VITAL METALS LTD

ABN 32 112 032 596

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2011

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by Vital Metals Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

VITAL METALS LTD
31 DECEMBER 2011

DIRECTORS' REPORT

Your directors are pleased to present their report on the consolidated entity consisting of Vital Metals Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2011.

DIRECTORS

The names of the directors who held office during or since the end of the half-year, to the date of this report, are:
Mr David Macoboy
Mr Douglas Stewart
Mr Mark Strizek (appointed 7 October 2011)
Mr Andrew Simpson
Mr Peter Cordin

REVIEW AND RESULTS OF OPERATIONS

A summary of consolidated revenues and results for the half-year is set out below:

	2011	
	Income	**Results**
	$	**$**
Consolidated entity income and loss	*121,218*	*(837,807)*

During the half year, the Company achieved the requisite $1.5M exploration spend milestone at the Doulnia Gold Project in Burkina Faso, West Africa, to secure 60% ownership of the project. The company further increased its tenure position in Burkina Faso by securing Mediga and Zeko exploration tenements.

A 6000m reverse circulation (RC) drilling program commenced at Kollo and Boungou during the half year. The aims of the program were: to determine limits of gold mineralisation at the Kollo prospect and to test a 1.2km gold-in-soil anomaly at the Boungou South prospect.

Japan Oil, Gas and Metals National Corporation (JOGMEC) provided notice of participation on 22 August 2011 in the Watershed Tungsten Project. JOGMEC farm-in participation commitment of $5.4M is to be received in stages will be applied to fund a definitive feasibility study (DFS) and enables JOGMEC to earn a 30% interest in the Project.

New spiral concentrate testwork shows significant improvement in scheelite recovery over previous test-work results. The Company's focus is now on the metallurgical optimisation and variability test program and completion of the Environment Management Plan for submission to Department of Environment and Resource Management.

On 2 March 2012, the Company announced to the Australian Securities Exchange (ASX) a non-renounceable rights issue of up to approximately 57,204,424 fully paid ordinary shares at an issue price of $0.05 each, on the basis of one (1) share for every four (4) shares held on the record date (14 March 2012). The rights issue is anticipated to raise approximately $2,860,226.

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 5.

This report is made in accordance with a resolution of directors.

David Macoboy
Chairman
Perth, 13 March 2012

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 review for the half-year ended 31 December 2011 there have been:

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

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

KPMG

KPMG

Grant Robinson

Partner

Perth

13 March 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Half-year 2011 $	Half-year 2010 $
INCOME			
Operator Fee		**63,473**	-
Net gain on revaluation of financial assets		**-**	24,000
Sundry income		**57,745**	-
TOTAL INCOME		**121,218**	24,000
EXPENSES			
Administration expenses		**(948,119)**	(568,687)
Exploration expenses			
Depreciation		**(68,819)**	(62,256)
Impairment of exploration	4	**-**	-
Exploration expenses written off	4	**-**	(259,383)
TOTAL EXPENSES		**(1,016,938)**	(890,326)
RESULTS FROM OPERATING ACTIVITIES		**(895,720)**	(866,326)
Finance income		**57,913**	44,949
Finance expenses		**-**	-
NET FINANCE INCOME/(COSTS)		**57,913**	44,949
LOSS BEFORE INCOME TAX		**(837,807)**	(821,377)
Income tax benefit / (expense)		**-**	-
LOSS FOR THE HALF-YEAR		**(837,807)**	(821,377)
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		**(197,528)**	(78,702)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LTD		**(1,035,335)**	(900,079)
Basic and diluted loss per share (cents)		**(0.4)**	(0.4)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

VITAL METALS LTD
31 DECEMBER 2011

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	31 December 2011 $	30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents		**1,619,242**	3,254,593
Trade and other receivables		**704,847**	395,361
TOTAL CURRENT ASSETS		**2,324,089**	3,649,954
NON-CURRENT ASSETS			
Investments		**-**	30,800
Property, plant and equipment		**372,081**	368,012
Intangible assets – exploration and evaluation	4	**8,923,942**	8,574,374
TOTAL NON-CURRENT ASSSETS		**9,296,023**	8,973,186
TOTAL ASSETS		**11,620,112**	12,623,140
CURRENT LIABILITIES			
Trade and other payables		**559,877**	658,722
Provisions		**-**	-
TOTAL CURRENT LIABILITIES		**559,877**	658,722
NON-CURRENT LIABILITIES			
Provisions		**400,000**	400,000
TOTAL NON-CURRENT LIABILITIES		**400,000**	400,000
TOTAL LIABILITIES		**959,877**	1,058,722
NET ASSETS		**10,660,235**	11,564,418
EQUITY			
Contributed equity	5	**36,772,740**	36,772,740
Reserves		**25,094**	91,470
Accumulated losses		**(26,137,599)**	(25,299,792)
TOTAL EQUITY		**10,660,235**	11,564,418

