



VITAL METALS LIMITED

ABN 32 112 032 596

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2022**

VITAL METALS LIMITED

31 DECEMBER 2022

DIRECTORS' REPORT

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Corporate Information

ABN 32 112 032 596

Directors

Richard Crookes (Interim Chairman & Non-Executive Director)

John Dorward (Managing Director)

James Henderson (Non-Executive Director)

Paul Quirk (Non-Executive Director)

Lisa Riley (Non-Executive Independent Director)

Company Secretary

Louisa Martino

Registered Office and Principal Place of Business

Level 10, 27-31 Macquarie Place

Sydney NSW 2000

Telephone: +61 2 8029 0676

Share Register

Automic Registry Services

Level 5, 191 St Georges Terrace

Perth WA 6000

Telephone: 1300 288 664

Auditors

BDO Audit (WA) Pty Ltd

Level 9, Mia Yellagonga Tower 2

5 Spring Street

Perth WA 6000

Website

www.vitalmetals.com.au

Stock Exchange

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

VITAL METALS LIMITED

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DIRECTORS' REPORT

Your Directors are pleased to present their report on the consolidated entity consisting of Vital Metals Limited ("Vital" or "the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

DIRECTORS

The names of the directors who held office during or since the end of the half-year, to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr John Dorward (appointed 21 November 2022)
Mr Geoff Atkins (ceased 2 September 2022)
Mr Evan Cranston (ceased 15 February 2023)
Mr James Henderson
Mr Richard Crookes (appointed 10 August 2022)
Mr Paul Quirk (appointed 10 August 2022)
Ms Lisa Riley (appointed 2 December 2022)

REVIEW AND RESULTS OF OPERATIONS

Financial results

The loss for the consolidated entity after providing for income tax amounted to \$4,768,044 (2021: loss \$2,806,248).

Financial position

At 31 December 2022, the consolidated entity had cash reserves of \$29,973,430 (June 2022: \$5,158,350).

Dividends

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

OPERATIONS REVIEW

Nechalacho Rare Earths Project, Canada

During the half year, Vital announced a pivot to a sharper focus on advancing its world-class Tardiff Deposit at the Nechalacho Project in Canada's Northwest Territories following management changes and a review of progress with construction and costs at the Saskatoon processing facility.

The Tardiff Zone 1, with a resource area of 4.0mt at 1.95% TREO or 79,000kt contained TREO, is a higher-grade bastnasite rich area. Vital Metals 2022 drilling program was developed to extend the close-spaced drilling (25m by 25m) at the Tardiff Zone 1 area to upgrade resources from inferred to measured and indicated so mining studies can be carried out. The close-spaced drilling has defined a strong zone of higher grade REO mineralisation with wide intersections greater than 1.5% TREO.

Metallurgical testwork completed on mineralisation from Tardiff Zone 1 returned grades of up to 39.9% TREO after three beneficiation stages with low mass pull to the final concentrate of 3.3% and from an original feed grade of 2.4% TREO. The testwork demonstrated the ability to produce a high grade concentrate from Tardiff material which is critical for cost-effective rare earth production.

The 2022 drilling program has given Vital enough close spaced drilling data to create a resource model for the Tardiff Zone 1 to allow follow up mining and metallurgical studies to assess the viability of mining and processing the Tardiff Zone 1 area. It is expected further drilling will be carried out in the Tardiff Zone 1 area to expand the measured and indicated resources.¹

An initial economic assessment of Nechalacho is due to be completed in mid-2023.

¹ Refer ASX Announcement dated 22 July 2022 – Vital intersects further broad zones of REO in near surface drilling at Tardiff Zone 1

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Drilling at Nechalacho is expected to commence in Q1 2023 and will consist of 5,500 metres of diamond drilling with a focus on infilling the Tardiff Deposit to increase confidence in the large resource. The Company will also undertake further infill and extension drilling of the high-grade North T deposit. This is anticipated to provide the inputs for a revised mining plan for North T in H2 CY2023.

