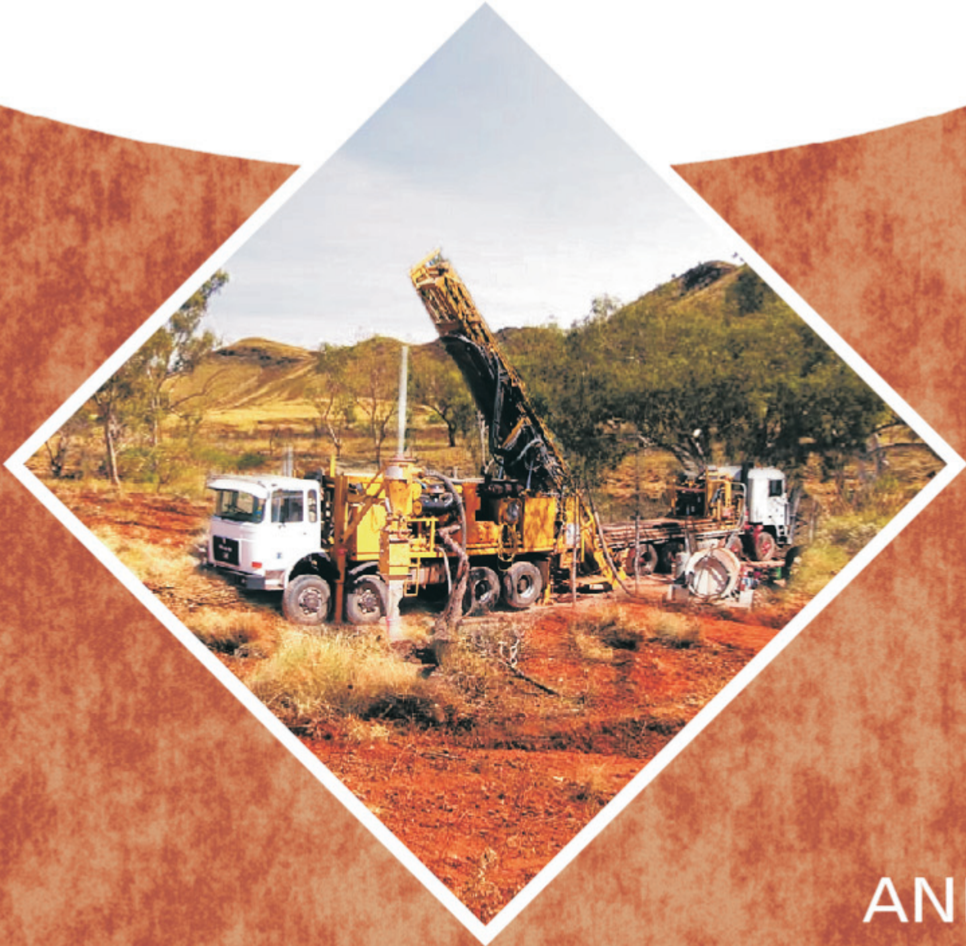
vitalmetals



ANNUAL
REPORT

10

Corporate Directory

Directors

David Macoboy
Non-Executive Chairman

Howard Carr
Managing Director

Andrew Simpson
Independent Non-Executive Director

Peter Cordin
Independent Non-Executive Director

Company Secretary

Manraj Khosa

Principal Office

Suite 44c, Cottesloe Central
460 Stirling Highway
Peppermint Grove WA 6011

Registered Office

23 Altona Street
West Perth WA 6005

Auditors

KPMG
235 St George's Terrace
Perth WA 6000

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Hwy
Applecross WA 6153

VITAL METALS LIMITED

ABN 112 032 596

Financial report for the year ended 30 June 2010

Contents

Chairman's Review

Dear Shareholder,

On behalf of the Directors of Vital Metals Limited, it is my pleasure to present to you the company's 2010 Financial Year Annual Report, my first as Chairman.

I have a background in international finance and fund raising whilst Dr Carr our new CEO / Managing Director is an experienced precious, base and industrial minerals explorer, and project manager / promoter. We are joined by new Non-Executive Director Peter Cordin who has taken a number of Australian resource companies from explorer to producer status, including the highly successful Dragon Mining, where he is currently Executive Chairman. I am confident the new team at Vital, together with founding Non-Executive Director Andrew Simpson possess the necessary skill set and determination to fully capitalise on the opportunities within our expanded portfolio.

Vital was incorporated in Australia with the objective of becoming an Australian tungsten producer. To that end, the company spent $18m taking our flagship "Watershed" tungsten deposit in Far North Queensland to pre-feasibility study. The Watershed deposit has a JORC Indicated Resource of 15.1Mt @ 0.46% WO_3 for 69300 t of contained WO_3. Recent increases in the price of tungsten mean Watershed is inching closer to economic viability. We are confident Watershed will become a performing asset in the near to medium term.

In the meantime, Vital is targeting projects with strong potential for low cost extraction of commodities with a more attractive short term price-cycle profile. In November 2009, Vital signed a Farm-In letter agreement with Ampella Mining Ltd covering the Doulnia Gold Project, comprising the Doulnia and Campala Exploration Permits, in southern Burkina Faso. We have already completed a thorough review of previous exploration within the project area and proximal to it, acquired satellite and airborne geophysics, covered nearly half of the Birimian Greenstone Belt within our tenement area with soil and rock chip sampling, geologically mapped key areas, and drilled several artisanal workings, with results that exceeded our expectations.

Our work to date has identified two areas of high-grade gold mineralisation, worthy of further investigation. Ongoing work, including interpretation of recently acquired aeromagnetic and radiometric data and our continually expanding soil sampling database will identify new drill targets. The directors of Vital Metals consider Burkina Faso to be a stable, pro-mining, and under-explored country, among the most attractive for gold exploration in West Africa.

We have raised sufficient new funds during the latter part of FY2009 to complete a significant follow-up drill programme at the end of the west season, starting November 2010. In short we have made significant progress on our new gold project, whilst market conditions for the development of Watershed continues to improve.

Doulnia has for most of its history been explored for Zn and other base metals. In 2008 Ampella Mining recognized the gold potential of the project, secured more adjacent Birimian Greenstone terrain and focused exploration on gold.

In June Vital backed its belief in the prospectivity of Doulnia by lodging mineral Exploration Permit applications covering Birimian Greenstones along strike from Doulnia. Upon granting of these applications we will have access to over 900km2, in a contiguous block.

Vital aims to rapidly advance the Doulnia project to define an economic gold resource. Vital has utilised internal and external expertise to develop and refine a technically-focussed exploration programme, which we believe will deliver an efficient allocation of resources to maximise our exploration success, whilst minimising lead times and costs.

Vital has a strong relationship with its Farm-In partner Ampella Mining, and will be announcing the execution of a full Joint Venture Agreement between the two parties in the near future. Vital aims to take advantage of the head-start our Farm-In has secured, to emulate the recent success of Ampella and other Australian gold exploration companies in Burkina Faso.

On behalf of the Directors of Vital Metals, I welcome your support in our company and look forward to sharing our future successes with you.

David Macoboy

Chairman

Report on Activities

Highlights

- Executes Farm-In letter agreement with Ampella Mining covering Doulnia Gold Project in Burkina Faso.
- Completes Phase 1 soil and rock chip sampling, geological mapping and drill programme at Doulnia; shallow, high grade, wide, gold intersections.
- Completes high definition aeromagnetic & radiometric survey at Doulnia and engages consultants to undertake independent interpretation
- Applies for 2 new Exploration Permits adjacent to Doulnia project area.
- Completes sale of Mt Mulgine tungsten project.
- Attracts sophisticated European investors to share registry.
- David Macoboy appointed as Chairman, Peter Cordin appointed as Non-Executive Director, Howard Carr appointed as Chief Executive Officer / Managing Director
- Bill Ryan retires as Chairman, Paul Benson retires as Non-executive Director
- Raises $3.4m in three tranches

Operations

Doulnia

During the December 2009 quarter Vital Metals completed a thorough due diligence review of the Doulnia project, Burkina Faso (figure 1.) including two site visits.

Following a favourable review, Vital Metals executed the Doulnia project Farm-In letter agreement with Ampella Mining. Under the terms of the HoA, Vital agreed to expend A$1.5m to earn 60%, an additional A$2m to earn 70% and to complete a Pre-Feasibility Study to earn 80% interest in the project. The government of Burkina Faso have an agreement with Ampella to secure a 10% free carried interest in the mineral exploitation company, which will result in Vital earning a maximum 72% interest (being 80% of 90%) in any mine developed within the existing Doulnia project area.

A summary of work completed on the Doulnia Project is provided below and a detailed review of more recent results (including those post June 30) is provided in the latest Investor Presentation on the company's website.

Summary of Exploration History of Doulnia Project

Date	Entity	Results
1970	UNDP	Prospectivity for Volcanogenic Massive Sulfide (VMS) mineralisation identified
1971	BRGM	Loubel and Koubongo Zn anomalies identified.
1992-1997	Incanore Resources	1356m RC drilling. Confirmation of VMS geology. Nabenia anomaly identified
1998-2001	Amercosa (Anglo American)	2814m RC, 412m DDH drilling. 14m @ 3.06% Zn, 2m@ 8.34% Zn, 164m @0.47%Zn
2007-2008	Ampella Mining	380m RC, 1901m DDH drilling. 2m @ 6.47% Zn, 1m @ 10.17% Zn, 1m @ 4.21% Zn, 5m@ 3.8% Zn
2008-2009	Ampella Mining	Multiple +250ppb Au in soil anomalies. 10m @ 7.87g/t Au (trench). Application for gold to be included as a Specific Commodity for exploitation. Farm-in with Vital Metals
2009-2010	Vital Metals	Artisanal vein @ 23.5g/t Au (rock chip). 1741m RC drilling. 31m @ 3.16g/t Au, 4m @ 18.71g/t Au, 18m @ 2.95g/t Au. High resolution aeromagnetic structural interpretation. Pressure shadow and dilation targets identified. Multiple + 200ppb Au in soil anomalies.

Report on Activities (continued)

Vital Metals has established a wholly owned subsidiary company in Burkina Faso "Vital Metals Burkina SARL" (VMB) to facilitate the implementation of the exploration activities in Burkina Faso.

Vital acquired ASTER satellite imagery covering the Doulnia Project area. Processed ASTER imagery firstly identified that around 43% of the Birimian Greenstone terrain within the tenements exhibit (sub)outcropping rocks, an attribute which greatly reduces the cost and improves the quality of all mineral exploration activities. Secondly, ASTER identified widespread zones of interpreted Au-related alteration. Alteration is a strong indicator of anomalous Au-related fluid flow; alteration haloes ubiquitously envelope lode gold deposits of the style we are targeting at Doulnia. Higher resolution alteration mapping studies utilising surface rock chip-based hyperspectral chlorite and white mica compositions are being undertaken.

