Vital Metals Ltd

ABN 32 112 032 596

Annual Financial Report

for the year ended 30 June 2011

Corporate Information

ABN 32 112 032 596

Directors
David Macoboy (Non-Executive Chairman)
Andrew Simpson (Non-Executive Director)
Peter Cordin (Non-Executive Director)
Doug Stewart (Non-Executive Director)

Company Secretary
Graeme Smith

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WEST PERTH WA 6005

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Share Register
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770 Canning Highway
APPLECROSS WA 6153
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Auditors
KPMG
235 St George's Terrace
PERTH WA 6000

Internet Address
www.vitalmetals.com.au

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

Contents

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Vital Metals Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2011.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

David Macoboy, BEcon, BComm (UWA) FAICD, CPA, Non-Executive Chairman

Mr Macoboy is 62 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 also the Chairman of Avonlea Minerals Limited.. He is a former Chairman of Ammtec Limited and Territory Resources Ltd and has served on numerous other boards.

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 funded and promoted.

Andrew Simpson, Grad Dip. Bus (Curtin), MAICD, 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.

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, and India Resources Ltd. He is also a non-executive director of Blackwood Corporation Ltd (formally Matilda Minerals Ltd). He resigned as a Director of ABM Resources in November 2009. Mr Simpson is a Member of the Australian Institute of Company Directors.

Peter Cordin, 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 also a non-executive director of Coal of Africa Limited.

Doug Stewart, BSc., FAusIMM, FAIG, Non-Executive Director (appointed 30 May 2011)

Mr Stewart has worked in a wide range of senior technical, consulting and operational roles during the course of an expansive career that spans more than 40 years. As well as being the founding Managing Director of Territory Resources Ltd, he was an Associate Director at NM Rothschild for eight years and has had other significant consulting and operational roles internationally.

Mr Stewart also holds non-executive board roles with Conquest Mining and Alara Resources and has a Project Management role with Red Hill Iron Limited.

Howard Carr was Managing Director from the beginning of the financial year until his resignation on 15 April 2011.

COMPANY SECRETARY

Graeme Smith, BEc, MBA, MComLaw, FCPA, FCIS, MAusIMM (appointed 5 November 2010)

Graeme Smith is a finance professional with over 20 years' experience in accounting and company administration. He graduated from Macquarie University with a Bachelor of Economics degree and has since received a Master of Business Administration and a Master of Commercial Law. He is a Fellow of both the Australian Society of Certified Practicing Accountants and the Chartered Institute of Secretaries and Administrators.

Mr Smith has held CFO and Company Secretary positions with other Australian mining and mining service companies. Mr Smith is currently a director of Genesis Minerals Limited and a former director of Buxton Resources Limited within the last 3 years.

Manraj Khosa was Company Secretary from the beginning of the financial year until his resignation on 5 November 2010.

Directors' Report continued

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

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

	Ordinary Shares	Options over Ordinary Shares
David Macoboy	3,000,000	-
Andrew Simpson	1,209,000	-
Peter Cordin	750,000	-
Doug Stewart	-	-

PRINCIPAL ACTIVITIES

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

There was no significant change in the nature of the Group's activities during the year.

DIVIDENDS

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

OPERATING AND FINANCIAL REVIEW

The consolidated loss of the Group after providing for income tax amounted to $1,572,525 (2010: $2,292,975). The material matters were the assessment of the recoverable value of exploration areas based on key market assumptions leading to a write off of exploration expenses of $520,805**.**

Operating Results for the Year

Summarised operating results are as follows:

	2011	
	Revenues $	Results $
Consolidated entity revenues and loss from ordinary activities before income tax expense	164,481	(1,572,525)

Shareholder Returns

	2011	2010
Basic loss per share (cents)	**(0.8)**	(1.5)

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Company believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 23rd May 2011, the Company entered into an agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) whereby JOGMEC would, subject to due diligence, be entitled to earn a 30% participating interest in the Watershed project by sole funding $5.4m in expenditure. On 22 August 2011, JOGMEC advised their Farm-In participation in the project.

No other matter or circumstance has arisen since 30 June 2011, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Directors' Report continued

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

The directors have considered the recently enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Group for the current, nor subsequent, financial year. The directors will reassess this position as and when the need arises.

REMUNERATION REPORT (Audited)

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

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

The Board is responsible for compensation policies and practices. The Board, where appropriate, seeks independent advice on remuneration policies and practices, including the compensation packages and terms of employment.

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 Group.

(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 this is the most appropriate method of aligning performance to the interests of shareholders. The share options are issued under the Vital Metals Ltd Share Option Plan and the Directors feel that it appropriately links the long term incentives of key employees to the interest of shareholders. The ability to exercise the options is conditional on continued service for a period as determined by the Board upon each issuance of options. The Group does not have a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The share options vest immediately on issue and there are no performance conditions because the Board considers the link between the exercise price and share price at time of issue to be a satisfactory driver.

(iii) Service contracts/agreements

Howard Carr was appointed on 16 November 2009 as Chief Executive Officer of the Group 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 Group as Managing Director. This contract was terminated in accordance with its terms when Mr Carr resigned effected 15 April 2011.

Mark Strizek was appointed on 1 July 2011 as Chief Executive Officer of the Group on a service contract. This contact is for an initial term of three months as CEO after which term Mr Strizek will be invited to join the Board as Managing Director for an unlimited term which is capable of termination on 6 months' notice. Upon termination Mr Strizek is entitled to payment of his notice period.

(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. Effective from 1 January 2011 the Chairman will receive $100,000 (increased from $50,000) per annum plus statutory superannuation and non-executive directors will receive $50,000 (increased from $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.