Saskatoon rare earth extraction plant

In September, Vital unveiled its rare earth processing facility in Saskatoon, Canada. More than 200 leaders in the global rare earth industry gathered to celebrate Vital's progress in establishing a responsibly-sourced supply chain of rare earths.

The completion of the plant was originally planned for Q2 2023, but Vital has deferred the hydrometallurgical leaching, purification and precipitation circuits to 2024 to preserve cash reserves and to ensure alignment of capital expenditure with the anticipated timing of revenues based on completion of the plant of REEtec, Vital's offtake partner.

Vital is undertaking construction activity to complete the calcine circuit at Saskatoon in Q3 CY2023. This will enable the Company to process material from its Nechalacho mine and produce an intermediate rare earth oxide product. Vital intends to sell an intermediate rare earth oxide to third parties ahead of commencing deliveries of the final rare earth carbonate product to REEtec in H2 CY2024.

The amount capitalised on the Saskatoon Refinery as at 31 December 2022 is A\$23.3 million with the cost to complete the full Saskatoon processing facility estimated at A\$37.2 million, for a revised total cost of approximately A\$60.5 million for the full project. Increased capital costs are attributable to the decision to expand capacity of the processing facility from 500 to 1,000 tonnes per annum of NdPr, execution challenges, scoping changes and industry inflation.

The deferment of hydrometallurgical leaching, purification and rare earth precipitation circuits of the facility is expected to delay approximately A\$17.4 million of the above-mentioned cost to complete until CY2024.

Kipawa/ Zeus Projects, Canada

Vital terminated an agreement to acquire an interest in the Kipawa exploration project and 100% interest in the Zeus exploration project in Quebec, Canada (the "Projects") after not being able to agree on terms to extend the due diligence period to enable Vital to further reduce risk. Vital was not satisfied with the results of its due diligence on the Projects, in particular the ability to progress its understanding of the Kipawa (Kebaowek) First Nation's stated objection to the Projects.

Wigu Hill Project, Tanzania

The Company continued discussions regarding the issuance of a Mining Licence (ML) for the Wigu Hill rare earth project during the period.

Nahouri Gold Project, Burkina Faso

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

Aue Cobalt Project, Germany

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

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CORPORATE

\$45M Targeted Share Placement

Vital raised A\$45 million via a targeted share placement, with private equity firm Lionhead Resources Fund LP (“LHR”) becoming a cornerstone investor following a \$30 million investment. The Company entered a subscription agreement with LHR which, among other things, provided LHR with the right to appoint two non-executive directors to the Vital Board.

Vital completed the Placement at an issue price of A\$0.04 per share via a share placement to institutional, sophisticated and professional investors via the issue of 1,125 million new fully-paid ordinary shares.

The Placement was led by Joint Lead Managers Petra Capital and MST Financial. Financial advisers were Tectonic Advisory Partners (“Tectonic”) and Transocean Securities Pty Ltd.

ESG Performance

We are proud of our ESG performance. Our team strives to build respectful relationships with our Indigenous and community partners; and to be a leader among emerging production companies in ensuring benefits to our local communities, protecting the environment and ensuring the health and safety of our employees.

The Company continues to build mutually respectful relationships with our Indigenous and community partners. Vital was recognised as “the first mining company in Canada to contract an Indigenous group to be a miner on their traditional lands.” In November, the Premier of the Northwest Territories presented the Company with the MAX Award for its economic leadership in establishing Canada’s and the NWT’s first rare earth mine.

Compared to its peers, the Company achieved outstanding Indigenous and local employment and procurement levels and was a leader in introducing COVID-19 protection for its employees. The Company is widely acknowledged for its environmental innovation, for adapting and adopting technologies such as sensor-based ore sorting that significantly reduce environmental impact. In August 2022, the Company hosted 14 water experts from the government and the regulator at Nechalacho for a seminar by Professor Jim McGeer of Sir Wilfred Laurier University, who is researching site-specific water quality guidelines funded by Environment and Climate Change Canada.

