milestones of each class of performance rights are noted below:

Class A: to vest on the date that the 10 day VWAP for the Shares on the ASX is $0.012 or higher on or before 28 February 2023.

Class B: to vest on the date that the 10 day VWAP for the Shares on the ASX is $0.015 or higher on or before 28 February 2023.

Class C: to vest on the date that the 10 day VWAP for the Shares on the ASX is $0.02 or higher on or before 28 February 2023.

The performance rights were valued using a hybrid ESO model, with the following material inputs:

Share price at grant date – 1 May 2019	$0.0085
Life of the performance right (years)	3.83 years
Expected share price volatility	125%
Risk free interest rate	1.31%
Exercise multiple	2.5

(d) 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 employees/directors	**10,978**	**83,309**
Performance rights issued to directors	**407,250**	**-**
	418,228	**83,309**
Shares issued for capital raising (value based on options value)	**-**	**379,523**

Notes to the Consolidated Financial Statements continued

27. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Vital Metals Limited, at 30 June 2019. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2019 $	2018 $
Current assets	12,760,645	3,289,424
Non-current assets	-	6,207,011
Total assets	12,760,645	9,496,435
Current liabilities	114,567	324,786
Non-Current liabilities	-	1,367,126
Total liabilities	114,567	1,691,912
Contributed equity	52,845,649	52,845,649
Reserves	2,397,189	2,202,955
Accumulated losses	(42,596,760)	(47,244,083)
Total equity	12,646,078	7,804,522
Profit for the year	4,647,323	(4,442,622)
Total comprehensive loss for the year	4,199,401	(1,442,622)

The parent entity did not have any guarantees, contingent liabilities, or any contractual commitments for the acquisition of property, plant and equipment, as at 30 June 2019 or 30 June 2018.

Directors' Declaration

In the directors' opinion:

(a) the consolidated financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes set out on pages 15 to 43 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2019, comply with Section 300A of the *Corporations Act 2001*; and

(d) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in note 1(a) to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Francis Harper

Francis Harper
Chairman

Perth, 27 September 2019

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INDEPENDENT AUDITOR'S REPORT

To the members of Vital Metals Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Vital Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with 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 (the Code) that are relevant to our audit of the 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 in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for share-based payments

Key audit matter	How the matter was addressed in our audit
During the year, the Group agreed to issue performance rights to key management personnel and employees, which have been accounted for as share-based payments as disclosed in Note 25 to the financial report. Share-based payments are a complex accounting area and due to the judgemental estimates used in determining the fair value of the share-based payments in accordance with AASB 2: Share-based Payments, we consider management's calculation of the share-based payments expense to be a key audit matter.	Our procedures included, but were not limited to the following: • Reviewing relevant supporting documentation to obtain an understanding of the contractual nature, terms and conditions of the share-based payment arrangements; • Considering the appropriateness of the methodology and date of valuation used by management to assess the fair value of the share-based payments; • Assessing the competency and objectivity of the valuation expert used by management to determine the fair value of the share-based payments; • Assessing the reasonableness of the share-based payment expense; and • Assessing the adequacy of the related disclosures in Note 1(t) and 25 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Vital Metals Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue

Director

Perth, 27 September 2019

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 26 September 2019.

(a) Distribution of quoted equity securities

Analysis of numbers of quoted equity security holders by size of holding:

			Ordinary shares	
			Number of holders	Number of shares
1	-	1,000	39	4,983
1,001	-	5,000	18	55,045
5,001	-	10,000	16	127,929
10,001	-	100,000	505	37,832,995
100,001		and over	1,206	1,704,590,337
			1,784	1,742,611,289
The number of shareholders holding less than a marketable parcel of shares are:			160	2,956,641