Vital commenced on ground exploration activities at Doulnia focussed on the Kollo Prospects area, the most-well explored portion of the tenements (figure 1.) A soil sampling survey, on 200 x 50m centres covering some 20 square kilometres, has been completed. Soil sampling on 800 x 50m centres has been completed over another 50km2. Currently 3 soil sampling teams are operating and it is intended that all of our greenstone terrain will be covered with first pass soil sampling by the end of 2010.

In addition rock chips were collected from various sites: current-to-recently active artisanal workings, outcropping quartz veins and altered lithologies, within the Kollo area, which was also geologically mapped in detail. The regional geological map is continuously cross-checked and updated. Rock chip samples returned values of up to 23.5g/t Au as reported to ASX on 16 December, 2009.

During the June quarter 2010 Vital completed the first-ever gold-targeted drilling at Doulnia. The results of this "Phase 1 Drill Programme" were above expectations, with a number of shallow, high grade, wide gold intersections reported to ASX on 25th May.

Best results include:

- KRC001: **18m @ 2.95g/t gold** from 37m
  (incl. **4m @ 4.28 g/t gold** from 45m & **2m @ 9.56g/t Au** from 53m)
- KRC001: **4m @ 18.71g/t gold** from 76m (ended in mineralisation)
- KRC010: **5m @1.70g/t gold** from 30m
- KRC018: **2m @ 3.63g/t gold** from 41m
- KRC019: **31m @ 3.19g/t gold** from 34m
  (incl. **2m @ 16.91g/t gold** from 41m)

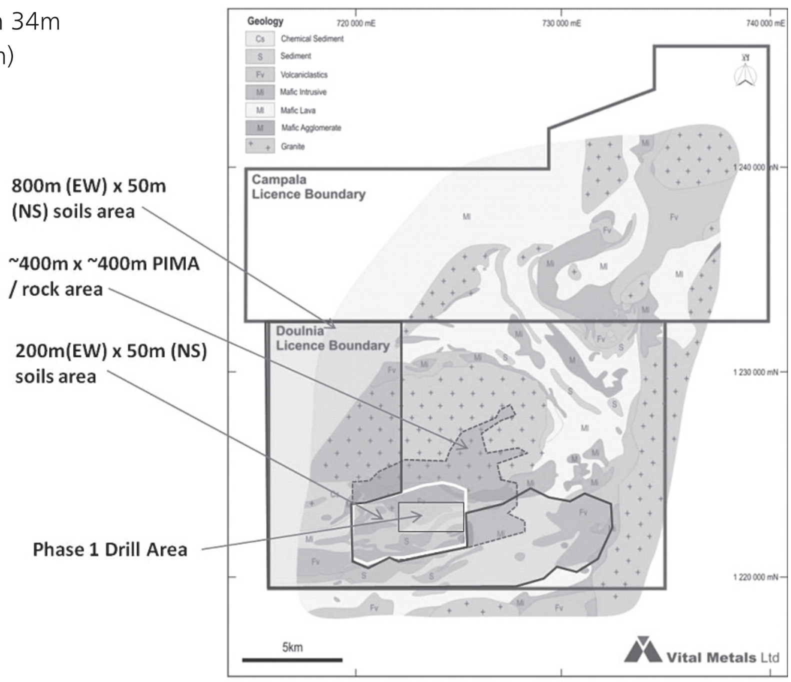


Figure 1. Geological map of Vital's current Doulnia Project area showing the extent of soil sampling completed to date and the bounding rectangle of the Phase 1 Drill Programme at the Kollo Prospect.

Report on Activities (continued)

The 24 Reverse Circulation (RC) drill holes of the Phase 1 Drill Programme tested around 4.6 km of strike of the sub-outcropping ENE-trending structure within the Kollo Prospect, with 58% of drillholes intersecting >0.5g/t Au. Two short "drill fences" of multiple, angled and overlapping drill holes were completed across a portion of the structure's strike, whilst the majority of other drillholes were individual drillholes into isolated outcropping targets. Significantly the drill fences, which more adequately tested the structure, identified two geographic areas containing the significant results reported above. Both of these areas will be further tested in the next phase of drilling.

An abundance of (sub)outcropping rocks exist within the Doulnia project area. This allows for cost-effective geological and structural mapping. Vital 's mapping continues in parallel with soil and rock chip sampling and may be further enhanced in 2011 with post graduate geology students from the University of Witwatersrand South Africa and/or University of Western Australia.

Vital completed the acquisition of high density (100m line spaced) aeromagnetic and radiometric data over the Doulnia project area, totalling around 4000 line kilometres. This data has been received and processed. Vital has completed an in-house interpretation of the data and is of the opinion that the structural architecture of the Doulnia project area is highly prospective for shear-zone hosted gold. The data package is currently with Fugro Airborne Services for independent structural and lithological interpretation.

Vital has also collected a suite of around 500 surface rock-chip samples for hyperspectral analysis, which has been shown to effectively map regional-to-local alteration haloes around large gold deposits and significantly increases our understanding of critical ore-forming fluid flow. Vital has engaged leading American geochemical consultant Dr Sue Drieberg of Geochemical Services Pty Ltd, to oversee the processing, interpretation and integration of the hyperspectral data with Vital's rapidly evolving datasets described above. This exercise will feed into the development of a comprehensive list of quantitatively-ranked exploration targets.

In the 7 months since Vital has taken over management of the Doulnia project, our understanding of the metallogenic potential of the project area has increased substantially. As the disparate datasets described above have been assembled and analysed, including Doulnia's favourable geotectonic setting at, or near to, the intersection of the Markoye Fault Corridor (host of Essakane, Tarpako, Kiaka, Bombore and Youga gold deposits of >13m oz combined resource/ reserve) and the 1200km long Bole Shear Zone (host to Castle's and Azumah's exciting gold projects), we have come to a greater understanding Doulnia's gold prospectivity.

Due to the Company's belief in the potential of the Doulnia area, 2 new Exploration Permit applications; "Zeko" adjacent to Doulnia and "Mediga" adjacent to Campla Permits (figure 2,) have been lodged. Upon granting of these permits Vital Metals will have access to a contiguous land holding of over 900km2, which enhances operational and strategic capacity and flexibility.

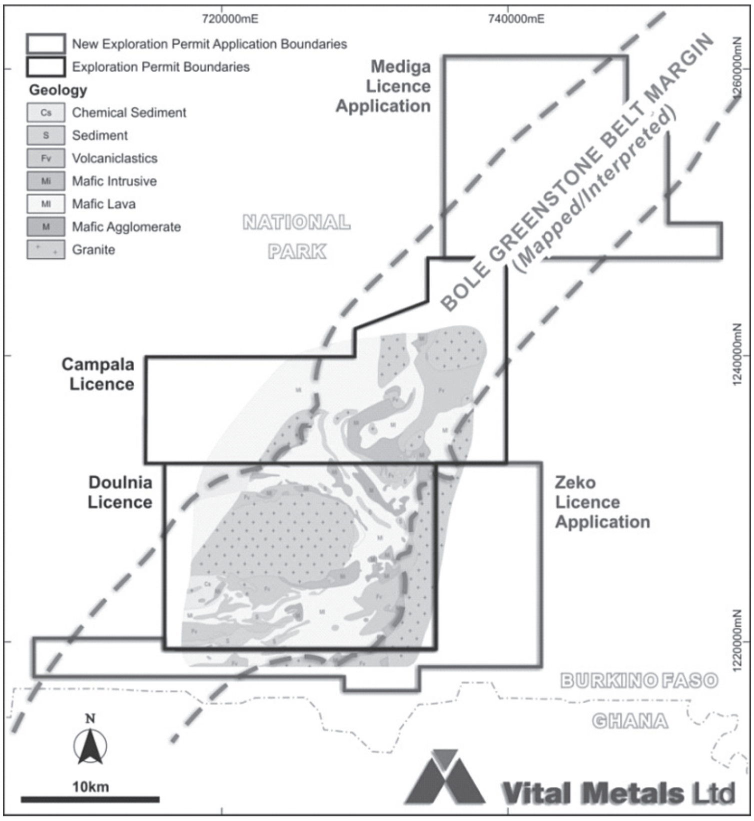


Figure 2. Vital's new applications and existing Exploration Permit boundaries at Doulnia

Report on Activities (continued)

The rainy season commenced in June in southern Burkina Faso, however soil and rock chip sampling and mapping continue unabated. Vital will integrate the results of geological mapping, ASTER interpretation, soil sampling, rock chipping, Phase1 drilling, and hysterspectral mineral analyses to prioritise drill targets for the next drill programme due to commence at the end of the wet season in November 2010.

The company looks forward to the results of this next phase of drilling and the anticipation of the definition of a gold resource at Doulnia.

Watershed, Queensland

Vital routinely updates the Watershed financial model using future Tungsten prices predicted by the Commodity Research Unit (CRU) and extrapolated to the proposed end of mine life, current exchange rates and up to date estimates of mining costs. Using a discount rate of 12.5% and these input parameters, Watershed's predicted internal rate of return is close to, but not yet at, the required benchmark of 15%. Vital will continue to monitor fluctuations in market conditions to take advantage of improved economics at the earliest opportunity.

Vital has prepared an Information Memorandum and a targeted Promotion Programme for expeditious implementation if / when Watershed is economically viable.

Work continues on the investigation and compliance issues related to progression of the Watershed EIS, including the monitoring of groundwater flows. The camp at Watershed remains on a care and maintenance basis.

Corporate

Changes to the Vital Board

Vital Metals appointed Dr Howard Carr as Chief Executive Officer and Managing Director effective as from December 2009 and February 2010, respectively. Dr Carr studied Economic Geology and has experience in sourcing, fund raising and developing exploration projects in Australia and overseas, as well as Biotech Venture Capital management. The Directors of Vital Metals believe Dr Carr's breadth of experience provide an excellent basis to progress the exciting Doulnia gold project, the advanced Watershed tungsten project and in assessing new opportunities for Vital as they arise.

Vital Metals appointed Mr David Michael Macoboy as a Director and Chairman of the company, effective January 5th 2010. Mr Macoboy is a Professional Director. Since 1992 he has served on the board of 11 ASX-listed companies including; Portman Mining, Consolidated Minerals, Territory Iron (Chairman), Ammtec (Chairman) and Ironclad Mining (Chairman).

The Directors and Management of Vital Metals believe Mr Macoboy's cross-industry experience, especially in the areas of corporate strategy, finance, treasury, risk management and international fund raising are skills needed to ensure the company's new West African Gold project is adequately funded and the Queensland tungsten project is appropriately promoted.