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

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

Directors' Report continued

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

	2011	2010	2009	2008	2007
	$	$	$	$	$
Net loss	(1,572,525)	(2,292,975)	(17,388,835)	(2,774,855)	(1,538,296)
Dividends paid	-	-	-	-	-
Share price at year end (cents)	0.06	0.09	0.05	0.46	0.69
Loss per share (cents)	(0.8)	(1.5)	(15.0)	(2.7)	(2.0)

Details of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Vital Metals Ltd and the Vital Metals Group are set out in the following table. The key management personnel of Vital Metals Ltd and the Group include the directors and company secretary as per page 3 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group:

- Mark Strizek – *Chief Executive Officer, appointed 1 July 2011*

Given the size and nature of operations of Vital Metals Ltd and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Key management personnel and other executives of Vital Metals Ltd and the Group

	Short-Term		**Post Employment**	**Share-based Payments**	**Total**	**Value of Options as a Proportion of Remuneration**
	Salary & Fees	Non Monetary	Superannuation	Options(1)		
	$	$	$	$	$	%
Directors						
David Macoboy (Non-Executive until 15 April 2011, thereafter, Executive)						
2011(2)	**161,611**	**-**	**-**	**-**	**161,611**	**-**
2010	28,000	-	-	-	28,000	-
Andrew Simpson (Non-Executive)						
2011	**41,500**	**-**	**3,735**	**-**	**45,235**	**-**
2010	33,000	-	2,970	-	35,970	-
Peter Cordin (Non-Executive)						
2011	**41,500**	**-**	**3,735**	**-**	**45,235**	**-**
2010	26,950	-	2,425	-	29,375	-
Doug Stewart (Non-Executive appointed 30 May 2011)						
2011	**6,460**	**-**	**581**	**-**	**7,041**	**-**
Howard Carr (Executive, resigned 15 April 2011)						
2011	**224,816**	**-**	**18,922**	**-**	**243,738**	**-**
2010	126,985	4,208(4)	11,429	104,600	247,222	42.3
William Ryan (Non-Executive, resigned 31 January 2010)						
2010	54,333	-	4,890	-	59,223	-
Paul Benson (Non-Executive, resigned 25 June 2010)						
2010	35,460	-	-	-	35,460	-
Other key management personnel						
Graeme Smith (appointed 5 November 2010)						
2011(3)	-	-	-	-	-	-
Manraj Khosa (resigned 5 November 2010)						
2011	**11,690**	**-**	**-**	**-**	**11,690**	**-**
2010	10,879	-	-	-	10,879	-
Ian Hobson (resigned 30 March 2010)						
2010	63,400	-	-	-	63,400	-
Paul Rundel (resigned 25 September 2009)						
2010	65,398	8,300(4)	4,038	-	77,736	-
Total key management personnel compensation						
2011	**487,577**	**-**	**26,973**	**-**	**514,550**	
2010	444,405	12,508	25,752	104,600	587,265	

(1) 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.

Directors' Report continued

(2) Following the resignation of Mr Carr as Managing Director, Mr Macoboy acted in an executive capacity and charged the Group a daily fee at normal commercial rates for time spent on executive duties.

(3) Mr Smith is an employee of DWCorporate Pty Ltd which provides company secretarial, CFO and bookkeeping services to the Group.

(4) These amounts relate to FBT.

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

There were no options granted to key management personnel as compensation during the reporting period.

Options granted as compensation

There were no options granted to key management personnel as compensation during the reporting period. Since the end of the financial year 3,500,000 options, with an exercise price to be set at 133% of the volume weighted average price of the fully paid ordinary shares on the five days prior to the issue date, were granted to Mark Strizek. The options were provided at no cost to the recipient and will vest and be issued on 30 September 2011.

Exercise of options granted as compensation

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

Analysis of options granted as compensation

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				
	Number	**Date**	**% vested in current year**	**% expired in current year**	**Financial years in which grant vests**
Directors					
Andrew Haslam	1,500,000	21 Nov 2008	-	100%	30 June 2009
Peter Knowles	500,000	21 Nov 2008	-	100%	30 June 2009
Howard Carr	2,000,000	16 Nov 2009	-	-	30 June 2010
Other Key Management Personnel					
Bruce Pertzel	400,000	20 Feb 2009	-	100%	30 June 2009

Analysis of movements in options

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:

	Granted in year	**Value of Options Exercised in year**	**Cancelled / Lapsed in year**
	$(A)	**$(B)**	**$(C)**
Directors			
Peter Knowles	-	-	11,100
Other Key Management Personnel			
Bruce Pertzel	-	-	7,800

(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.

(C) The value of the options that lapsed during the year represents the fair value of the options calculated at grant date using a binomial option valuation model.

End of audited Remuneration Report

Directors' Report continued

DIRECTORS' MEETINGS

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

	Directors Meetings		Audit Committee Meetings	
	A	**B**	**A**	**B**
David Macoboy	11	11	2	2
Andrew Simpson	10	11	2	2
Peter Cordin	11	11	2	2
Doug Stewart (appointed 30 May 2011)	1	1	*	*
Howard Carr (resigned 15 April 2011)	8	8	*	*

Notes

A – Number of meetings attended.

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

* – Not a member of the relevant committee.

SHARES UNDER OPTION

At the date of this report there are 2,000,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	5,400,000
Movements of share options during the year:	
Exercised at 12 cents, on or before 20 February 2011	(200,000)
Expired on 20 February 2011, exercisable at 12 cents	(1,200,000)
Expired on 30 June 2011, exercisable at 40 cents	(2,000,000)
Total number of options outstanding as at 30 June 2011 and the date of this report	**2,000,000**

The balance is comprised of the following:

Date options issued	Expiry date	Exercise price (cents)	Number of options
16 Nov 2009	17 Nov 2011	20	2,000,000
Total number of options outstanding at the date of this report			**2,000,000**

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

INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

NON-AUDIT SERVICES

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

Directors' Report continued

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Signed in accordance with a resolution of the directors.

David Macoboy
Chairman

Perth, 30 September 2011

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 2011 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 2011

Corporate Governance Statement

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.

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 (Chairman)
- Peter Cordin
- David Macoboy

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.

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 Group, 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.

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 Group'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.

Corporate Governance Statement continued

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 Group. The Group 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.

The Group 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 for 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 material 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 Group 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 committee.	The Company does not have a remuneration committee due its size. Its functions are carried out by the full board.