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Contributed Equity	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	$	$	$	$	$
BALANCE AT 1 JULY 2010	**33,517,127**	**143,000**	**-**	**(23,727,267)**	**9,932,860**
Loss for the half-year	**-**	**-**	**-**	**(821,377)**	**(821,377)**
OTHER COMPREHENSIVE LOSS					
Exchange differences on translation of foreign operations	**-**	**-**	**(78,702)**	**-**	**(78,702)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**-**	**-**	**(78,702)**	**(821,377)**	**(900,079)**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Share issues	**3,352,000**	**-**	**-**	**-**	**3,352,000**
Capital raising expenses	**(126,414)**	**-**	**-**	**-**	**(126,414)**
BALANCE AT 31 DECEMBER 2010	**36,742,713**	**143,000**	**(78,702)**	**(24,548,644)**	**12,258,367**
BALANCE AT 1 JULY 2011	36,772,740	143,000	(51,530)	(25,299,792)	11,564,418
Loss for the half-year	-	-	-	(837,807)	(837,807)
OTHER COMPREHENSIVE LOSS					
Exchange differences on translation of foreign operations			(145,998)	-	(145,998)
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE PERIOD	-	-	(145,998)	(837,807)	(983,805)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Issue of options to employees	-	79,622	-	-	79,622
BALANCE AT 31 DECEMBER 2011	36,772,740	222,622	(197,528)	(26,137,599)	10,660,235

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-year	
	2011	2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Other receipts	**11,250**	190,693
Payments to suppliers and employees	**(967,342)**	(638,299)
Payments of security bonds	**-**	(5,625)
Payments of environmental bonds	**(2,500)**	-
Interest received	**57,908**	44,949
Net cash outflow from operating activities	**(900,684)**	(408,282)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of exploration asset	**-**	480,000
Sale of investment asset	**30,066**	-
Payments for exploration and evaluation costs	**(1,261,072)**	(563,738)
Payments for plant and equipment	**(72,888)**	(92,114)
Receipts from JOGMEC (1)	**1,872,872**	-
Expenses subject to JOGMEC reimbursement (1)	**(1,303,645)**	-
Net cash outflow from investing activities	**(734,667)**	(175,852)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of convertible notes	**-**	-
Proceeds from the issue of shares	**-**	3,352,000
Share issue costs	**-**	(110,402)
Net cash inflow from financing activities	**-**	3,241,598
Net increase/(decrease) in cash and cash equivalents	**(1,635,351)**	2,657,464
Cash and cash equivalents at the beginning of the half-year	**3,254,593**	2,034,376
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	**1,619,242**	4,691,840

(1) Japan Oil, Gas and Metals National Corporation (JOGMEC) provided notice of participation on 22nd August 2011 in the Watershed Tungsten Project. JOGMEC farm-in participation commitment of $5.4M to be received in stages to fund a definitive feasibility study (DFS) and enables partner to earn a 30% interest in the Project. Watershed Tungsten Project expenses are initially incurred by the group and subject to reimbursement by JOGMEC. The Company acts as operator for the project.

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

Vital Metals Ltd ("the Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "Group").

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these statements are is to be read in conjunction with the annual report for the year ended 30 June 2011. This condensed consolidated interim financial report was approved by the Board of Directors on 13 March 2012.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

Going Concern

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

The Directors recognise that the ability of the Company and the Consolidated Entity to continue as going concerns and to pay their debts as and when they fall due is dependent on the ability of the Company to secure further working capital by the issue of additional equity, debt, the sale of non-core assets, farm out of tenement asset obligations as well as curtailment of discretionary expenditure, or a combination of any or all of those alternatives. The Directors consider the going concern basis of preparation to be appropriate and are confident that the Company will successfully raise additional funds in the future to meet its financial obligations and/or farm out commitments as necessary. However, should adequate funding not be available there is significant uncertainty as to whether the Company and Consolidated Entity will continue as a going concern, and therefore may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial report.