In September 2009 Mr Peter Cordin was appointed as a Non-Executive Director. Mr Cordin is Executive Chairman of Dragon Mining and brings a wealth of multi-commodity, international mineral development experience to Vital.

Company founder, Mr Bill Ryan retired from the Board in February 2010. Bill was instrumental in progressing the Watershed tungsten deposit, and in securing the Doulnia gold project which will be the company's focus for the immediate future. Bill will be remembered by the board, management and staff of Vital Metals for his boundless energy and commitment to the company.

In June 2010 Mr Paul Benson announced his retirement as a Non-Executive Director of Vital Metals.

Fund Raisings

Vital completed a $2.4 m fund raising, by issuing 40 million new shares in two equal tranches in December and January 2010. This raising included the conversion of the Aragon Resources Ltd $500 000 Convertible Note.

In May 2010, Vital completed a $1m fund raising, by issuing 12.5 million new shares, resulting in the company having its current 186 million shares on issue.

Vital completed the sale of its 70% interest in the Mt Mulgine tungsten project in WA for $450 000.

Cash Balance

Vital Metals Ltd had a cash balance of $2.034m at 30th June 2009.

Directors Report

The Directors submit their Report on Vital Metals Ltd (the "Company") and of the Company and its controlled entities (together referred to as the "Consolidated Entity"), for the year ended 30 June 2010 and the auditor's report thereon.

1. Directors

The names of the directors of the Company in office during the year and until the date of this report are as follows. The directors were in office for this entire period unless otherwise stated.

David Macoboy (appointed 5 January 2010)

Howard Carr (appointed 16 November 2009)

Andrew Simpson (appointed 23 February 2005)

Peter Cordin (appointed 7 September 2009)

William J Ryan (appointed 9 December 2004, resigned 31 January 2010)

Paul Benson (appointed 17 April 2009, resigned 25 June 2010)

The names and details of the directors of the Company in office at the end of the year are:

Director	David Macoboy BEcon, BComm (UWA) FAICD, CPA
Appointed	5 January 2010
Position	Non-Executive Chairman

Mr Macoboy is 61 years old and holds a Bachelor of Economics and a Bachelor of Commerce from the University of WA. David is a Fellow of the Australian Institute of Company Directors and a Certified Practicing Accountant. David is currently the Chariman of Amtec Limited.

The Directors and Management of the Company believe Mr Macoboy's cross-industry experience, especially in the areas of corporate strategy, finance, treasury, risk management and international fund raising, are skills needed to ensure the company's new West African Gold project is adequately funded, and its existing Tungsten projects are appropiately promoted.

Director	Howard Carr BSc (Hons) PhD
Appointed	16 November 2009
Position	Managing Director

Dr Carr is 45 years old, and holds a PhD in Economic Geology and a Graduate Diploma in Management. He is a Member of the Australian Institute of Geoscientists, the Geological Society of Australia, the Society of Economic Geologists and the Licensing Executives Society of Australia and New Zealand.

Dr Carr was formerly the Managing Director of unlisted venture capital company, Agaton Phosphate Pty Ltd. Prior to this he was Investment Manager at Murdoch Westscheme Enterprise Partnership (MWEP) the Innovation Manager for the WA Department of Agriculture, the Chief Operating Officer for the GIS Laboratory in Perth, and an Analyst for the Geo-Info Research,providing specialised geological advice to all parties on mineral exploration in various parts of the world, with particular emphasis on gold and silver in China.

Director	Andrew Simpson Grad Dip. Bus (Curtin), MAICD
Appointed	23 February 2005
Position	Independent Non-Executive Director

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.

Directors Report (continued)

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, Territory Resources Ltd, India Resources Ltd, Matilda Minerals Ltd, and a Member of the Australian Institute of Company Directors. Mr Simpson resigned as a non-executive director of Consolidated Minerals Ltd and Windamurra Vanadium Ltd on 30 June 2007 and 29 February 2008 respectively.

Director	Peter Cordin
Appointed	7 September 2009
Position	Non-Executive Director

Mr Cordin is a civil engineer with 35 years experience in the evaluation and operation of resource projects within Australia and overseas. Currently he is the Executive Chairman of Dragon Mining Limited an Australian listed company with gold mines in Sweden and Finland. The company has extensive exploration activities associated with the operations. He has direct experience in the management of diamond and gold operations. Mr Cordin was Managing Director of Grant's Patch Mining Limited (100,000 ounces gold per year production) and was Director - Operations of Forsayth NL responsible for all group operations in Australia involving the annual production of 320,000 ounces of gold from five mines. He has been involved in the development of resource projects in Kazakhstan and New Caledonia.

Mr Cordin is a non-executive director of Coal of Africa Limited.

2. Company Secretary

The company secretary is Manraj Khosa.

Manraj Khosa holds dual law degrees from the UK and Australia. He brings with him 17 years of professional experience gained in the UK, Singapore and Australia. He has a primary focus on corporate law, commercial law and intellectual property law with the added experience in publicly listed companies. His fields of experience include corporate restructure and reorganisation, forensic corporate investigations, mergers and acquisitions and cross-border transactions. He has experience in the regulatory environment here in Australia. He has provided corporate transactional advice to a NASDAQ listed biotechnology company in a number of mergers and acquisition and cross-border transactions. He has managerial experience in the biotechnology industry in the United States and serves as a director and company secretary to a number of companies. He has further experience in the mining industry having worked with a global mining consultancy firm.

The former company secretary was Mr Ian Hobson who held the position from 22 January 2009 to 30 March 2010.

3. Principal Activities

The principal activities of the consolidated entity during the year were mineral exploration in Australia and in Burkina Faso, West Africa. The overseas aspects of the Consolidated Entity's activities is the only change in the nature of the economic entity's principal activities during the year.

4. Dividends

No dividends were paid during the period and the Directors do not recommend the payment of a dividend.

5. Operating and Financial Review

The consolidated loss of the Consolidated Entity after providing for income tax amounted to $2,292,975 (2008: $17,388,835). The material matters were the assessment of the recoverable value of exploration areas based on key market assumptions leading to a net impairment of the carrying value of $1,058,074.

The Consolidated Entity has signed a Farm-In Agreement with Ampella Mining Ltd to Farm-In to the Doulina-Campala permits to explore and exploit certain tenements in Burkina Faso for gold. The Farm-In agreement sets out certain milestone expenditures that trigger equity interests for the Consolidated Entity on meeting those milestones. These milestones give

Directors Report (continued)

5. Operating and Financial Review (continued)

the Consolidated Entity 60% interests in gold rights on completion of $1,500,000 exploration expenditure, 70% interests in gold rights on completion of $3,500,000 exploration expenditure and 80% interests in gold rights should the project be brought to the pre-feasibility stage. The total expenditure to 30 June 2010 is $818,055.

6. Significant Post Balance Date Events

In September 2010 the Company received the interpreted results of its high resolution aeromagnetic and radiometric survey of the Doulnia project area, from Fugro Airborne Services. This interpretation identified a number of priority targets for prospective structurally-hosted gold mineralization and worthy of further investigation. Precise drill targets within these areas will depend upon the results of soil sampling surveys over the areas of interest. Soil sampling results are due in September 2010. The next phase of drilling is due to commence in late November 2010.

On the 16 September 2010 the Company completed the sale of its 70% interest in the Mount Mulgine tenements and its 100% interest in the tenements held in Mount Alexander Resources.

Otherwise, no matters or circumstances have arisen since the end of the financial period which has significantly affected, or may affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in financial years subsequent to the financial period ended 30 June 2010.

7. Likely Developments

The results of the Phase 1 Drilling Program as part of the Company's exploration activities in Burkina Faso were promising. This has led the Company to intensify its exploration activities including the completion of high resolution aeromagnetic and radiometric structural interpretation radiometric surveying and blanket soil sampling. As a result a number of priority drilling targets have been identified that will form the Phase 2 Drilling Program in Burkina Faso to be conducted in the later part of 2010 once the Wet Season is over in Burkina Faso.

The results of the Phase 2 soil sampling and drilling programmes cannot be predicted. The impact of these future results on the likely developments in the operations of the Consolidated Entity and the expected results of those operations have not been included in this Report because the Directors believe it is premature to do so.

8. Environmental Regulation

The Company is subject to and compliant with all aspects of environmental regulation of its exploration activities. The Directors are not aware of any environmental law that is not being complied with.

9. Renuneration Report – Audited

(a) Principles of Compensation

Remuneration of directors and executives is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity including directors of the Company and other executives. Compensation levels for directors and key management personnel of the Consolidated Entity 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.

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, particular experience of the individual concerned, and overall performance of the Consolidated Entity.

Directors Report (continued)

9. Remuneration Report (continued)

(a) Principles of Compensation (continued)

(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 Directors feel 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 (See note 29 to the financial statements) and the Directors feel that it appropriately links the long term incentives of key employees to the interest of shareholders.

(iii) Service contracts / agreements

Howard Carr was appointed on 16 November 2009 as Chief Executive Officer of the Consolidated Entity on a service contract which was terminated on his appointment to the Board of Directors as a Director. On 23 April 2010 a new service contract was signed with the Consolidated Entity as Managing Director. This contact is for an unlimited term and is capable of termination on 6 months notice. Upon termination Mr Carr is entitled to payment of his notice period.

All other employment contracts ceased during the year with no outstanding obligations as at 30 June 2010

(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 Chairman will receive $52,000 per annum plus statutory remuneration and non-executive directors will receive $33,000 per annum plus statutory superannuation.

The remuneration policy for non-executive directors remains unchanged and the Company's non-executive directors have been remunerated accordingly.

Consequences of performance on shareholder wealth

In considering the Consolidated Entity's performance and shareholder wealth, the Board considers the following indices following indices in respect of the current financial year and previous financial years.

	2010 $	2009 $	2008 $	2007 $	2006 $
Loss	2,292,975	17,388,835	2,774,855	1,538,296	1,069,312
Dividens paid	–	–	–	–	–
Share Price	0.09	0.05	0.46	0.69	0.20

(b) Remuneration – audited

The details of the nature and amounts of each major element of the remuneration of the directors and key management personnel of the Company during the financial period is set out in the tables below.