The Nechalacho mine and Saskatoon Rare Earth Processing Facility continued to host Indigenous, community, regulatory, government, and academic visitors seeking to learn about Vital’s ESG approach and Canada’s first rare earth mine. Nechalacho completed its first Towards Sustainable Mining Gap Audit to qualify for membership in the Mining Association of Canada. The Company has begun the formal engagement process with its Indigenous and community partners to extend the Land Use Permit for the Nechalacho North T Rare Earth Mine.

Appointment of Managing Director

Following the departure of Geoff Atkins in September, Vital appointed experienced finance and resources executive John Dorward as its Managing Director in November. Mr Dorward is former President, CEO and Director of Toronto-headquartered Roxgold Inc (TSX: ROXG; OTCQX: ROGFF), acquired by Fortuna Silver Mines Inc (NYSE: FSM; TSX: FVI) last year in an all-scrip deal valued at US\$884 million.

Mr Dorward led the Roxgold team to build the underground Yaramoko Gold Mine in Burkina Faso, which reached production less than four years after the delivery of a maiden Inferred Resource and went on to achieve annual production of ~140,000oz gold, before Roxgold also secured the high-grade Séguéla project in Cote D’Ivoire from Newcrest Mining Limited.

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Mr Dorward's earlier roles include Vice President of Business Development at Fronteer Gold, a TSX and AMEX-listed mining company with gold and uranium projects in USA, Canada and Turkey, which was acquired by Newmont for US\$2.3 billion.

Vital's interim CEO Russell Bradford, who has been in the role since August, continued to be involved in operations until January 2023 and is continuing in his role on Vital's Technical Advisory Committee beyond that time.

Appointment of Non-Executive Directors

Vital appointed Mr Richard Crookes and Mr Paul Quirk as Non-Executive Directors, following completion of Tranche 1 of the A\$45 million Placement, as nominees of LHR.

Richard Crookes is managing partner of LHR and chairman of the Investment Committee. He has more than 35 years of global resource industry experience and is Chairman of Black Rock Mining (ASX:BKT) and a non-executive Director of Lithium Power International (ASX:LPI).

Paul Quirk is a partner at LHR and is responsible for originating new investment opportunities and building and maintaining investor relations. Mr Quirk has more than 15 years of private equity and operational experience in mining and other industries. Before LHR, Mr Quirk co-founded Lionhead Capital Partners, a multi-strategy principal investment firm focused on mining, real estate and private equity investing. He was one of the founding partners of Cora Gold, a gold exploration and development company operating in Mali.

Vital also appointed Ms Lisa Riley, based in Toronto, Canada, as a Non-Executive Independent Director to its Board. Ms Riley has nearly 30 years of experience in global capital markets, finance, mining advisory and government relations in Canada and Latin America. She is a Non-Executive Director of Star Diamond Corp (TSX:DIAM), a Director of GFG Resources Inc (TSX-V:GFG) and a Chair of the Board of Tribeca Resources (TSX-V:TRBC).

Appointment of Chief Financial Officer

Vital appointed Damon Colbert as its Chief Financial Officer. Mr Colbert has more than 20 years' experience in finance, business and banking roles. He joins Vital from wireless infrastructure provider Axicom Pty Ltd, where he was Head of Finance for nearly five years. Prior to that, he was Group Financial Controller for The Star Entertainment Group (ASX:SGR) in Sydney, responsible for group reporting, tax and treasury activities and implementing a capital management framework for the group's property development activities.

Appointment of Chief Operating Officer

Vital appointed Eben Visser as its Chief Operating Officer. Mr Visser is based in Canada and brings more than 15 years of dynamic engineering and project leadership to the role and has extensive experience through the project development, construction, and operational readiness in the mining and metals industry.