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2011	Notes	Consolidated 2011 $	2010 $
REVENUE			
Sundry income		-	11,192
Total income		-	11,192
EXPENDITURE			
Administration expenses		**1,220,201**	1,122,662
Exploration expenses			
Impairment of exploration		-	1,088,074
Reversal of previous impairment of exploration		-	(30,000)
Exploration expenses written off		**520,805**	307,413
Loss on sale of tenements		-	52,289
Total expenses	5	**1,741,006**	2,540,438
RESULTS FROM OPERATING ACTIVITIES		**(1,741,006)**	(2,529,246)
Finance income		**168,481**	66,025
Finance expense		-	(20,448)
Net finance income	4	**168,481**	45,577
LOSS BEFORE INCOME TAX		**(1,572,525)**	(2,483,669)
INCOME TAX BENEFIT / (EXPENSE)	6	-	190,694
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		**(1,572,525)**	(2,292,975)
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		**(51,530)**	-
Other comprehensive loss for the year, net of tax		**(51,530)**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		**(1,624,055)**	(2,292,975)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	27	**(0.8)**	(1.5)

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

Consolidated Statement of Financial Position

AT 30 JUNE 2011	Notes	Consolidated 2011 $	Consolidated 2010 $
CURRENT ASSETS			
Cash and cash equivalents	7	**3,254,593**	2,034,376
Trade and other receivables	8	**395,361**	340,541
TOTAL CURRENT ASSETS		**3,649,954**	2,374,917
NON-CURRENT ASSETS			
Financial assets available-for-sale	9	**30,800**	34,000
Property, plant and equipment	10	**368,012**	376,853
Intangible assets – exploration and evaluation	11	**8,574,374**	7,416,010
TOTAL NON-CURRENT ASSETS		**8,973,186**	7,826,863
TOTAL ASSETS		**12,623,140**	10,201,780
CURRENT LIABILITIES			
Trade and other payables	12	**658,722**	265,030
Provisions	13	**-**	3,890
TOTAL CURRENT LIABILITIES		**658,722**	268,920
NON-CURRENT LIABILITIES			
Provisions	14	**400,000**	-
TOTAL NON-CURRENT LIABILITIES		**400,000**	-
TOTAL LIABILITIES		**1,058,722**	268,920
NET ASSETS		**11,564,418**	9,932,860
EQUITY			
Issued capital	15	**36,772,740**	33,517,127
Reserves	16	**91,470**	143,000
Accumulated losses		**(25,299,792)**	(23,727,267)
TOTAL EQUITY		**11,564,418**	9,932,860

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

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2011

Consolidated	Notes	Issued Capital $	Share-Based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2009		30,336,687	152,475	-	(21,548,367)	8,940,795
Loss for the year		-	-	-	(2,292,975)	(2,292,975)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		-	-	-	(2,292,975)	(2,292,975)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	15	3,400,000	-	-	-	3,400,000
Share issue transaction costs	15	(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
BALANCE AT 30 JUNE 2010		33,517,127	143,000	-	(23,727,267)	9,932,860
Loss for the year		**-**	**-**	**-**	**(1,572,525)**	**(1,572,525)**
OTHER COMPREHENSIVE LOSS						
Exchange differences on translation of foreign operations		**-**	**-**	**(51,530)**	**-**	**(51,530)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**-**	**-**	**(51,530)**	**(1,572,525)**	**(1,624,055)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	15	**3,374,500**	**-**	**-**	**-**	**3,374,500**
Share issue transaction costs	15	**(118,887)**	**-**	**-**	**-**	**(118,887)**
BALANCE AT 30 JUNE 2011		**36,772,740**	**143,000**	**(51,530)**	**(25,299,792)**	**11,564,418**

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

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2011	Notes	Consolidated 2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(1,159,585)**	(881,092)
Interest received		**122,650**	44,047
Other receipts		**190,693**	11,191
Interest paid		**-**	(20,448)
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	26	**(846,242)**	(846,302)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(97,009)**	(2,350)
Proceeds of disposal of exploration and evaluation assets		**480,000**	20,000
Proceeds on sale of financial assets at fair value through profit or loss		**48,431**	-
Deposits received		**13,406**	22,500
Payments for exploration expenditure		**(1,582,453)**	(1,205,316)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		**(1,137,625)**	(1,165,166)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issues of ordinary shares		**3,255,613**	2,680,441
Net proceeds from issue of convertible note		**-**	500,000
NET CASH INFLOW FROM FINANCING ACTIVITIES		**3,255,613**	3,180,441
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,271,746**	1,168,973
Cash and cash equivalents at the beginning of the financial year		**2,034,376**	865,403
Effects of exchange rate changes on cash and cash equivalents		**(51,529)**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**3,254,593**	2,034,376

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

Notes to the Consolidated Financial Statements

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Vital Metals Ltd and its subsidiaries. The financial statements are presented in Australian dollars. Vital Metals Ltd is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 30 September 2011. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

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

Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through the profit and loss.

(b) Financial position

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

The Group has incurred a net operating loss after tax for the year ended 30 June 2011 of $1,572,525 including exploration expenses written off of $520,805 (2010: $2,292,975 loss including impairment expense of $1,058,074, exploration expenses written off of $307,413 and $104,600 share based payments expense) and experienced net cash inflows of $1,271,746 (2010: cash inflows of $1,168,973).

The Group raised a total of $3,374,500 from a Share Placement, Share Purchase Plan and the exercise of options during the year. The Share Placement was completed in December 2010 raising $2,000,000. The Share Purchase Plan was closed on 20 December 2010 and raised a total of $1,350,500. At year end the Group's cash position was $3,254,593.

The Directors are confident that the additional funds secured throughout the year will provide the Group 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 Group will successfully raise additional funds in the future as required to meet its financial obligations and/or farm out commitments as necessary.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Vital Metals Ltd ("Company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Vital Metals Ltd and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

(d) Segment reporting

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

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

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

(f) Finance income

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

(g) Income tax

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

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

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

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

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

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

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

Tax consolidation

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

(h) Leases

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Impairment of assets

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

(k) Financial assets

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group 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 Group 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 Group 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 Group has the following non-derivative financial assets: loans and receivables and financial assets available-for-sale.

Financial assets available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Available-for-sale financial assets comprise equity securities.

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 cash and cash equivalents and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group 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 Group 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 Group has the following non-derivative financial liabilities: 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.