The key management personnel of the Consolidated Entity include the directors and the following executive officers:

- Manraj Khosa – Company Secretary (appointed 30 March 2010)

Directors Report (continued)

9. Remuneration Report (continued)

(b) Remuneration – audited (continued)

2010	Short-term benefits		Post employment benefits	Equity compensation		Value of Options as a proportion of remuneration
	Salary and fees $	Non-monetary benefits $	Super-annuation $	Value of Options* $	Total $	%
Directors						
D Macoboy *(appointed 05.01.10)*	28,000	–	–	–	28,000	–
H Carr *(appointed 16.11.09)*	126,985	4,208	11,429	104,600	247,222	42.31%
A Simpson *(appointed 25.02.05)*	33,000	–	2,970	–	35,970	–
P Cordin *(appointed 07.09.09)*	26,950	–	2,425	–	29,375	–
W Ryan *(resigned 31.01.10)*	54,333	–	4,890	–	59,223	–
P Benson *(resigned 25.06.10)*	35, 460	–	–	–	35,460	–
Executives						
M Khosa *(appointed 30.03.10)*	10,879	–	–	–	10,879	–
I Hobson** *(resigned 30.03.10)*	63,400	–	–	–	63,400	–
P Rundel *(resigned 25.09.09)*	65,398	8,300	4,038	–	77,736	–
Total	**444,405**	**12,508**	**25,752**	**104,600**	**587,265**	

**Churchill Services Pty Ltd, an entity associated with Ian Hobson was paid $63,400 for company secretarial services.

* The fair value of the options is calculated at the date of grant using a binomial option valuation 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.

No proportion of remuneration for any director or executive is performance related.

Directors Report (continued)

9. Remuneration Report (continued)

(b) Remuneration – audited (continued)

2009	Short-term benefits		Post employment benefits	Equity compensation		Value of Options as a proportion of remuneration
	Salary and fees $	Non-monetary benefits $	Super-annuation $	Value of Options* $	Total $	%
Directors						
W Ryan	71,500	–	6,435	–	77,935	–
D Kennedy	12,500	–	1,181	–	13,681	–
A Simpson	34,167	–	3,075	–	37,242	–
C Hunter	12,500	–	1,125	–	13,625	–
P Knowles	20,917	–	1,883	11,100	33,900	32.74%
P Benson	8, 534	–	768	–	9,302	–
A Haslam	216,827	32,763	25,321	429,689	704,600	60.98%
Executives						
J Sobolewski	78,058	11,581	6,862	–	96,501	–
I Hobson**	31,350	–	–	–	31,350	–
B Pertzel	107,423	–	9,668	7,800	124,891	6.24%
P Rundel	188,000	15,953	16,920	17,039	237,912	7.16%
Total	**781,776**	**60,297**	**73,238**	**465,628**	**1,380,939**	

** Churchill Services Pty Ltd, an entity associated with Ian Hobson was paid $31,350 for company secretarial services.

* The fair value of the options is calculated at the date of grant using a binomial option valuation 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.

During the reporting period, the following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise Price	Estimated Volatility	Risk Free Interest Rate
16 Nov 2009	17 Nov 2011	$0.05230	$0.20	144.07%	6.26%

During the previous reporting period, the following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise Price	Estimated Volatility	Risk Free Interest Rate
17 Sept 2008	17 Sept 2010	$0.0620	$0.40	75%	6.575%
21 Nov 2008	30 June 2011	$0.0222	$0.40	150%	5.25%
20 Feb 2009	20 Feb 2011	$0.0195	$0.12	138.45%	2.86%

Directors Report (continued)

9. Remuneration Report (continued)

(c) Options granted as compensation – audited

	Number of options granted during 2010	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options vesting during 2010
Directors						
H Carr	2,000,000	16 Nov 2009	$0.0523	$0.20	17 Nov 2011	2,000,000

No options have been granted since the end of the financial year. The options were provided at no cost to the recipient, they vested immediately upon issue and the options expire on 17 November 2011.

(d) Exercise of options granted as compensation – audited

During the reporting period, there were no shares issued on the exercise of options previously granted as compensation.

(e) Analysis of options granted as compensation – audited

Details of vesting profiles of the options granted as remuneration to key management personnel of the Consolidated Entity and each of the named executives are detailed below:

	Options granted				
Directors	Number	Date	% vested	% forfeited	Financial years in which grant vests
A Haslam	1,500,00	21 Nov 2008	100%	–	30 June 2009
P Knowles	500,000	21 Nov 2008	100%	–	30 June 2009
H Carr	2,000,000	16 Nov 2009	100%	–	30 June 2010
Executives					
B Pertzel	400,000	20 Feb 2009	100%	–	30 June 2009
P Rundell	350,000	17 Sept 2008	100%	100%	30 June 2009
P Rundell	600,000	20 Feb 2009	100%	100%	30 June 2009

(f) Analysis of movements in options – audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the named executives are detailed below:

Directors Report (continued)

9. Remuneration Report (continued)

(f) Analysis of movements in options – audited (continued)

	Granted in year $(A)	Value of Options Exercised in year $(B)	Cancelled/ Lapsed in year $
Directors			
H Carr	$104,600	–	–
Executives			
P Rundel	–	–	$25,177

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option valuation model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised in the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

10. Directors' Interests

As at the date of this Report the relevant interest of each director in the shares and options of the Company is as follows:

	Ordinary Shares		Options over Ordinary Shares	
	Direct	**Indirect**	**Direct**	**Indirect**
D Macoboy	–	1,000,000	–	–
H Carr	–	–	2,000,000	–
A Simpson	–	1,084,250	–	–
P Cordin	–	562,500	–	–

11. Directors' Meetings

The following directors' meetings (including meetings of committees of directors) were held during the period and the number of meetings attended by each of the directors during the year were:

Director	Directors' meetings held while a director	Number of Directors' meetings attended	Number of Audit Committee meetings held whilst a director	Number of Audit Committee meetings attended
D Macoboy	5	5	1	1
H Carr	7	7	–	–
A Simpson	9	9	2	2
P Cordin	8	8	2	2
W Ryan	5	5	1	1
P Benson	9	8	2	2

Directors Report (continued)

12. Options

No options have been granted since the end of the financial year.

As at the date of this report the following options were on issue:

Number	Exercise Price	Expiry Date
2,000,000	$0.40	30 June 2011
1,400,000	$0.12	20 February 2011
2,000,000	$0.20	17 November 2011

Options on issue were issued to the following parties:

Directors	4,000,000
Employees	1,400,000
Total	**5,400,000**

During the financial year 250,000 unlisted options lapsed unexercised and 950,000 options were cancelled.

13. Insurance and Indemnity of 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.

14. Corporate Governance

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable; the Company has adopted the Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

The Company's corporate governance policy is available on the Company's website at www.vitalmetals.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the board and its sub-committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Board's key roles are to:

a) increase shareholder value within an appropriate framework which safeguards the rights and interests of the Company's shareholders; and

b) ensure the Company is properly managed.

Directors Report (continued)

14. Corporate Governance (continued)

The Board is collectively responsible for promoting the success of the Company by:

a) supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;

b) ensuring the Company is properly managed;

c) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;

d) approving the annual budget;

e) monitoring the financial performance of the Company;

f) approving and monitoring financial and other reporting;

g) providing overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;

h) appointing the external auditor (where applicable, based on the recommendations of the Audit Committee) and the appointment of a new external auditor when any vacancy arises, provided that any appointments made by the Board must be ratified by shareholders at the next Annual General Meeting of the Company;

i) liaising with the Company's external auditors and Audit Committee; and

j) monitoring and ensuring compliance with all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

To assist in the execution of its responsibilities, the Board established an Audit Committee and an Audit Committee Charter. The Audit Committee Charter is available on the Company's website and is contained within the document entitled Corporate Governance Document. The members of the Audit Committee during the year were:

- Andrew Simpson (Chair and non-executive director)
- Peter Cordin (appointed 07.09.09)
- David Macoboy (appointed 05.01.10)
- William Ryan (resigned 31.01.10)
- Paul Benson (resigned 25.06.10)

The Audit Committee will ensure the external auditor has in place arrangements for rotation of the audit engagement partner every five years.

The Board composition changed during the year. At year end the majority of the Board were independent in accordance with governance principle 2.1, with the exception of Dr Howard Carr who has a Service Agreement with the Company.

The Board's policy is to perform annual verbal reviews of the effectiveness of the Board, its committees, individual directors, and senior executives. All directors have an opportunity to contribute to the review process. The performance criteria take into account each director's contribution to setting the direction, strategy and financial objectives of the Consolidated Entity, and monitoring compliance with regulatory requirements and ethical standards. Given the changes to the Board during the year, annual reviews did not occur.

The Board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Board determines the selection criteria based on the skills deemed necessary. The Board identifies potential candidates and may take advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

Directors Report (continued)

14. Corporate Governance (continued)

Delegated Authority

The Managing Director/CEO is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director/CEO must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the Consolidated Entity's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

The Managing Director and the Company's Finance Officer have declared, in writing to the Board, that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively, and that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Code of Conduct

The Company's Code of Conduct is available on the Company's website. This Code of Conduct sets out the principles and standards which the Board, management and employees of the Company are encouraged to strive towards when dealing with each other, shareholders and the broad community. This is contained within the Corporate Governance Document on the Company's website.

Share Trading Policy

The Board has also adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information. The policy is contained within the Corporate Governance Document and is available on the Company's website.

Communication with Shareholders

The Board has adopted a strategy that aims to ensure that the shareholders are informed of all major developments affecting the Company. All shareholders receive the Company's annual report, and may also request copies of the Company's half-yearly and quarterly reports. The Company also encourages full participation of shareholders at the Annual General Meeting of the Company.

Continuous Disclosure

The Company established written procedures to ensure compliance with ASX Listing Rule disclosure and accountability of senior executives for compliance. The policy can be found in the Corporate Governance Document on the Company's website.

Risk Management

Overview of the Risk Management System

The Board has established policies and practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the Consolidated Entity. The Consolidated Entity is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for reporting risk management and associated compliance and controls. Instead, senior executives or a director, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the other directors at the directors' meetings. Senior management, as required by the Board, has reported to the Board, that the risks are being managed effectively.

Directors Report (continued)

14. Corporate Governance (continued)

The Consolidated Entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

The Managing Director and the Finance Officer have declared to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Ref	Notification of Departure	Explanation of Departure
1.3 2.6	Performance Evaluations	Evaluations of the Board, committees and executives did not occur during the year as set out above.
2.4	The Board should establish a nomination committee.	Currently, the Company has decided not to have a nomination committee given its size and scope. The Board, as a whole, serves to identify, appoint and review Board membership through an informal assessment process, facilitated by the Chairman in consultation with the Company's external professional advisors.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its materail business risk.	The Company has a small management team who interact with the directors on a regular basis and ensures constant communication of material business risks. The Consolidated Entity is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for reporting risk management and associated compliance and controls
8.1	The Board should establish a remuneration committe.	The Company does not have a remuneration committee due its size. Its functions are carried out by the full board.

Directors Report (continued)

15. Non-audit Services

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

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

The Lead Auditor's Independence Declaration is attached as page 44 of the Financial Report and forms part of the Directors' Report for the period ended 30 June 2010.