SUBSEQUENT EVENTS

ESG Performance

Subsequent to period end, in January 2023, Canada's Prime Minister Justin Trudeau visited Vital's rare earth processing facility to draw attention to Canada's newly announced Critical Minerals Strategy and highlighted the need to develop critical minerals in partnership with and respecting Indigenous people.

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Increase in Tardiff Mineral Resource

There is a substantial increase in the Mineral Resource Estimate for the Tardiff Upper Zone Deposit and has updated the MRE with the incorporation of 4,483 metres of drilling from 66 holes drilled over the 2021 and 2022 drilling seasons. Total MRE tonnage (across all classifications) has increased by approximately 26%, with a slight reduction in TREO grade of approximately 4%.²

Key points:

- Vital selected a cut-off grade percentage of the full suite of rare earth oxides as opposed to the previous practice of using an Nd₂O₃ based cut-off value;
- the MRE was interpolated using Ordinary Kriging;
- 5,500 metres of drilling is planned for the 2023 field season at Nechlacho with a focus on increasing confidence in the current MRE with additional infill drilling; and
- additional exploration drilling will be focused on assessing the potential to increase North T's resources through extension drilling and testing other potential satellite targets.

Resignation of Non-Executive Chairman

In February 2023, Evan Cranston resigned from his role as Non-Executive Chairman and the Board of Directors to focus on other business interests. With the appointment of John Dorward as Managing Director and the addition of Lionhead Resources, Mr Cranston felt it was time for the new team to implement the strategy of bringing forward production at Tardiff.

Mr Crookes has been appointed interim Non-Executive Chairman until Vital appoints a permanent replacement to the role.

COVID-19

The Company, its staff and contractors based in Canada have been minimally impacted by the COVID-19 pandemic and continue to operate its programs as planned.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2023 financial year.

² Refer ASX Announcement dated 14 February 2023 – Vital achieves 26% increase in Tardiff Mineral Resource tonnes and 19% increase in contained NdPr

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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 9.

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



Richard Crookes
Interim Chairman
Sydney, 14 March 2023

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF VITAL METALS LIMITED

As lead auditor for the review of Vital Metal Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth

14 March 2023

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

	Note	Half-year	
		2022	2021
		\$	\$
INCOME			
Sundry income		23,237	-
Finance income		320,190	8,184
TOTAL INCOME		<u>343,427</u>	<u>8,184</u>
EXPENSES			
Share-based payments	12	(116,701)	(431,336)
Depreciation and amortisation		(974,425)	(323,256)
Exploration expenses		(69,433)	(343,943)
Professional fees		(300,903)	(444,161)
Project write-offs		(1,108,488)	-
Corporate compliance		(262,806)	(162,419)
Personnel expenses		(1,004,103)	(605,632)
Other administration expenses		(977,711)	(503,588)
Finance expenses		(296,901)	(97)
TOTAL EXPENSES		<u>(5,111,471)</u>	<u>(2,814,432)</u>
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX			
		(4,768,044)	(2,806,248)
Income tax benefit / (expense)		-	-
LOSS FOR THE HALF-YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF VITAL METALS LIMITED		<u>(4,768,044)</u>	<u>(2,806,248)</u>
OTHER COMPREHENSIVE INCOME / LOSS			
Items that may be reclassified subsequently to loss:			
Exchange differences on translation of foreign operations		(1,690,032)	(41,342)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF VITAL METALS LIMITED		<u>(6,458,076)</u>	<u>(2,847,590)</u>
Basic and diluted loss per share for the half year attributable to members of Vital Metals Limited (cents)		(0.09)	(0.07)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