(l) Property, plant and equipment

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

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

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Intangibles - exploration and evaluation expenditure

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

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

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

a) The rights to tenure of the area of interest are current; and

b) At least one of the following conditions is also met:

   i. The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and

   ii. Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

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

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

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

Impairment testing of exploration and evaluation expenditure

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

Exploration and evaluation expenditure is tested for impairment when any of the following facts and circumstances exist:

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

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

(n) Employee benefits

(i) Annual leave

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

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 28.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site Restoration

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

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

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

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

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

(p) Contributed equity

Ordinary shares are classified as equity.

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

(q) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

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

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

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

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as derecognition requirements for financial assets and liabilities. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the requirements to separate and fair value embedded derivatives where the host contract is a financial asset;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified only where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011)

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: *First-time Adoption of Australian Accounting Standards*, and AASB 7: *Financial Instruments: Disclosures*, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2010–7] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009–11: *Amendments to Australian Accounting Standards arising from AASB 9*, and AASB 2010–7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*.

The amendments brought in by this Standard ultimately affect AASB 1: *First-time Adoption of Australian Accounting Standards* and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: *Financial Instruments* that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

AASB 1054: Australian Additional Disclosures (applies to periods beginning on or after 1 January 2013)

This Standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This Standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

- compliance with Australian Accounting Standards;
- the statutory basis or reporting framework for financial statements;
- whether the financial statements are general purpose or special purpose;
- audit fees; and
- imputation credits.

This Standard is not expected to impact the Group.

AASB 10: Consolidated Financial Statements (applies to periods beginning on or after 1 January 2013)

This Standard establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This Standard is not expected to impact the Group.

AASB 11: Joint Arrangements (applies to periods beginning on or after 1 January 2013)

This Standard replaces AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly-Controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the Group.

AASB 13: Fair Value Measurement (applies to periods beginning on or after 1 January 2013)

This Standard establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. Application of this definition may result in different fair values being determined for the relevant assets.

Notes to the Financial Statements continued

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The Group has not yet determined any potential impact on the financial statements.

AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 101] (applies to periods beginning on or after 1 July 2012)

This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments). The Group has not yet determined any potential impact on the financial statements.

AASB 119: Employee Benefits (applies to periods beginning on or after 1 January 2013)

This Standard contains changes to the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group has not yet determined any potential impact on the financial statements.

None of the other amendments or Interpretations are expected to affect the accounting policies of the Group.

(t) Critical accounting estimates and judgements

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

Critical judgements

Going Concern

A key assumption underlying the preparation of the financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the entity is a going concern as set out in Note 1(b).

Estimates and assumptions

Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer Note 1(m)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment are estimates and assumptions as to the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy 1(m), a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement in accordance with accounting policy 1(m). The carrying amounts of exploration and evaluation assets are set out in Note 11.

Site Restoration liability

Determining the cost of rehabilitation, decommissioning and restoration of the area disturbed during exploration activities in accordance with the Group's accounting policy, requires the use of significant estimates and assumptions, including: the timing of the cash flows and expected life of the relevant area of interest, the application of relevant environmental legislation, and the future expected costs of rehabilitation, decommissioning and restoration.

Changes in the estimates and assumptions used to determine the cost of rehabilitation, decommissioning and restoration could have a material impact on the carrying value of the site restoration provision. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at the time. The carrying amount of the provision for site restoration is set out in Note 14.

Notes to the Financial Statements continued

30 JUNE 2011

2. FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

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

The Group is exposed to fluctuations in foreign exchange rates of the CFA Franc in relation to its activities in Burkina Faso, and to fluctuations in interest rates in relation to its cash deposits and commodity prices in relation to the carrying value of its exploration and evaluation assets. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group monitors these risks and takes action as required.

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

	Weighted Average Interest Rate	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	%	$	$	$	$
2011					
Financial Assets					
Cash and cash equivalents	4.09	**3,254,593**	**-**	**-**	**3,254,593**
Trade and other receivables		**-**	**-**	**395,361**	**395,361**
		3,254,593	**-**	**395,361**	**3,649,954**
Financial Liabilities					
Trade and other payables		**-**	**-**	**658,722**	**658,722**
Net financial assets		**3,254,593**	**-**	**(263,361)**	**2,991,232**
2010					
Financial Assets					
Cash and cash equivalents	4.39	2,034,376	-	-	2,034,376
Trade and other receivables		-	-	340,541	340,541
		2,034,376	-	340,541	2,374,917
Financial Liabilities					
Trade and other payables		-	-	265,030	265,030
Net financial assets		2,034,376	-	75,511	2,109,888

Sensitivity analysis for variable rate instruments

At 30 June 2011, if interest rates had changed by -/+ 25 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been $7,538 lower/higher (2010: -/+ 25 basis points, $5,086 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

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

Currently the Group's exposure to credit risk is via cash and cash equivalents and other receivables. The majority of cash and cash equivalents are held with financial institutions that have 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.

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

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2. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

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

	Carrying Amount $	Contractual Cash Flow $	6 Months or Less $	6 – 12 Months $	1 – 2 Years $
2011					
Non-derivative financial liabilities					
Trade and other payables	**658,722**	**658,722**	**658,722**	**-**	**-**
2010					
Non-derivative financial liabilities					
Trade and other payables	265,030	265,030	265,030	-	-

(d) Accounting classification of Fair Values

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

Fair value 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 $
2011				
Financial assets available-for-sale	**30,800**	**-**	**-**	**30,800**
2010				
Financial assets available-for-sale	34,000	-	-	34,000

Fair value estimation

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

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 available-for-sale, is determined by reference to their quoted closing bid price at the reporting date.

Trade and other receivables

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

Financial liabilities

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

Notes to the Financial Statements continued

30 JUNE 2011

3. SEGMENT INFORMATION

The consolidated entity has two reportable segments being mineral exploration and prospecting for minerals in Australia and Burkina Faso.