Signed in accordance with a resolution of the directors

D Macoboy

Chairman

Dated: 30 September 2010

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	NOTE	30 June 2010 $	30 June 2009 $
Income			
Sundry income		11,192	5,458
Total income		11,192	5,458
Expenses			
Administration expenses		975,251	1,763,155
Exploration expenses			
Depreciation		147,411	182,295
Impairment of Exploration	14	1,088,074	15,846,395
Reversal of previous impairment of Exploration	14	(30,000)	–
Plant & Equipment written off		–	35,000
Exploration expenses written off	14	307,413	–
Loss on sale of tenements		52,289	–
Total expenses		2,540,438	17,826,845
Results from operating activities		(2,529,246)	(17,821,387)
Finance income		66,025	87,871
Finance expense		(20,448)	(847)
Net finance income	16	45,577	87,025
Loss before income tax expense		(2,483,669)	(17,734,363)
Income tax benefit	8	190,694	345,528
Loss for the period		(2,292,975)	(17,388,835)
Other comprehensive income		–	–
Total comprehensive loss for the period		(2,292,975)	(17,388,835)
		Cents per Share	
Basic loss per share (cents per share)	28	(1.53)	(15.01)
Diluted loss per share (cents per share)	28	(1.53)	(15.01)

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

Consolidated	Issued Capital $	Accumulated Losses $	Other Reserves $	Total Equity $
	Attributable to equity holders of the Company			
At 1 July 2008	29,504,818	(5,305,680)	798,831	24,997,969
Total comprehensive loss for the period				
Loss for period	–	(17,388,835)	–	(17,388,835)
Transactions with owners, recorded directly in equity				
Share issues	846,435	–	–	846,435
Capital raising expenses	(14,566)	–	–	(14,566)
Transfer of reserve upon expiry of options	–	51,162	(51,162)	–
Transfer of reserve upon cancellation of options	–	1,094,985	(1,094,985)	–
Issue of options to directors and employees	–	–	499,791	499,791
Total transactions with owners	831,869	1,146,147	(646,356)	1,331,660
At 30 June 2009	30,336,687	(21,548,367)	152,475	8,940,795
As at 1 July 2009	30,336,687	(21,548,367)	152,475	8,940,795
Total comprehensive loss for the period				
Loss for period	–	(2,292,975)	–	(2,292,975)
Transactions with owners, recorded directly in equity				
Share issues	3,400,000	–	–	3,400,000
Capital raising expenses	(219,560)	–	–	(219,560)
Transfer of reserve upon expiry of options	–	88,898	(88,898)	–
Transfer of reserve upon cancellation of options	–	25,177	(25,177)	–
Issue of options to directors and employees	–	–	104,600	104,600
Total transactions with owners	3,180,440	114,075	(9,475)	3,285,040
At 30 June 2010	33,517,127	(23,727,267)	143,000	9,932,860

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

As at 30 June 2010

	NOTE	2010 $	2009 $
Current Assets			
Cash and cash equivalents	10	2,034,376	865,403
Trade and other receivables	11	340,541	91,968
Total Current Assets		2,374,917	957,371
Non Current Assets			
Investments	12	34,000	–
Property, plant and equipment	13	376,853	521,913
Intangible assets – exploration and evaluation	14	7,416,010	7,660,499
Total Non Current Assets		7,826,863	8,182,412
Total Assets		10,201,780	9,139,783
Current Liabilities			
Trade and other payables	15	265,030	148,196
Provisions	17	3,890	50,793
Total Current Liabilities		268,920	198,989
Total Liabilities		268,920	198,989
Net Assets		9,932,860	8,940,795
Equity			
Share capital	18	33,517,127	30,336,687
Reserves	19	143,000	152,475
Accumulated losses	23	(23,727,267)	(21,548,367)
Total Equity		9,932,860	8,940,795

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2010

	NOTE	30 June 2010 $	30 June 2009 $
Cash Flows from Operating Activities			
Cash paid to suppliers and employees		(881,092)	(1,328,357)
Interest received		44,047	95,645
Other receipts		11,191	800
Interest paid		(20,448)	(847)
Income tax receipts		–	345,528
Net cash used in operating activities	27	(846,302)	(887,231)
Cash Flows from Investing Activities			
Security bonds		–	32,000
Acquisition of property, plant and equipment		(2,350)	(59,541)
Proceeds of disposal of property, plant and equipment		–	30,972
Proceeds of disposal of exploration and evaluation assets		20,000	
Deposits received		22,500	
Payment for exploration expenditure		(1,205,316)	(3,809,313)
Net cash used in investing activities		(1,165,166)	(3,805,882)
Cash Flows from Financing Activities			
Net proceeds from issue of share capital		2,680,441	831,869
Net procceeds for issue of convertible note		500,000	
Lease payout		–	(40,629)
Net cash provided by/(used in) financing activities		3,180,441	791,240
Net increase/(decrease) in cash held		1,168,973	(3,901,873)
Cash at 1 July 2009		865,403	4,767,275
Cash at 30 June 2010	10	2,034,376	865,403

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

NOTE 1. REPORTING ENTITY

Vital Metals Ltd (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company for the financial year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity").

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by all entities in the Consolidated Entity.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial report was authorised for issue by the directors on 30 September 2010.

(b) Going Concern

The financial report has 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.

The Consolidated Entity has incurred a net operating loss after tax for the year ended 30 June 2010 of $2,292,975 including net impairment expense of $1,058,074 and share based payments expense of $104,600 (2009: $17,388,835 including impairment expense of $15,846,395 and $499,792 share based payments expense) and experienced net cash inflows of $1,168,973 (2009: cash outflows of $3,901,873).

The Consolidated Entity raised a total of $3,400,000 with two Share Placements during the year. The first Share placement was closed on 21 January 2010 raising $2,400,000 and included the conversion of the Aragon Resources Limited $500,000 convertible note issued on 7 July 2009. The second Share Placement was closed on 6 May 2010 and raised a total of $1,000,000.

The Directors are confident that the additional funds secured throughout the year will provide the Consolidated Entity with sufficient working capital to pay their debts as and when they fall due. The Directors consider the going concern basis of preparation to be appropriate and are confident that the Consolidated Entity will successfully raise additional funds in the future as required to meet its financial obligations and/or farm out commitments as necessary.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investments, which are carried at fair value in the Balance Sheet.

(d) Functional and presentation of currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the entities it controls.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTE 2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2 (b) Going Concern
- Note 8 Income taxes
- Note 14 Intangible assets
- Note 29 Measurement of share based payments

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Consolidated Entity.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Interests in joint venture operations

The Consolidated Entity's interest in its joint venture operation is accounted for by recognising the Consolidated Entity's share of assets and liabilities from the joint venture, as well as expenses incurred by the Consolidated Entity and the Consolidated Entity's share of income earned from the joint venture, in the consolidated financial statements

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit and loss as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and loses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Property, plant and equipment (continued)

Leased Assets

Leases in terms of which the Consolidated Entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

The Consolidated Entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Buildings	over 10 years
Plant and equipment	over 3 to 20 years
Office equipment	over 3 to 20 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Derecognition

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(c) Intangibles – Exploration & evaluation expenditure

Exploration and evaluation expenditure, including the costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated Entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the 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.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 3(e)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments

The Consolidated Entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

Non-derivative financial assets

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has the following non-derivative financial assets: loans and receivables and financial assets at fair value through profit and loss.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Consolidated Entity manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Consolidated Entity's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, including service concession receivables (see note 11).

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The Consolidated Entity recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition the financial assets are measured at amortised cost.

Non-derivative financial liabilities

The Consolidated Entity initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument. The Consolidated Entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

The Consolidated Entity has the following non-derivative financial liabilities: bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(e) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Consolidated Entity's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Share capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Employee benefits

(1) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period the relevant employees become fully entitled to the award ("vesting period"). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(2) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(3) Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employee's services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating monetary benefits, such as medical care, and motor vehicles, are expensed based on the net marginal cost to the Consolidated Entity as the benefits are taken by the employees.

(h) Provisions

Provisions are recognised when the Consolidated Entity 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 to the liability.

Site restoration

The Company provides for the future cost of rehabilitating its exploration sites in accordance with the environmental and legal obligations imposed on the tenements. A provision for restoration is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. Provisions for restoration are based on the discounted cash flow of expected future cost.

The amount of the provision for future restoration costs is capitalised and is depreciated. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

Operating Lease payments

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are recognised over the term of the lease on the same basis as the lease expense.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured.

(k) 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 income statement, using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated Consolidated Entity 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 Ltd.

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

The Consolidated Entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any recognised tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of the GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Segment reporting

As of 1 July 2009 the Consolidated Entity determines and presents operating segments based on the information that internally is provided to the Managing Director (MD), who is the Consolidated Entity's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Segment reporting (continued)

segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's MD to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the MD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(o) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement.

AASB 9 will become mandatory for the Consolidated Entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Consolidated Entity has not yet determined the potential effect of the standard.

AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Consolidated Entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become

Notes to the Financial Statements (continued)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New standards and interpretations not yet adopted (continued)

mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

NOTE 4. DETERMINATION OF FAIR VALUES

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.

Share-based payment transactions

The fair value of employee share options is measured using a 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.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss, is determined by reference to their quoted closing bid price at the reporting date.

Exploration and evaluation expenditure

Exploration and evaluation expenditure is carried at recoverable amount, which is the greater of value in use and fair value less costs to sell, when impairment is present.

NOTE 5. FINANCIAL RISK MANAGEMENT

Overview

The Consolidated Entity has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Consolidated Entity did not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposures. Exposure limits are reviewed on a continuous basis. The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Consolidated Entity through regular reviews of the risks.

Notes to the Financial Statements (continued)

NOTE 5. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

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

Currently the Consolidated Entity's exposure to credit risk is via cash and cash equivalents and trade and other receivables. The majority of cash and cash equivalents are held with a financial institution that has a AA credit rating (Standard & Poor's). The majority of the receivables relate to GST credits receivable from the ATO and security deposits held by state mines departments.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves to cover working capital from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Consolidated Entity does not have any external borrowings.

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.