	Note	31 December 2022 \$	30 June 2022 \$
CURRENT ASSETS			
Cash and cash equivalents	4	29,973,430	5,158,350
Trade and other receivables		1,329,908	2,712,484
TOTAL CURRENT ASSETS		31,303,338	7,870,834
NON-CURRENT ASSETS			
Property, plant and equipment	5	27,397,543	17,894,347
Right of use asset	6	3,280,632	568,139
Exploration and evaluation asset	7	13,809,899	13,531,005
Mine under development	8	31,312,554	26,532,671
Inventory		2,572,135	2,621,782
TOTAL NON-CURRENT ASSETS		78,372,763	61,147,944
TOTAL ASSETS		109,676,101	69,018,778
CURRENT LIABILITIES			
Trade and other payables		4,433,528	6,402,913
Government loans	9	103,716	35,498
Financial liabilities	10	736,348	229,112
Provisions		165,609	103,709
TOTAL CURRENT LIABILITIES		5,439,201	6,771,232
NON-CURRENT LIABILITIES			
Government loans	9	3,127,344	386,399
Financial liabilities	10	3,088,198	316,539
Provisions		857,577	880,550
TOTAL NON-CURRENT LIABILITIES		7,073,119	1,583,487
TOTAL LIABILITIES		12,512,320	8,354,720
NET ASSETS		97,163,781	60,664,058
EQUITY			
Contributed equity	11	150,394,168	107,553,071
Reserves		8,157,769	9,731,099
Accumulated Losses		(61,388,156)	(56,620,112)
TOTAL EQUITY		97,163,781	60,664,058

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

	Contributed Equity \$	Share-Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Retained Earnings \$	Total \$
BALANCE AT 1 JULY 2021	107,265,582	7,157,816	410,647	(51,850,007)	62,984,038
Loss for the half-year	-	-	-	(2,806,248)	(2,806,248)
Other Comprehensive Loss					
Exchange differences on translation of foreign operations	-	-	(41,342)	-	(41,342)
Total Comprehensive Loss for the Period	-	-	(41,342)	(2,806,248)	(2,847,590)
Transactions with Owners in their Capacity as Owners					
Contributions of equity (net of transaction costs)	137,500	-	-	-	137,500
Share based payments expense	-	431,336	-	-	431,336
BALANCE AT 31 DECEMBER 2021	107,403,082	7,589,152	369,305	(54,656,256)	60,705,284
BALANCE AT 1 JULY 2022	107,553,071	7,690,378	2,040,721	(56,620,112)	60,664,058
Loss for the half-year	-	-	-	(4,768,044)	(4,768,044)
Other Comprehensive Loss					
Exchange differences on translation of foreign operations	-	-	(1,690,032)	-	(1,690,032)
Total Comprehensive Loss for the Period	-	-	(1,690,032)	(4,768,044)	(6,458,076)
Transactions with Owners in their Capacity as Owners					
Contributions of equity (net of transaction costs)	42,841,097	-	-	-	42,841,097
Share based payments expense	-	116,702	-	-	116,702
BALANCE AT 31 DECEMBER 2022	150,394,168	7,807,080	350,689	(61,388,156)	97,163,781

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

	Half-year	
	2022	2021
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	98,693	8,184
Government incentives received	16,832	-
Payments for exploration and evaluation costs	(139,943)	(440,858)
Payments to suppliers and employees	(2,218,500)	(1,702,402)
Payments for inventory	(122,866)	(1,728,476)
Interest paid	(7,267)	(97)
Net cash inflow / (outflow) from operating activities	(2,373,051)	(3,863,649)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of non-current assets	-	28,704
Payments for exploration and evaluation costs	(644,683)	(298,852)
Payments for mine under development	(6,134,008)	(8,886,260)
Payments for tenements	-	(162,740)
Payments for property, plant and equipment	(14,329,041)	(3,631,298)
Payments for rental bond	(941)	(13,837)
Net cash inflow / (outflow) from investing activities	(21,108,673)	(12,964,283)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	45,000,000	-
Proceeds from borrowings	5,818,832	-
Repayment of lease liability	(335,817)	(107,986)
Cost of share capital issued	(2,318,881)	-
Proceeds from exercise of options	160,000	137,500
Net cash inflow / (outflow) from financing activities	48,324,134	29,514
Net increase/(decrease) in cash and cash equivalents	24,842,410	(16,798,418)
Cash and cash equivalents at the beginning of the half-year	5,158,350	34,906,990
Effects of exchange rate changes on cash and cash equivalents	(27,330)	7,003
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	29,973,430	18,115,575

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Vital Metals Limited (“the Company”) is a company domiciled in Australia. The consolidated interim financial report of the Group as at, and for the six months ended 31 December 2022 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 2022 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. This consolidated interim financial report was approved by the Board of Directors on 12 March 2023.