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	TROICA ENTERPRISES PTY LTD	162,100,000	9.30%
2	EQUIPMENT COMPANY OF AUSTRALIA PTY LIMITED	68,158,174	3.91%
3	AUSDRILL INTERNATIONAL PTY LTD	68,000,000	3.90%
4	MR GAVIN JEREMY DUNHILL	54,000,000	3.10%
5	MR ALEXANDER MICHAEL WORT	35,000,000	2.01%
6	MR MARK JOHN BAHEN & MRS MARGARET PATRICIA BAHEN <MJ BAHEN SUPER FUND A/C>	32,687,368	1.88%
7	CITICORP NOMINEES PTY LIMITED	29,386,963	1.69%
8	MR CAIGEN WANG	25,143,253	1.44%
9	OCEAN VIEW WA PTY LTD	24,000,000	1.38%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,545,296	1.24%
11	HAMMERHEAD HOLDINGS PTY LTD <HHH S/F A/C>	20,250,000	1.16%
12	JEUMONT PTY LTD <DMM SUPER FUND A/C>	20,000,000	1.15%
12	MR SIMON NAPOLI	20,000,000	1.15%
12	BLU BONE PTY LTD	20,000,000	1.15%
13	ARGONAUT EQUITY PARTNERS PTY LIMITED	19,696,667	1.13%
14	NEREENA PTY LTD <NEREENA SUPER FUND>	18,922,473	1.09%
15	BNP PARIBAS NOMS PTY LTD <UOB KAY HIAN PRIV LTD DRP>	18,565,000	1.07%
16	MR RUSSELL GREGORY GARROD	15,000,000	0.86%
16	ZERRIN INVESTMENTS PTY LTD	15,000,000	0.86%
17	GECKO RESOURCES PTY LTD	14,000,000	0.80%
18	MR FRANCIS ROBERT HARPER	11,700,000	0.67%
19	MRS VANESSA ANN STEWART	10,000,000	0.57%
19	FLUE HOLDINGS PTY LTD	10,000,000	0.57%
20	HAROLD CRIPPS HOLDINGS PTY LTD	9,600,000	0.55%
	Total	**742,755,194**	**42.62%**
	Total issued capital - selected security class(es)	**1,742,611,289**	**100.00%**

(c) Substantial shareholders

As at 26 September 2019 there was one substantial shareholder who had notified the Company in accordance with section 671B of the *Corporations Act 2001* as having a substantial interest of 5% or more in the Company's voting securities.

		Listed ordinary shares	
		Number of shares	**Percentage of ordinary shares**
1	TROICA ENTERPRISES PTY LTD	162,100,000	9.30%

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. There are no voting rights attached to any class of options that is on issue.

(e) On-market Buy-Back

Currently there is no on-market buy-back of the Company's securities.

(f) Unquoted equity securities

The unquoted options outstanding are as follows:

Number	Class	Holders with more than 20% interest in that class
12,500,000	Class A Performance Rights	Phil Coulson (6,250,000) Zane Lewis (6,250,000)
20,000,000	Class B Performance Rights	Phil Coulson (10,000,000) Zane Lewis (10,000,000)
25,000,000	Class C Performance Rights	Phil Coulson (12,500,000) Zane Lewis (12,500,000)
50,000,000	Unlisted options exercisable at 2.0 cents expiring 30 April 2021	Argonaut Investments Pty Ltd (25,000,000) JSR Nominees Pty Ltd (12,500,000) Francis Harper (12,500,000)
27,000,000	Unlisted options exercisable at 2.3 cents expiring 30 April 2021	Mark Strizek (15,000,000) David Macoboy (6,000,000)
25,000,000	Unlisted options exercisable at 1.0 cents expiring 17 November 2021	Argonaut Investments Pty Ltd (12,500,000) JSR Nominees Pty Ltd (6,250,000) Francis Harper Pty Ltd (6,250,000)
28,931,825	Unlisted options exercisable at 1.2 cents expiring 14 November 2019	Susan Strizek (28,931,825)
32,666,667	Unlisted options exercisable at 1.5 cents expiring 19 July 2022	Argonaut Investments Pty Ltd (10,000,000) Francis Harper (10,000,000) Boston First Capital Pty Ltd (10,000,000)

(g) Corporate Governance

Pursuant to the ASX Listing Rules, the Company's Corporate Governance Statement will be released in conjunction with this report. The Company's Corporate Governance Statement is available on the Company's website at: https://www.vitalmetals.com.au/corporate/corporate-governance/

(h) ASX Listing Rule 5.13 Information

The Company has previously disclosed the foreign estimates in compliance with ASX Listing Rule 5.12 in the announcement dated 25 June 2019 titled "Vital to Transform into Rare Earth Oxide Developer" ("Announcement"). The Company is not in possession of any new information or data relating the foreign estimates that materially impacts on the reliability of the estimates or the Company's ability to verify the foreign estimates in accordance with Appendix 5A (JORC Code). The Company confirms that the supporting information provided in the Announcement continues to apply and has not materially changed.