	Australia		Burkina Faso		Consolidated Total	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Segment revenue	-	-	-	-	-	-
Reconciliation of segment revenue to total revenue before tax:						
Interest revenue					**123,250**	42,025
Net change in fair value of financial assets					**45,231**	24,000
Sundry income					-	11,192
Total revenue					**168,481**	77,217
Impairment of exploration	-	(1,088,074)	-	-	-	(1,088,074)
Segment results	**(520,805)**	(1,417,776)	-	-	**(520,805)**	(1,417,776)
Reconciliation of segment result to net loss before tax:						
Depreciation					**(112,686)**	(147,411)
Other corporate and administration					**(939,034)**	(918,482)
Net loss before tax					**(1,572,525)**	(2,483,669)
Segment operating assets	**9,527,130**	9,018,924	**2,697,198**	878,706	**12,224,328**	9,897,630
Reconciliation of segment operating assets to total assets:						
Intersegment elimination					-	(106,703)
Financial assets at fair value through profit or loss					**30,800**	34,000
Property, plant and equipment					**368,012**	376,853
Total assets					**12,623,140**	10,201,780
Total assets includes additions to non-current assets	**235,070**	389,611	**1,551,448**	818,055	**1,786,518**	1,207,666
Segment operating liabilties	**539,897**	201,962	**518,825**	63,068	**1,058,722**	265,030
Reconciliation of segment operating liabilities to total liabilities:						
Provisions					-	3,890
Total liabilities					**1,058,722**	268,920

4. NET FINANCIAL INCOME

	Consolidated	
	2011 $	2010 $
Interest income	**123,250**	42,025
Net change in fair value of financial assets	**45,231**	24,000
	168,481	66,025
Interest expense	-	20,448
Net finance income	**168,481**	45,577

Notes to the Financial Statements continued

30 JUNE 2011

	Consolidated	
	2011	2010
	$	$
5. EXPENSES		
The following significant expense items not separately highlighted in the Statement of Comprehensive Income are relevant in explaining the financial performance:		
Depreciation of non-current assets in administration expenses		
Buildings	**24,222**	26,225
Plant and equipment	**86,057**	119,540
Office equipment	**2,407**	1,646
Total depreciation	**112,686**	147,411
Personnel expenses		
Wages and salaries	**449,330**	287,300
Contributions to defined contribution superannuation funds	**34,230**	16,747
Other associated personnel expenses	**(11,227)**	52,917
Equity settled share based payment transactions	**-**	104,600
Total personnel expenses(1)	**472,333**	461,565

(1) A portion of personnel expenses are transferred to capitalised exploration and evaluation expenditure. The balance shown here is the portion remaining in administration expenses.

6. INCOME TAX

(a) The major components of income tax are:

	2011 $	2010 $
Statement of Comprehensive Income		
Current income tax		
Current income tax benefit	**378,236**	464,892
Deferred income tax		
Relating to origination and reversal of temporary differences	**92,523**	279,221
Unused tax losses not recognised as DTA	**(470,758)**	(744,113)
Tax rebate from R&D activities	**-**	190,694
Income tax benefit reported in the Statement of Comprehensive Income	**-**	190,694
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:		
Accounting loss	**(1,572,525)**	(2,483,669)
Prima facie tax benefit at the Australian tax rate of 30% (2010: 30%)	**(471,757)**	(745,100)
Add tax effect of:		
Non-deductible items	**11,499**	987
Utilise carried forward capital losses	**(10,500)**	-
Tax losses not brought to account	**470,758**	744,113
Tax rebate from R&D activities	**-**	190,694
Income tax benefit	**-**	190,694

(c) Deferred income tax

	2011 $	2010 $
Statement of Financial Position		
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Property, plant and equipment	**24,884**	25,116
Exploration	**897,151**	895,738
Other	**8,529**	9,034
Set-off against tax assets	**(930,562)**	(929,888)
	-	-

Notes to the Financial Statements continued

30 JUNE 2011

	Consolidated 2011 $	Consolidated 2010 $
6. INCOME TAX (cont'd)		
Deferred tax assets		
Tax value of losses carried forward	**8,415,909**	7,969,168
Set-off of deferred tax liability	**(930,562)**	(929,888)
Accrued expenses	**5,401**	21,306
Provisions	**120,000**	2,692
Other prepayments	**125,149**	176,738
Non-recognition of deferred tax assets	**(7,735,897)**	(7,240,016)
	-	-

(c) Tax losses

At 30 June 2011, the Consolidated Entity has $28,053,031 (2010: $26,528,894) of taxable 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 in the Statement of Financial Position in respect of the amount of these losses as it is not presently probable that future taxable profits will be available against which the company can utilise the benefit.

	2011 $	2010 $
Unrecognised deferred tax assets		
Tax losses - revenue	**8,415,909**	7,958,668
Tax losses - capital	**-**	10,500
Deductible temporary differences:		
Accrued expenses	**5,401**	21,306
Provisions	**120,000**	2,692
Other prepayments	**125,149**	176,738
	8,666,459	8,169,904

(d) Tax consolidation legislation

Vital Metals Ltd and its controlled entities implemented the tax consolidations legislation as of 3 October 2005. The Australian Tax Office was notified of this decision on lodgement of the 2006 income tax return.

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2011 $	2010 $
Cash at bank and on hand	**176,521**	54,376
Short-term deposits	**3,078,072**	1,980,000
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**3,254,593**	2,034,376

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2011 $	2010 $
Other receivables	**190,109**	271,853
Security deposits	**45,325**	58,731
Prepayments	**159,927**	9,957
	395,361	340,541

9. NON-CURRENT ASSETS – FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2011 $	2010 $
Australian listed equity securities	**30,800**	34,000

Notes to the Financial Statements continued

30 JUNE 2011

10. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Freehold Buildings $	Plant and Equipment[1] $	Office Equipment $	Total $
At 1 July 2009				
Cost	262,242	683,899	25,675	971,816
Accumulated depreciation	(90,591)	(349,902)	(9,410)	(449,903)
Net book amount	171,651	333,997	16,265	521,913
Year ended 30 June 2010				
Opening net book amount	171,651	333,997	16,265	521,913
Additions	-	2,350	-	2,350
Depreciation charge	(26,225)	(119,540)	(1,646)	(147,411)
Closing net book amount	145,426	216,808	14,619	376,853
At 30 June 2010				
Cost	262,242	686,250	25,675	974,167
Accumulated depreciation	(116,816)	(469,442)	(11,056)	(597,314)
Net book amount	145,426	216,808	14,619	376,853
Year ended 30 June 2011				
Opening net book amount	**145,426**	**216,808**	**14,619**	**376,853**
Exchange differences	**-**	**(6,858)**	**(2,097)**	**(8,955)**
Additions	**47,896**	**87,058**	**13,200**	**148,154**
Disposals	**(35,354)**	**-**	**-**	**(35,354)**
Depreciation charge	**(24,222)**	**(86,057)**	**(2,407)**	**(112,686)**
Closing net book amount	**133,746**	**210,951**	**23,315**	**368,012**
At 30 June 2011				
Cost	**243,849**	**616,443**	**36,351**	**896,643**
Accumulated depreciation	**(110,103)**	**(405,492)**	**(13,036)**	**(528,631)**
Net book amount	**133,746**	**210,951**	**23,315**	**368,012**

11. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated 2011 $	Consolidated 2010 $
Exploration and evaluation expenditure		
Costs carried forward in respect of areas of interest in the exploration and evaluation phases:		
Opening net book amount	**7,416,010**	7,660,499
Exploration expenditure	**1,759,169**	1,120,998
Impairment	**-**	(1,088,074)
Disposal	**(480,000)**	-
Reversal of impairment	**-**	30,000
Exploration expenditure written off	**(120,805)**	(307,413)
Closing net book amount	**8,574,374**	7,416,010

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

The Group undertakes at least on an annual basis a comprehensive review for indicators of impairment of these assets. There is significant estimation in determining the inputs and assumptions used in determining the recoverable amounts. The key areas requiring estimation and assumptions may include (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.

30 JUNE 2011

	Consolidated	
	2011	2010
	$	$

11. NON-CURRENT ASSETS – INTANGIBLE ASSETS (cont'd)

Watershed

Subsequent to the reporting date the Company has entered into an Earn-In Agreement over the Company's 100% owned Watershed Tungsten Project in Queensland, with Japan Oil, Gas and Metals National Corporation (JOGMEC).

Under the terms of the Agreement, JOGMEC can earn 30% of the Watershed Project by spending $5.4 million over a period of three years.

Watershed is a highly prospective tungsten project with a JORC code compliant Indicated Resource of 15.3mt @ 0.46% tungsten oxide, a Prefeasibility Study and environmental approvals well advanced. At this stage of the projects development a rehabilitation provision of $400,000 has been provided to allow for the very minimal disturbance to the environment to date.

Other Exploration Assets

The Directors have also assessed the carrying value of the Group'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 Group's other exploration assets is $2,127,711.

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 2011 is $2,127,711. The Company has committed to sole fund an additional $2 million to earn an additional 10% interest in the Project bringing their total interest to 70%.

12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2011 $	2010 $
Trade creditors and accruals	**658,722**	242,530
Other	-	22,500
	658,722	265,030

13. CURRENT LIABILITIES - PROVISIONS

	2011 $	2010 $
Employee benefits		
Annual leave	-	3,890

14. NON-CURRENT LIABILITIES - PROVISIONS

	2011 $	2010 $
Site Restoration Provision		
Opening balance	-	-
Additional provision charged to profit or loss	**400,000**	-
Closing balance	**400,000**	-

15. CONTRIBUTED EQUITY

(a) Share capital

		2011		2010	
	Notes	Number of shares	$	Number of shares	$
Ordinary shares fully paid	15(b), 15(d)	**228,401,027**	**36,772,740**	186,319,777	33,517,127
Total contributed equity		**228,401,027**	**36,772,740**	186,319,777	33,517,127

Notes to the Financial Statements continued

30 JUNE 2011	2011 Number of shares	2011 $	2010 Number of shares	2010 $
15. CONTRIBUTED EQUITY (cont'd)				
(b) Movements in ordinary share capital				
Beginning of the financial year	**186,319,777**	**33,517,127**	133,819,777	30,336,687
Issued during the year:				
– Share placement @ 6 cents per share	**-**	**-**	40,000,000	2,400,000
– Share placement/Entitlements issue @ 8 cents per share	**41,881,250**	**3,350,500**	12,500,000	1,000,000
– Options exercised at 12 cents per share	**200,000**	**24,000**		
Less: Transaction costs	**-**	**(118,887)**	-	(219,560)
End of the financial year	**228,401,027**	**36,772,740**	186,319,777	33,517,127

(c) Movements in options on issue

	Number of options 2011	Number of options 2010
Beginning of the financial year	**5,400,000**	4,600,000
Issued during the year:		
– Exercisable at 20 cents, on or before 17 Nov 2011	**-**	2,000,000
Exercised during the year:		
– Exercised at 12 cents, 20 Feb 2011	**(200,000)**	-
Expired/cancelled during the year:		
– Exercisable at 12 cents, 20 Feb 2011	**(1,200,000)**	(600,000)
– Exercisable at 40 cents, 17 Sep 2010	**(2,000,000)**	(350,000)
– Exercisable at 80 cents, 30 Jul 2009	**-**	(250,000)
End of the financial year	**2,000,000**	5,400,000

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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.

(e) Capital risk management

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

	Consolidated 2011 $	Consolidated 2010 $
Cash and cash equivalents	**3,254,593**	2,034,376
Trade and other receivables	**395,361**	340,541
Trade and other payables	**(658,722)**	(265,030)
Current provisions	**-**	(3,890)
Working capital position	**2,991,232**	2,105,997

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	Consolidated 2011 $	Consolidated 2010 $

16. RESERVES

(i) Share based payment reserve

The share-based payments reserve is used to recognise the fair value of options issued.

(ii) Foreign currency translation reserve

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

17. DIVIDENDS

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

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2011 $	2010 $
Short-term benefits	**487,577**	456,913
Post employment benefits	**26,973**	25,752
Share-based payments	-	104,600
	514,550	587,265

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 5 to 7.