1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this report have been set out below.

Accounting policies

The Company has consistently applied the accounting policies as described in the annual report for the year ended 30 June 2022 to all periods presented in the financial statements.

New and Amended Standards Adopted by the Group

In the half-year ended 31 December 2022, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2022.

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

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2022. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

Going concern

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

For the half-year ended 31 December 2022, the Group incurred a loss of \$4,768,044 and had net cash outflows from operating and investing activities of \$23,481,722 (2021: \$16,827,932).

The ability of the entity to meet its planned activities, including continuing to progress all plant and mine development to a commercial ready stage, is dependent on securing additional funding through the sale of equity securities to either existing or new shareholders to continue to fund its operational and investing activities.

These conditions indicate a material uncertainty which may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The directors have reviewed the cash flow forecast for the next 12 months from the date of signing this financial report, and assessed that there are reasonable grounds to believe the Group will be able to continue as a going concern due to the following factors:

- the Group expects to receive additional funds via the issue of equity securities to either existing or new shareholders; and
- in the event of further funds not being raised, the Group's activities would be wound back to a sustainable level.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts which differ from those stated in the financial statements and the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities which might be necessary should the entity not continue as a going concern.

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 Group has applied a market interest rate of 12.72% to discount the Prairies loan to fair value, which is further discussed in Note 9.

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 2022.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION

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

	Australia		Canada		Burkina Faso		Tanzania		Consolidated Total	
	December		December		December		December		December	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Segment income	-	-	23,237	-	-	-	-	-	23,237	-
Interest revenue	92,545	7,290	227,645	894	-	-	-	-	320,190	8,184
Total revenue	92,545	7,290	250,882	894	-	-	-	-	343,427	8,184

Segment loss	(1,903,526)	(1,656,717)	(2,813,907)	(1,081,592)	-	-	(50,611)	(67,939)	(4,768,044)	(2,806,248)
Net loss before tax	(1,903,526)	(1,656,717)	(2,813,907)	(1,081,592)	-	-	(50,611)	(67,939)	(4,768,044)	(2,806,248)

	Australia		Canada		Burkina Faso		Tanzania		Consolidated Total	
	December	June	December	June	December	June	December	June	December	June
	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Segment assets	29,390,716	8,758,083	80,249,836	60,225,146	35,549	35,549	-	-	109,676,101	69,018,778
Segment liabilities	901,469	582,152	11,653,789	7,815,504	(42,938)	(42,938)	-	-	12,512,320	8,354,719

NOTE 4: CASH AND CASH EQUIVALENTS

	31 December	30 June
	2022	2022
	\$	\$
Cash at bank and on hand	29,067,623	4,228,279
Cash held as security deposits	905,807	930,071
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	29,973,430	5,158,350

VITAL METALS LIMITED

31 DECEMBER 2022

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	31 December 2022 \$	30 June 2022 \$
Software:		
At cost	125,991	78,482
Accumulated depreciation	(81,188)	(78,482)
	<u>44,803</u>	<u>-</u>
Plant and equipment:		
At cost	4,070,925	4,806,239
Accumulated depreciation	(670,610)	(437,308)
	<u>3,400,315</u>	<u>4,368,931</u>
Motor vehicles:		
At cost	634,931	572,128
Accumulated depreciation	(144,140)	(88,944)
	<u>490,791</u>	<u>483,184</u>
Fixtures and fittings:		
At cost	333,094	337,295
Accumulated depreciation	(147,012)	(120,066)
	<u>186,082</u>	<u>217,229</u>
Capital Works in Progress:		
At cost	21,136,522	12,473,094
On costs	2,139,030	351,909
	<u>23,275,552</u>	<u>12,825,003</u>
Total property, plant & equipment		
- written down value	<u>27,397,543</u>	<u>17,894,347</u>

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

The remaining expenditure commitment relating to the Capital Works in Progress is disclosed in Note 13.