Capital 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. The Board monitors capital on the basis of the gearing ratio, however there are no external borrowings at balance date. There were no changes in the Consolidated Entity's approach to capital management during the year. Neither the Company nor any of it's subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 6. OTHER INCOME AND EXPENSES		
The following significant revenue and expense items not separately highlighted in the Income Statement are relevant in explaining the financial performance:		
Expenses		
Depreciation of non-current assets in administration		
– land and buildings	26,225	26,225
– leased plant and equipment	–	14,597
– plant and equipment	119,540	139,517
– office equipment	1,646	1,956
Total Depreciation	147,411	182,295
Personnel expenses		
– Wages and salaries	287,300	571,893
– Contributions to defined contribution superannuation funds	16,747	52,069
– Other associated personnel expenses	52,917	133,401
– Equity settled share based payment transactions	104,600	499,792
Total personnel expenses	461,565	1,257,156

	2010	2009
	$	$
NOTE 7. RESULTS OF THE PARENT ENTITY		
Loss for the period	(2,109,147)	(17,982,490
Financial position of parent entity at year end		
Current assets	2,290,570	937,660
Total Assets	9,882,575	8,702,612
Current liabilities	190,992	186,922
Total liabilities	190,992	186,922
Total equity of the parent entity comprises of:		
Share capital	33,517,127	30,336,687
Reserves	143,000	152,475
Accumulated losses	(23,968,544)	(21,973,472)
TOTAL EQUITY	9,691,583	8,515,690

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 8. INCOME TAX EXPENSE		
a) The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax benefit	464,892	1,366,187
Deferred income tax		
Relating to origination and reversal of temporary differences	279,221	3,942,070
Unused tax losses not recognised as DTA	(744,113)	(5,308,257)
Tax rebate from R&D activities	190,694	345,528
Income tax benefit reported in the income statement	190,694	345,528

The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss. The differences are recorded as follows:

	2010	2009
Accounting loss	(2,483,669)	(17,734,363)
Prima facie tax benefit at 30%	(745,100)	(5,320,309)
Add tax effect of:		
Non-deductible items	987	11,966
Tax losses not brought to account	744,113	5,308,257
Tax effect of consolidations (prior year adjustment)	–	86
Tax rebate from R&D activities	190,694	345,528
Income tax benefit	190,694	345,528
b) Deferred income tax		
Balance Sheet		
Deferred income tax at 30 June relates to the following:		
CONSOLIDATED		
Deferred tax liabilities		
Property , plant and equipment	25,116	34,625
Exploration	895,738	1,182,490
Other	9,034	857
Set-off of tax assets	(929,888)	(1,217,972)
	–	–
Deferred tax assets		
Tax value of loss carry forwards	7,969,168	7,932,123
Set-off to deferred tax liability	(929,888)	(1,217,972)
Accrued expenses	21,306	13,500
Provisions	2,692	15,238
Other prepayments	176,738	–
Non-recognition of deferred taxes	(7,240,016)	(6,742,889)
	–	–

Notes to the Financial Statements (continued)

NOTE 8. INCOME TAX EXPENSE (continued)

c) Tax Losses

At 30 June 2010, the Consolidated Entity has $26,528,894 (2009: $26,440,411) of tax losses that are available indefinitely for offset against future taxable profits of the consolidated entity and $35,000 of capital losses. No deferred tax asset has been recognised on the Balance Sheet in respect of the amount of these losses as it is not probable that future taxable profit will be avaliable against which the company can utilise the benefit.

	2010	2009
Unrecognised deferred tax balances	$	$
Deferred tax assets		
Tax losses – revenue	7,958,668	7,932,123
Tax losses – capital	10,500	–
	7,969,168	7,932,123

The potential deferred tax asset will only be obtained if:

– assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Consolidated Entity in accordance with Division 170 of the Income Tax Act 1997.

– conditions for deductibility imposed by the law are complied with; and

– no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

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.

The controlled entities have been fully compensated for all deferred tax assets and liabilities transferred to Vital Metals Ltd on the date of implementation of the legilsation. The entities have also entered into a tax sharing and compensation agreement. Under the terms of this agreement, the wholly owned entities reimburse Vital Metals Ltd for any current income tax payable or receivable by Vital Metals Ltd arising in respect of their activities. The reimbursements are payable or receivable at the same time as the associated income tax liabilities fall due or refunds are receivable and have therefore been recognised as a current tax related receivable or payable (where applicable) by Vital Metals Ltd. The group has decided to use the "Separate taxpayer within group" approach in accordance with UIG 1052 in order to account for the current and deferred tax amounts amongst the entities within the consolidated group.

	2010	2009
	$	$
NOTE 9. AUDITOR'S REMUNERATION		
Remuneration of the auditor of the parent entity for:		
– auditing or reviewing of the financial reports	60,685	45,350

No non-audit services were performed during 2009 or 2010.

Notes to the Financial Statements (continued)

	2010 $	2009 $
NOTE 10. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	54,376	32,186
Call deposits	1,980,000	833,217
Cash and cash equivalents in the statement of cash flows	2,034,376	865,403

	2010 $	2009 $
NOTE 11. TRADE AND OTHER RECEIVABLES		
Other trade receivables	271,853	25,258
Security deposits	58,731	58,731
Prepayments	9,957	7,979
	340,541	91,968

	2010 $	2009 $
NOTE 12. INVESTMENTS HELD FOR TRADING		
Zinc Co Australia Ltd	34,000	–
	34,000	–

	2010 $	2009 $
NOTE 13. PROPERTY, PLANT AND EQUIPMENT		
Buildings		
At cost	262,242	262,242
Accumulated depreciation	(116,816)	(90,591)
Total land and buildings	145,426	171,651
Plant and equipment*		
At cost	686,250	683,899
Accumulated depreciation	(469,442)	(349,902)
Total plant and equipment	216,808	333,997

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 13. PROPERTY, PLANT AND EQUIPMENT (continued)		
Office equipment		
At cost	25,675	25,675
Accumulated depreciation	(11,056)	(9,410)
Total office equipment	14,619	16,265
Total property, plant and equipment	376,853	521,913

*The majority of plant and equipment is utilised in the consolidated entity's exploration and evaluation activities (note 14).

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Land and Buildings	Leased plant and Equipment	Plant and Equipment	Office Equipment	Total
Consolidated:					
Balance at 1 July 2008	197,875	79,796	448,923	18,223	744,817
Acquisitions	–	–	20,706	–	20,706
Leased assets paid out	–	(39,857)	39,857	–	–
Depreciation expense	(26,225)	(14,597)	(140,216)	(1,956)	(182,994)
Disposals	–	(25,342)	(972)	–	(26,314)
Written off	–	–	(34,300)	–	(34,300)
Balance at 30 June 2009	171,650	–	333,998	16,267	521,915
Acquisitions	–	–	2,350	–	2,350
Leased assets paid out	–	–	–	–	–
Depreciation expense	(26,225)	–	(119,540)	(1,646)	(147,411)
Disposals	–	–	–	–	–
Written off	–	–	–	–	–
Carrying amout at 30 June 2010	145,426	–	216,808	14,619	376,853

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 14. INTANGIBLE ASSETS		
Non-current		
Exploration and evaluation expenditure		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phases		
Opening balance at 1 July 2009	7,660,499	20,811,211
Exploration expenditure	1,120,998	2,695,682
Impairment	(1,088,074)	(15,846,395)
Reversal of impairment	30,00	–
Exploration expenditure written off	(307,413)	–
Closing balance at 30 June 2010	7,416,010	7,660,499

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 and judgement in determining the inputs and assumptions used in determining the recoverable amounts. The key areas of estmation and judgement may include (i) 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, the Group's market capitalisation compared to its net assets and independent valuations that may be available.

Watershed

The Company completed a preliminary feasibility study (Study) for the Watershed Tungsten Project (the Project). The Study includes an estimated net present value cashflow model for the estimated life of the Project. The Directors have assessed the appropriate estimate of the Project's recoverable amount at $6,224,658, derived from key assumptions including a discount rate of 14.1%, average long term USD exchange rate of $0.74 and average long term tungsten prices of US$ 232/mtu. Accordingly the current year's expenditure for the period of $249,497 has been recognised as exploration expense written off.

Other Exploration Assets

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

The resulting carrying value of the Consolidated Entity's other exploration assets is $1,191,352.

The Company has signed Farm-In Agreement with Ampella Mining Ltd to Farm-In the Doulina-Campala permits to explore for gold. The Farm-in agreement sets out certain milestone expenditures that trigger equity interests for the Company on meeting those milestones. These milestones give the company 60% interests on completion of $1,500,000 exploration expenditure, 70% interests on completion of $3,500,000 and 80% interests should the project be brought to the pre-feasibility stage. The total expenditure to 30 June 2010 is $818,055.

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 15. TRADE AND OTHER PAYABLES		
Trade creditors and accruals	242,530	148,196
Other	22,500	–
Cash and cash equivalents in the statement of cash flows	265,030	148,196

	2010	2009
	$	$
NOTE 16. NET FINANCIAL INCOME		
Interest income	42,025	87,871
Net change in fair value of available-for-sale financial assets	24,000	–
	66,025	87,871
Interest expense	20,448	847
Net finance income	45,577	87,024

	2010	2009
	$	$
NOTE 17. PROVISIONS		
Current		
Employee benefits	–	–
Liability for annual leave	3,890	50,793
	3,890	50,793

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 18. SHARE CAPITAL		
Ordinary shares		
At the beginning of the reporting period	30,336,687	29,504,818
Shares issued during the year		
231 on 3 September 2008 (i)		185
6,833,293 on 30 January 2009 (iii)		410,000
17,450,000 on 17 April 2009 (ii)		436,250
20,000,000 on 28 January 2010 (ii)	1,200,000	
20,000,000 on 2 March 2010 (ii)	1,200,000	
12,500,000 on 6 May 2010 (ii)	1,000,000	
Less: Capital raising expenses	(219,560)	(14,566)
At reporting date	33,517,127	30,336,687

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder

(i) Share Options exercised (Note 29).

(ii) Share placement.

(iii) Share Placement Plan.

Aragon Resources Ltd subscribed for 8,333,333 shares at 6 cents per share ($500,000) with allotment on 2 March 2010 in lieu of repayment of convertible note of $500,000.

	2010	2009
	$	$
Number of shares		
At the beginning of the reporting period	133,819,777	109,536,253
Shares issued during the year		
3 September 2008		231
30 January 2009		6,833,293
17 April 2009		17,450,000
28 January 2010	20,000,000	
2 March 2010	20,000,000	
6 May 2010	12,500,000	
At reporting date	186,319,777	133,819,777

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 19. RESERVES		
Share based payment reserve (a)		
Balance at 1 July	152,475	798,831
Cancelled during the year	(25,177)	(1,094,985)
Lapsed during the year	(88,898)	(51,162)
Issue of options to employees	104,600	499,791
Balance at 30 June	143,000	152,475

(a) The share based payment reserve relates to the cost of options issued to employees and directors.

NOTE 20. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk on financial assets of the Company and consolidated entity which have been recognised on the Balance Sheets is generally the carrying amount, net of any provisions for impairment losses. The types of credit risk exposures are discussed in Note 5.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

		2010	2009
	NOTE	$	$
Cash and cash equivalents	10	2,034,376	865,403
Loans and receivables	11	340,541	91,968
Financial assets at fair value through profit or loss	12	34,000	–
		2,408,917	957,371

None of the companies loans and receivables are past due (2009: nil).