(ii) Option holdings

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

2011	**Balance at start of the year**	**Granted as compensation**	**Exercised**	**Other changes**	**Balance at end of the year**	**Vested and exercisable**	**Unvested**
Directors of Vital Metals Ltd							
David Macoboy	-	-	-	-	-	-	-
Andrew Simpson	-	-	-	-	-	-	-
Peter Cordin	-	-	-	-	-	-	-
Doug Stewart (appointed 30 May 2011)	-	-	-	-	-	-	-
Howard Carr (resigned 15 April 2011)*	**2,000,000**	-	-	-	**2,000,000**	**2,000,000**	-
Other key management personnel of the Group							
Graeme Smith (appointed 5 November 2010)	-	-	-	-	-	-	-
Manraj Khosa (resigned 5 November 2010)	-	-	-	-	-	-	-

* Final holding represents holding at resignation date.

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

Notes to the Financial Statements continued

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18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Vital Metals Ltd							
Andrew Simpson	-	-	-	-	-	-	-
Peter Cordin (appointed 7 September 2009)	-	-	-	-	-	-	-
Howard Carr (appointed 18 November 2009)	-	2,000,000	-	-	2,000,000	2,000,000	-
David Macoboy (appointed 5 January 2010)	-	-	-	-	-	-	-
William Ryan (resigned 31 January 2010)	-	-	-	-	-	-	-
Paul Benson (resigned 25 June 2010)	-	-	-	-	-	-	-
Other key management personnel of the Group							
Manraj Khosa (appointed 25 March 2010)	-	-	-	-	-	-	-
Ian Hobson (resigned 25 March 2010)	-	-	-	-	-	-	-
Paul Rundel (resigned 17 September 2009)	950,000	-	-	(950,000)*	-	-	-

* Other changes represents holding at resignation date.

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Vital Metals Ltd and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year(1)	Balance at end of the year(2)
Directors of Vital Metals Ltd				
Ordinary shares				
David Macoboy	**1,000,000**	**-**	**1,000,000**	**2,000,000**
Andrew Simpson	**1,084,000**	**-**	**125,000**	**1,209,000**
Peter Cordin	**562,500**	**-**	**187,500**	**750,000**
Doug Stewart (appointed 30 May 2011)	-	-	-	-
Howard Carr (resigned 15 April 2011)	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
Graeme Smith (appointed 5 November 2010)	**-**	**-**	**150,000**	**150,000**
Manraj Khosa (resigned 5 November 2010)	-	-	-	-

Notes to the Financial Statements continued

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18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year[(1)]	Balance at end of the year[(2)]
Directors of Vital Metals Ltd				
Ordinary shares				
Andrew Simpson	1,084,000	-	-	1,084,000
Peter Cordin (appointed 7 September 2009)	-	-	562,500	562,500
Howard Carr (appointed 18 November 2009)	-	-	-	-
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)	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
Manraj Khosa (appointed 25 March 2010)	-	-	-	-
Ian Hobson (resigned 25 March 2010)	-	-	-	-
Paul Rundel (resigned 17 September 2009)*	11,500	-	-	11,500

(1) Other changes represent net on-market movements during the year.

(2) At year end there are no nominally held shares.

* Final holding represents holding at resignation date.

(c) Loans to key management personnel

There were no loans to key management personnel during the year.

(d) Other transactions with key management personnel

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

19. REMUNERATION OF AUDITORS

	Consolidated 2011 $	Consolidated 2010 $
Remuneration of the auditor of the parent entity for:		
Audit and review of financial reports	**55,000**	60,685

No non-audit services were performed during 2011 or 2010.

20. CONTINGENCIES

Department of Mines & Petroleum

Performance bonds totalling $19,500 (2010: $14,500) have been granted in favour of the Department of Mines & Petroleum.

21. COMMITMENTS

(a) Exploration commitments

The Group 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 Group will be required to outlay in 2011 amounts of approximately $257,299 (2010: $612,400). These obligations are expected to be fulfilled in the normal course of operations. The Group has elected to spend an additional $2 million to earn an additional 10% of the Doulnia Gold Project. This is not a fixed commitment, however, if the full $2 million is not spent the Group will not earn any additional interest in the project.

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	Consolidated 2011 $	Consolidated 2010 $
21. COMMITMENTS (cont'd)		
(b) Lease commitments: Group as lessee		
Operating leases (non-cancellable):		
Minimum lease payments		
within one year	**33,750**	57,663
later than one year but not later than five years	**50,625**	119,887
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**84,375**	177,550

22. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

(d) Loans to related parties

Vital Metals Ltd has provided unsecured, interest free loans to each of its wholly owned subsidiaries totalling $21,052,740 (2010: $19,385,355) at 30 June 2011. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiary and the market in which the subsidiary operates to determine whether there is objective evidence that the subsidiary is impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss.

23. SUBSIDIARIES

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

Name	Country of Incorporation	Class of Shares	Equity Holding(1) 2011 %	Equity Holding(1) 2010 %
Mt Alexander Resources Pty Ltd	Australia	Ordinary	**100**	100
North Queensland Tungsten Pty Ltd	Australia	Ordinary	**100**	100
Vital Metals Burkina Sarl	Burkina Faso	Ordinary	**100**	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.

24. JOINT VENTURES

The Group has interests in the following joint ventures:

Tenement Area	Activities	Participation Interest 2011 %	Participation Interest 2010 %	Carrying Value 2011 $	Carrying Value 2010 $
Mt Mulgine	Tungsten/Molybdenum	-	70	-	450,000

The Mt Mulgine project joint venture was sold during the year for cash consideration of $450,000.

25. EVENTS OCCURRING AFTER THE REPORTING DATE

On 23rd May 2011, the Company entered into an agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) whereby JOGMEC would, subject to due diligence, be entitled to earn a 30% participating interest in the Watershed project by sole funding $5.4m in expenditure. On 22 August 2011, JOGMEC advised their Farm-In participation in the project.

No other matter or circumstance has arisen since 30 June 2011, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Financial Statements continued

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	Consolidated 2011 $	Consolidated 2010 $
26. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	**(1,572,525)**	(2,292,975)
Non-Cash Items		
Depreciation of non-current assets	**112,686**	147,411
Loss on disposal of asset	**35,354**	52,289
Option expense	**-**	104,600
Change in fair value of financial assets	**(45,231)**	(24,000)
Net impairment - exploration	**-**	1,058,073
Exploration expenses written off	**520,805**	307,414
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease/(increase) in trade and other receivables	**188,846**	(174,714)
Increase in trade and other payables	**(86,177)**	(24,400)
Net cash outflow from operating activities	**(846,242)**	(846,302)

27. LOSS PER SHARE

	2011 $	2010 $
(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	**(1,572,525)**	(2,292,975)

	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	**208,921,626**	150,121,146

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2011, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

28. 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.