On 2 March 2012, the Company announced to the Australian Securities Exchange (ASX) the details of a non-renounceable rights issue of up to approximately 57,204,424 fully paid ordinary shares at an issue price of $0.05 each, on the basis of one (1) share for every four (4) shares held on the record date (14 March 2012). The rights issue is anticipated to raise approximately $2,860,221.

Accounting for JOGMEC commitments

Watershed Tungsten Project expenses are initially incurred by the group and subject to reimbursement by JOGMEC. The Company act as operator for the project.

NOTE 2: ESTIMATES

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011.

In the half-year ended 31 December 2011, the Group reassessed its estimates in respect of impairment of exploration and evaluation expenditure (refer Note 4). The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

NOTE 3: SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For management purposes, the Group has identified two reportable segments being exploration activities undertaken in Australia and Burkina Faso. These segments include the activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in these geographic locations.

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

	Australia	Burkina Faso	Consolidated Total
Half-year 2011	**$**	**$**	**$**
Segment loss	**(68,819)**	**-**	**(68,819)**
Reconciliation of segment profit to net profit before tax:			
Other corporate and administration			**(768,988)**
Net loss before tax			**(837,807)**
Segment assets at 31 December 2011			
Segment operating assets	**4,619,193**	**4,000,381**	**8,619,574**
Reconciliation of segment operating assets to total assets:			
Other corporate and administration assets			**3,000,538**
Total assets			**11,620,112**

Half-year 2010			
Segment loss	(321,640)	-	(321,640)
Reconciliation of segment loss to net loss before tax:			
Other corporate and administration			(499,737)
Net loss before tax			(821,377)
Segment assets at 30 June 2011			
Segment operating assets	9,527,130	2,697,198	12,224,328
Reconciliation of segment operating assets to total assets:			
Other corporate and administration assets			398,812
Total assets			12,623,140

NOTE 4: INTANGIBLE ASSETS – EXPLORATION AND EVALUATION

	31 December 2011 $	30 June 2011 $
Opening balance	8,574,374	7,416,010
Exploration expenditure	1,149,568	1,759,169
JOGMEC initial contribution	(800,000)	-
Impairment	-	-
Disposal	-	(480,000)
Reversal of impairment	-	-
Exploration expenditure written off	-	(120,805)
Closing balance	8,923,942	8,574,374

The Directors have not identified any impairment triggers and have on this basis determined that the carrying value, of the Group's exploration and evaluation intangible assets, represents fairly the recoverable amount of the assets.

NOTE 5: CHANGES IN EQUITY SECURITIES ON ISSUE

	2011 Shares	2011 $	2010 Shares	2010 $
Issues of ordinary shares during the half-year				
Issued for cash @ 8 cents per share	-	-	41,881,250	3,352,000
Share issue transaction costs	-	-	-	(126,414)
	-	-	41,881,250	3,225,586

NOTE 6: CONTINGENCIES

There has been no change in contingent liabilities or contingent assets since the last annual reporting date.

Negotiations in relation to the Watershed Indigenous Land Use Agreement (ILUA) commenced in September 2007. The Company and representatives of the Western Yalanji (WY) People reached agreement on the terms of a proposed ILUA on 26 November 2007. On 8 April 2008 the executed Watershed ILUA was provided to the National Native Title Tribunal (NNTT). On 7 May 2008 the NNTT advised that there were a number of issues that needed to be addressed before the Watershed ILUA could be recorded on the Register of Indigenous Land Use Agreements. On 21 May 2009 the Company withdrew the application for registration of the Watershed ILUA. The Company has subsequently sort re-authorisation of the Watershed ILUA. The Company remains in negotiation with WY and as such, the Company has not recognised contingent liabilities in the financial statements as any obligations are not presently nor reliably determinable.

NOTE 7: SUBSEQUENT EVENTS

On 2 March 2012, the Company announced to the Australian Securities Exchange (ASX) the details of a non-renounceable rights issue of up to approximately 57,204,424 fully paid ordinary shares at an issue price of $0.05 each, on the basis of one (1) share for every four (4) shares held on the record date (14 March 2012). The rights issue is anticipated to raise approximately $2,860,221.

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 11 are in accordance with the *Corporations Act 2001*, including:
   - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
   - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
2. as set out in Note 1, there are reasonable grounds to believe that Vital Metals Ltd will be able to pay its debts as and when they become due and payable.

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

David Macoboy
Chairman
Perth, 13 March 2012

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

Report on the financial report

We have reviewed the accompanying interim financial report of Vital Metals Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 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 half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Vital Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Vital Metals Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the interim period ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

13 March 2012