Notes to the Financial Statements (continued)

NOTE 20. FINANCIAL INSTRUMENTS (continued)

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

2010	Weighted Average Interest rate	Notes	Variable Interest rate	Fixed Interest rate	Non-Interest Bearing	Total
Financial Assets						
Cash and cash equivalents	4.39%	10	2,034,376	–	–	2,034,376
Trade and other receivables		11	–	–	340,541	340,541
			2,034,376	–	340,541	2,374,917
Financial Liabilities						
Trade and other payables		15	–	–	265,030	265,030
Net financial assets / (liabilities)			2,034,376	–	75,511	2,109,888

2009	Weighted Average Interest rate	Notes	Variable Interest rate	Fixed Interest rate	Non-Interest Bearing	Total
Financial Assets						
Cash and cash equivalents	2.66%	10	865,403	–	–	865,403
Trade and other receivables		11	–	–	91,968	91,968
			865,403	–	91,968	957,371
Financial Liabilities						
Trade and other payables		15	–	–	148,196	148,196
Net financial assets / (liabilities)			865,403	–	(56,228)	809,175

Fair value sensitivity analysis for fixed rate instruments:

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments:

A change of 25 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss and equity	
	25 bp increase	**25 bp decrease**
30 June 2010		
Variable rate instruments	5,086	(5,086)
30 June 2009		
Variable rate instruments	2,164	(2,164)

Notes to the Financial Statements (continued)

NOTE 20. FINANCIAL INSTRUMENTS (continued)

(c) Net Fair Value of Financial Assets and Liabilities

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

(d) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and exluding the impact of netting arrangements:

Consolidated 30 June 2010	Carrying amount $	Contractual cash flows $	6 months or less $	6 - 12 months $	1 - 2 years $
Non-derivative financial liabilities					
Trade and other payables	265,030	265,030	265,030	–	–
	265,030	265,030	265,030	–	–

Consolidated 30 June 2009	Carrying amount $	Contractual cash flows $	6 months or less $	6 - 12 months $	1 - 2 years $
Non-derivative financial liabilities					
Trade and other payables	148,196	148,196	148,196	–	–
	148,196	148,196	148,196	–	–

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
30 June 2010				
Financial assets designated at fair value through profit or loss	34,000	–	–	34,000
	34,000	–	–	34,000
30 June 2009				
Financial assets designated at fair value through profit or loss	–	–	–	–
	–	–	–	–

Notes to the Financial Statements (continued)

NOTE 21. SEGMENT REPORTING

Information about reportable segments	Australia		Burkina Faso		Total	
	30 June 2010 $	30 June 2009 $	30 June 2010 $	30 June 2009 $	30 June 2010	30 June 2009
Cash and Cash equivalents	2,011,105	865,403	23,271	–	2,034,376	865,403
Trade and other receivables	303,161	91,968	37,380	–	340,541	91,968
Exploration and evaluation costs	6,704,658	7,660,499	818,055	–	7,522,713	7,660,499
Reportable segment assets	9,018,924	8,617,870	878,706	–	9,897,630	8,617,870
Trade and other payables	201,962	148,196	63,068	–	265,030	148,196
Reportable segment liabliites	201,962	148,196	63,068	–	265,030	148,196

	30 June 2010	30 June 2009
Reconciliation of reportable segment assets and liabilities	$	$
Total assets for reportable segments	9,897,630	8,617,870
Investments	34,000	–
Property, plant and equipment	376,853	521,913
Elimination of intercompany transactions	(106,703)	–
Consolidated total assets	10,201,780	9,139,783
Liabilities		
Total liabilities for reportable segments	265,030	148,196
Provisions	3,890	50,793
Consolidated total liabilities	268,920	198,989

The consolidated entity operates in two business and geographical segment being mineral exploration and prospecting for minerals in Australia and Burkina Faso.

Notes to the Financial Statements (continued)

NOTE 22. RELATED PARTY TRANSACTIONS

Key Management Personnel Disclosures

(a) **The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.**

Directors

D. M. Macoboy (Appointed 5 January 2010)
H.W. Carr (Appointed 18 November 2009)
A.V. Simpson (Appointed 23 February 2005)
P.G. Cordin (Appointed 7 September 2009)
W.J. Ryan (Resigned 31 January 2010)
P Benson (Resigned 25 June 2010)

Executives

M Khosa (Appointed 30 March 2010)
P.F. Rundle (Resigned 25 September 2009)
Ian Hobson (Resigned 30 March 2010)

(b) **Key management personnel compensation.**

The key management personnel compensation included in employee benefit and director compensation expenses are as follows:

	2010	2009
	$	$
Short term employee benefits*	456,913	842,073
Post employment benefits**	25,752	73,238
Equity compensation benefits	104,600	465,628
	587,265	1,380,939

* $128,890 (2009: $295,423) was capitalised as exploration and evaluation expenditure.

** $9,752 (2009: $26,588) was capitalised as exploration and evaluation

(c) **Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors interests existing at year end.

Notes to the Financial Statements (continued)

NOTE 22. RELATED PARTY TRANSACTIONS (continued)

(d) Other key management personnel transactions with the Company or its controlled entities

The following key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions on an arms-length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

		2010	2009
		$	$
Key Management persons	**Transaction**		
Andrew Simpson	Marketing fees (i)	–	4,293

(i) During the year an entity associated with Mr Simpson was paid $ nil (2009: $4,293) for consultancy services provided on normal commercial terms and conditions.

(e) Options and Rights Holdings

Number of Options held by Directors and Executives

	Balance 1.07.09	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30.06.10
Directors					
Andrew Simpson	–	–	–	–	–
Peter Cordin (Appointed 7 September 2009)	–	–	–	–	–
Howard Carr (Appointed 18 November 2010)	–	2,000,000	–	–	2,000,000
David Macoboy (Appointed 5 January 2010)	–	–	–	–	–
William Ryan (Resigned 31 January 2010)	–	–	–	–	–
Paul Benson (Resigned 25 June 2010)	–	–	–	–	–
Executives					
Paul Rundel* (Resigned 17 September 2009)	950,000	–	–	(950,000)	–
Ian Hobson (Resigned 25 March 2010)	–	–	–	–	–
Manraj Khosa (Appointed 25 March 2010)	–	–	–	–	–
	950,000	2,000,000	–	(950,000)	2,000,000

Notes to the Financial Statements (continued)

NOTE 22. RELATED PARTY TRANSACTIONS (continued)

(e) Options and Rights Holdings (continued)

	Balance 1.07.08	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30.06.09
Directors					
William Ryan	312,500	–	–	(312,500)	–
Andrew Simpson	27,875	–	–	(27,875)	–
Paul Benson (Resigned 25 June 2010)	–	–	–	–	–
Andrew Haslam (Resigned 24 April 2009)	3,503,125	1,500,000	–	(3,503,125)	1,500,000
Colin Hunter (Resigned 8 July 2008)	–	–	–	–	–
D. Ross Kennedy (Resigned 1 September 2008)	25,000	–	–	–	25,000
Peter Knowles* (Appointed 20 August 2008, resigned 24 April 2009)	–	500,000	–	–	500,000
Executives					
John Sobolewski (Resigned 22 January 2009)	50,000	–	–	–	50,000
Paul Rundel*(Resigned 17 September 2009)	350,000	600,000	–	–	950,000
Bruce Pertzel*(Resigned 30 June 2009)	7,188	400,000	–	–	407,188
Ian Hobson (Appointed 22 January 2009)	–	–	–	–	–
	4,275,688	3,000,000	–	(3,843,500)	3,432,188

* FInal holding represents holding at date of resignation.

(f) Shareholdings

Number of shares held by Directors and Executives

	Balance 1.07.09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.06.10
Directors					
Andrew Simpson	1,084,250	–	–	–	1,084,250
Peter Cordin (Appointed 7 September 2009)	–	–	–	562,500	562,500
Howard Carr (Appointed 18 November 2010)	–	–	–	–	–
David Macoboy (Appointed 5 January 2010)	–	–	–	1,000,000	1,000,000
William Ryan** (Resigned 31 January 2010)	6,791,667	–	–	–	6,791,667
Paul Benson (Resigned 25 June 2010)	–	–	–	–	–
Executives					
Paul Rundel* (Resigned 17 September 2009)	11,500	–	–	–	11,500
Ian Hobson (Resigned 25 March 2010)	–	–	–	–	–
Manraj Khosa (Appointed 25 March 2010)	–	–	–	–	–
	7,887,417	–	–	1,562,500	9,449,917

Notes to the Financial Statements (continued)

NOTE 22. RELATED PARTY TRANSACTIONS (continued)

(f) Shareholdings (continued)

	Balance 1.07.08	Remuneration	Exercised	Other*	Balance 30.06.09
Parent Entity Directors					
William Ryan	6,719,667	–	–	–	6,719,667
Andrew Simpson	1,084,250	–	–	–	1,084,250
Paul Benson (Resigned 25 June 2010)	–	–	–	–	–
Andrew Haslam** (Resigned 24 April 2009)	63,250	–	–	–	63,250
Colin Hunter** (Resigned 8 July 2008)	900,000	–	–	–	900,000
D. Ross Kennedy** (Resigned 1 Sept 2008)	950,000	–	–	–	950,000
Peter Knowles** (Resigned 24 April 2009)	–	–	–	–	–
Executives					
John Sobolewski** (Resigned 22 January 2009)	110,000	–	–	–	110,000
Paul Rundel* (Resigned 17 September 2009)	–	–	–	11,500	11,500
Bruce Pertzel* (Resigned 30 June 2009)	233,375	–	–	–	233,375
Ian Hobson (Appointed 22 January 2009)	–	–	–	–	–
	10,132,542	–	–	11,500	10,144,042

* Net change other refers to shares purchased and sold during the financial year.

** Final holding represents holding at date of resignation.

	2010	2009
	$	$
NOTE 23. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the financial year	(21,548,367)	(5,305,680)
Loss for the year	(2,292,975)	(17,388,834)
Transfer from reserve upon cancellation of options	25,177	1,094,985
Transfer from reserve upon expiry of options	88,898	51,162
Accumulated losses at the end of the financial year	(23,727,267)	(21,548,367)

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 24. COMMITMENTS		
Operating Lease Commitments		
Leases as lessee		
Payable		
– not later than one year	57,663	84,004
– later than one year but not later than 5 years	119,887	118,210
Total Lease Liability	177,550	202,214

Mineral Tenement Commitments

The consolidated entity has certain minimum obligations in pursuance of the terms and conditions of tenement licences in the forthcoming year. Whilst these obligations are capable of being varied from time to time, in order to maintain current rights of tenure to mining tenements, the Consolidated Entity will be required to outlay in 2011 amounts of approximately $612,400 (/2010: $612,400). These obligations are expected to be fulfilled in the normal course of operations.

NOTE 25. JOINT VENTURES

The Consolidated Entity has interests in the following joint ventures.