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

Grant Date	Expiry Date	Exercise Price	Number Outstanding at Year End 2011	Number Outstanding at Year End 2010
21 November 2008	30 June 2011	$0.40	-	2,000,000
20 February 2009	20 February 2011	$0.12	-	1,400,000
16 November 2009	17 November 2011	$0.20	**2,000,000**	2,000,000
			2,000,000	5,400,000

Notes to the Financial Statements continued

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28. SHARE-BASED PAYMENTS (cont'd)

Set out below are summaries of the options granted:

	Consolidated			
	2011		2010	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	**5,400,000**	**25.3**	4,600,000	30.0
Granted	-	-	2,000,000	20.0
Forfeited/cancelled	-	-	(950,000)	22.3
Exercised	**(200,000)**	**12.0**	-	-
Expired	**(3,200,000)**	**29.5**	(250,000)	80.0
Outstanding at year-end	**2,000,000**	**20.0**	5,400,000	25.3
Exercisable at year-end	**2,000,000**	**20.0**	5,400,000	25.3

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 0.38 years (2010: 1.05 years), and the exercise price is 20 cents.

The weighted average share price at the date of exercise for share options exercised in 2011 was 18.5 cents (2010: no options exercised).

There were no options granted during 2011. The weighted average fair value of options granted during 2010 was 5.2 cents. The price was calculated by using a binomial option pricing model applying the following inputs:

	2011	2010
Weighted average exercise price (cents)	-	20.0
Weighted average life of the option (years)	-	2.0
Weighted average underlying share price (cents)	-	9.0
Expected share price volatility	-	144%
Weighted average risk free interest rate	-	6.26%

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

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

(b) Expenses arising from share-based payment transactions

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

	Consolidated	
	2011	2010
	$	$
Options issued to employees	-	104,600

Notes to the Financial Statements continued

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29. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Vital Metals Ltd, at 30 June 2011. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2011 $	2010 $
Current assets	**3,208,913**	2,290,570
Non-current assets	**8,491,831**	7,592,005
Total assets	**11,700,744**	9,882,575
Current liabilities	**136,326**	190,992
Total liabilities	**136,326**	190,992
Contributed equity	**36,772,740**	33,517,127
Reserves	**143,000**	143,000
Accumulated losses	**(25,351,322)**	(23,968,544)
Total equity	**11,564,418**	9,691,583
Loss for the year	**(1,382,778)**	(2,109,147)
Total comprehensive loss for the year	**(1,382,778)**	(2,109,147)

The parent entity did not have any contingent liabilities, or any contractual commitments for the acquisition of property, plant and equipment, as at 30 June 2011 or 30 June 2010.

Directors' Declaration

In the directors' opinion:

(a) the consolidated financial statements comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes set out on pages 13 to 39 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;

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

(c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with Section 300A of the *Corporations Act 2001*; and

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

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

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

David Macoboy
Chairman

Perth, 30 September 2011

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

Report on the financial report

We have audited the accompanying financial report of Vital Metals Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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. These 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

KPMG

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 2011 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 5 to 7 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Vital Metals Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

30 September 2011

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 28 September 2011.

(a) Distribution of equity securities

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

			Ordinary shares	
			Number of holders	Number of shares
1	-	1,000	98	51,544
1,001	-	5,000	279	839,347
5,001	-	10,000	253	2,050,673
10,001	-	100,000	772	29,972,850
100,001		and over	259	195,486,613
			1,661	228,401,027
The number of shareholders holding less than a marketable parcel of shares are:			488	1,596,461

(b) Twenty largest shareholders

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

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Citicorp Nominees Pty Ltd	21,231,643	9.30
2	Harbour, Rex	17,500,000	7.66
3	JP Morgan Nominees Australia Ltd <Cash Income A/C>	13,699,525	6.00
4	Consolidated Minerals Ltd	12,576,627	5.51
5	HSBC Custody Nominees Australia Ltd	10,869,767	4.76
6	National Nominees Ltd	8,797,869	3.85
7	Macdonald, Stanley Allan	8,500,000	3.72
8	Breamlea Pty Ltd <J&E MacDonald A/C>	5,929,016	2.60
9	Melbourne Cap Ltd	5,000,000	2.19
10	Riley, Graham D + A M <Riley S/F A/C>	4,000,000	1.75
11	Rytech Pty Ltd <Rytech S/F A/C>	2,770,559	1.21
12	Colin & Imelda Bourke S/F < C & I Bourke S/F A/C>	2,500,000	1.09
13	Jeumont Pty Ltd <DMM S/F A/C>	1,812,500	0.79
14	Consolidated Minerals Ltd	1,698,750	0.74
15	First Farley Pty Ltd <Timar S/F A/C>	1,430,052	0.63
16	Austasia Resources Pty Ltd	1,383,333	0.61
17	Zaugra, Leopold Matis	1,363,010	0.60
18	Novasc Pty Ltd <Bellis Aust S/F A/C>	1,341,861	0.59
19	Gibbs, Hugo Dalzell	1,275,000	0.56
20	Wythenshawe Pty Ltd	1,266,364	0.55
		124,945,876	54.71

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Citicorp Nominees Pty Ltd	21,231,643
Harbour, Rex	17,500,000
JP Morgan Nominees Australia Ltd <Cash Income A/C>	13,699,525
Consolidated Minerals Ltd	12,576,627

ASX Additional Information continued

(d) Voting rights
All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Watershed	EPM 10026	100%
Watershed	EPM 14735	100%
Watershed	EPM 15064	100%
Watershed	EPM 18171	100%
Watershed	ML 20535	100%
Watershed	ML 20536	100%
Watershed	ML 20537	100%
Watershed	ML 20538	100%
Watershed	ML 20566	100%
Watershed	ML 20567	100%
Watershed	ML 20576	100%
Watershed	MDL 127	100%
Watershed	EPM 15544	100%
Burkina Faso	Doulnia	60%
Burkina Faso	Kampala	60%