Tenement Area	Activities	Participation Interest		Carrying Value	
		2010	2009	2010 $	2009 $
Mt Mulgine	Tungsten/Molybdenum	70%	70%	450,000	1,116,385

The carrying value in the above joint ventures represents exploration expenditure and is included in the total of $7,416,010 (2009: $7,660,499) at Note 13. This exploration expenditure has been accounted for in accordance with Note 3(c).

NOTE 26. CONTINGENT LIABILITIES

Department of Industry & Resources

Performance Bonds totalling $14,500 (2009: $14,500) have been granted in favour of the Department of Industry & Resources.

Notes to the Financial Statements (continued)

	2010	2009
	$	$
NOTE 27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities		
Loss for the year	(2,292,975)	(17,388,834)
Non-cash flows in profit		
Loss (profit) on sale of asset	52,289	(4,658)
Depreciation	147,411	182,295
Options issue expense	104,600	499,792
Net impairment – exploration	1,058,073	15,846,395
Change in fair value of financial assets	(24,000)	–
Plant written off	–	35,000
Items in loss for year relating to investing activities		
Exploration expenses written off	307,414	–
Changes in working capital and provisions		
Decrease / (Increase) in other trade receivables	(174,714)	64,393
Increase / (Decrease) in trade creditors and accruals	(24,400)	(121,614)
Net cash used in operating activities	(846,302)	(887,231)

NOTE 28. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2010 was based on the loss attributable to ordinary shareholders of $2,292,975 (30 June 2009: $17,388,835) and a weighted number of ordinary shares outstanding during the year ended 30 June 2010 of 150,121,146 (2009: 115,883,785) calculated as follows:

	2010	2009
	$	$
Loss for the period	(2,292,975)	(17,388,835)
Loss attributable to ordinary shareholders	(2,292,975)	(17,388,835)

Notes to the Financial Statements (continued)

NOTE 28. EARNINGS PER SHARE (continued)

(a) Basic earnings per share (continued)

	Number of shares	
Weighted average number of ordinary shares	**2010**	**2009**)
Issued ordinary shares at 1 July 2009	133,819,777	109,536,253
Effect of shares issued on 3 September 2008		189
Effect of shares issued on 30 January 2009		2,819,201
Effect of shares issued on 17 April 2009		3,528,142
Effect of shares issued on 28 January 2010	8,328,767	
Effect of shares issued on 4 March 2010	6,465,753	
Effect of shares issued on 6 May 2010	1,506,849	
Weighted average number of ordinary shares at 30 June 2010	150,121,146	115,883,785

b) Diluted Earnings per Share

As the group has made a loss for the year the options have no dilutive effect. Therefore, diluted earnings per share is equal to basic earnings per share.

29. SHARE BASED PAYMENTS

(a) Employee Share Option Plan

The Vital Metals Ltd 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.

During the year:

1. 250,000 employee options expired unexercisable on 31 July 2009
2. 950,000 employee options were cancelled during the year.
3. 2,000,000 employee options were issued to Howard Carr on 16 November 2009.

The closing market price of an ordinary share of Vital Metals Ltd on the Australian Stock Exchange at 30 June 2010 was $0.086 (2009: $0.55).

Notes to the Financial Statements (continued)

NOTE 29. SHARE BASED PAYMENTS (continued)

	2010	2009
	No	No
(b) Movement in the number of share options held by employees are as follows:		
Opening Balance	4,600,000	4,375,000
Granted during the year	2,000,000	4,350,000
Exercised during the year	–	–
Cancelled during the year	(950,000)	(3,850,000)
Lapsed during the year	(250,000)	(275,000)
Closing balance	5,400,000	4,600,000

(c) Details of share options exercised during the year:

During the year, nil (2009:nil) employee options were exercised, 250,000 employee options with an exercise price of $0.80 per share lapsed during the year. 350,000 employee options with an exercise price of $0.40 were forfeited and 600,000 employee options with an exercise price of $0.12 were forfeited.

(d) Details of share options outstanding as at end of year:

Grant Date	Expiry Date	Exercise Price		2010 No		2009 No
30-July-07	30-July-09	$0.80			(ii)	125,000
30-July-07	30-July-09	$0.80			(iii)	125,000
17-Sep-08	17-Sep-10	$0.40			(i)	350,000
21-Nov-08	30-Jun-11	$0.40	(i)	2,000,000	(i)	2,000,000
20-Feb-09	20-Feb-11	$0.12	(i)	1,400,000	(i)	2,000,000
16-Nov-09	17-Nov-11	$0.20	(i)	2,000,000	(i)	
Closing balance				5,400,000		4,600,000

(i) Vest immediately

(i) Vest on 30 January 2008

(i) Vest on 30 July 2008

Option holders have no voting or dividend rights until shares are allotted pursuant to the exercise of the relevant options.

Notes to the Financial Statements (continued)

NOTE 29. SHARE BASED PAYMENTS (continued)

	2010	2009
	$	$
(e) Employee expenses		
Share options granted in 2009 – equity settled (i)	–	499,792
Share options granted in 2010 – equity settled (i)	104,600	–
Total expense recognised as employee costs	104,600	499,792

Grant Date	Number of Options	Expiry Date (Expected Life)	Fair value per option $	Exercise price $	Estimated volatility	Risk free interest rate
30 July 2007	250,000	30 July 2009	0.3661	0.80	60%	6.15%
17 September 2008	350,000	17 September 2010	0.0620	0.40	75%	6.58%
21 November 2008	2,000,000	30 June 2011	0.0222	0.40	150%	5.25%
20 February 2009	2,000,000	20 February 2011	0.0195	0.12	138%	2.86%
16 November 2009	2,000,000	17 November 2011	0.0523	0.20	144%	6.26%

NOTE 30. DIVIDENDS

No dividends were paid during the period and the Directors do not recommend the payment of a dividend.

NOTE 31. SUBSEQUENT EVENTS

On 16 Septmber 2010, the Company completed the sale of its 70% interests in the Mount Mulgine Project for a cash consideration of $450,000 and on the same day completed the sale of its remaining 100% interests in the Mount Alexander tenements for a cash consideration of $30,000.

Director's Declaration

1 In the opinion of the directors of Vital Metals Ltd ('the Company'):

(a) the financial statements and notes 1 to 31 and the Remuneration report in the Directors' report, set out on pages 5 to 10, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(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.

2 There are reasonable grounds to believe that the Company and the group entities will be able to meet any obligation or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2010.

4 The directors draw attention to Note 2 (a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors

D Macoboy

Director

Dated: 30 September 2010

Independent Auditor's Report

KPMG

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

Report on the financial report

We have audited the accompanying financial report of the Group comprising Vital Metals Limited (the company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the statement of financial position as at 30 June 2010, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes I to 31 and the directors' declaration.

Directors responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

Independent Auditor's Report (continued)

KPMG

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the 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 2010 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in Section 9 of the directors' report for the year ended 30 June 2010. 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 an our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Vital Metals Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

30 September 2010

Auditors' Independence Declaration

KPMG

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

To: the directors of Vital Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

30 September 2010

Additional ASX Information

SHAREHOLDERS INFORMATION AS AT 23 SEPTEMBER 2010

1 The total number of issued fully paid ordinary shares was 186,319,777.

2 The distribution of holdings was:

			Fully paid ordinary shares
1	–	1,000	100
1,001	–	5,000	314
5,001	–	10,000	297
10,001	–	100,000	782
100,001	–	and over	220
Total			1,713

Voting rights	Full

Each ordinary share is entitled to one vote per share when a poll is called, otherwise each shareholder has one vote on a show of hands. Option holders have no voting rights.

3 The number of holders of less than a marketable parcel of fully paid shares is 414.

4 Substantial shareholders are Rex Harbour with 17,500,000 shares being 9.39% of the issued capital, Consolidated Minerals Ltd with 14,275,377 shares being 7.66% of the issued capital, Citicorp Nominees Ltd with 12,677,334 being 6.88% of the issued capital.

Additional ASX Information (continued)

SHAREHOLDERS INFORMATION AS AT 23 SEPTEMBER 2010 (continued)

5 Top 20 Sharehoders

Name	Fully paid ordinary shares	% Held of Issued Ordinary Capital
Rex Harbour	17,500,000	9.39
Consolidated Minerals Ltd	14,275,377	7.66
Citicorp Noninees Ltd	12,818,434	6.88
Macdonald Staley Allan	8,500,000	4.56
Melbourne Capital Ltd	6,000,000	3.22
Breamlea Pty Ltd	5,929,016	3.18
Rytech Pty Ltd	5,108,333	2.74
Mungala Inv Pty Ltd	4,500,000	2.42
National Nominees Ltd	4,149,143	2.23
Riley Graham	4,000,000	2.15
Zoobara Pty Ltd	3,443,000	1.85
Auralandia	3,200,000	1.72
Froeign Dimensions Pty Ltd	2,500,000	1.34
Wythenshawe Pty Ltd	1,961,112	1.05
ANZ Nominees Ltd	1,713,250	0.92
Austasia Resources Pty Ltd	1,583,333	0.85
HSBC Custody Nominees Aust Ltd	1,100,039	0.59
Sothern Silicon Pty Ltd	1,084,000	0.57
Jeumont Pty Ltd	1,000,000	0.54
First Farley Pty Ltd	1,000,000	0.54
	101,365,037	**54.40**

Unquoted Equity Securities	Number on Issue	Number of Holders
Options exercisable at 40 cents	2,000,000	3
Options exercisable at 12 cents	1,400,000	5
Options exercisable at 20 cents	2,000,000	1
Holders of more than 20% of 20 cent options:		
Howard Carr	2,000,000	
Holders of more than 20% of 40 cent options:		
Andrew Haslam	1,500,000	
Peter Knowles	500,000	
Holders of more than 20% of 12 cent options:		
Terrence Bourke	400,000	
Alpha Unicorn Company Pty Ltd	400,000	
Newton Pellatt	400,000	

Additional ASX Information (continued)

INTERESTS IN MINING TENEMENTS AS AT 21 SEPTEMBER 2010

6 Schedule of Interests in Mining Tenements

Location	Tenement	Percentage held
Watershed	MDL 127	100% Interest
Watershed	EPM 14735	100% Interest in Tungsten and Molybdenum Rights
Watershed	EPM 15064	100% Interest

vitalmetals
ACN 112 032 596

Suite 44c, Cottesloe Central
460 Stirling Highway
Peppermint Grove WA 6011

PO Box 188
Cottesloe WA 6011

Ph: +61 8 9436 9644
Fax: +61 8 9385 5782

www.vitalmetals.com.au
vital@vitalmetals.com.au

Registered Office

23 Altona St
WEST PERTH WA 6005

Ph: +61 8 9481 7288
Fax: +61 8 9389 2199