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 5: PROPERTY, PLANT AND EQUIPMENT (continued)

Movements in carrying amounts

	Software	Plant and Equipment	Motor Vehicles	Fixtures and Fittings	Capital Works in Progress	Total
	\$	\$	\$	\$	\$	\$
June 2022						
Opening net book value	62,861	2,815,534	55,211	228,483	-	3,162,089
Additions	-	1,959,124	533,743	78,512	12,825,003	15,396,382
Exchange differences	-	(12,275)	(2,515)	(2,915)	-	(17,705)
Write-offs	(36,700)	-	-	-	-	(36,700)
Disposals	-	-	(28,517)	-	-	(28,517)
Depreciation Expense	(26,161)	(393,453)	(74,737)	(86,851)	-	(581,202)
Balance at 30 June 2022	-	4,368,931	483,184	217,229	12,825,003	17,894,347
December 2022	\$	\$	\$	\$	\$	\$
Opening net book value	-	4,368,931	483,184	217,229	12,825,003	17,894,347
Additions	47,446	179,863	75,225	-	9,980,215	10,282,749
Exchange differences	63	(86,514)	(12,422)	(4,201)	(358,330)	(461,404)
Transfers	-	(828,663)	-	-	828,663	-
Depreciation Expense	(2,706)	(233,302)	(55,196)	(26,946)	-	(318,150)
Balance at 31 December 2022	44,803	3,400,315	490,791	186,082	23,275,551	27,397,543

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

Class of fixed asset	Depreciation period
Software	2-3 years
Plant and equipment	2-10 years
Motor vehicles	3 years
Fixtures and fittings	2-40 years

NOTE 6: RIGHT OF USE ASSET

	31 December 2022	30 June 2022
	\$	\$
Land and buildings	3,280,632	568,139
Total Right of use asset	3,280,632	568,139

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 6: RIGHT OF USE ASSET (continued)

Amounts recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	31 December 2022	30 June 2022
	\$	\$
Amortisation – right of use assets		
Office leases	656,275	178,788
Total Amortisation on right of use assets	656,275	178,788

NOTE 7: EXPLORATION AND EVALUATION ASSET

	31 December 2022	30 June 2022
	\$	\$
Opening balance	13,531,004	13,291,395
Exploration expenditure	340,527	1,836,652
Exploration expenditure – expensed	(61,632)	(254,408)
Transferred to mine under development	-	(1,342,635)
Closing balance	13,809,899	13,531,004

NOTE 8: MINE UNDER DEVELOPMENT

	31 December 2022	30 June 2022
	\$	\$
Opening balance	26,532,671	12,938,011
Transferred from deferred exploration and evaluation costs	-	1,342,635
Additions	3,922,306	11,371,476
Rehabilitation provision	857,577	880,549
Closing balance	31,312,554	26,532,671

NOTE 9: GOVERNMENT LOANS

	31 December 2022	30 June 2022
	\$	\$
Current	103,716	35,498
Non-current	3,127,344	386,399
Total Government loans	3,231,060	421,897

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 9: GOVERNMENT LOANS (continued)

Accounting Policy

Government loans are initially recognised at fair value, net of transaction costs incurred. Government loans are subsequently measured at amortised cost.

Government loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or there is an expectation the Group will repay amounts within the following 12 months. The Group has classified \$103,716 of the CanNor loan within current government loans as it is expected this amount would be repaid within the next 12 months. The remaining \$3,570,181 consists of the CanNor and Prairies loans and are classified within non-current government loans.

a) Fair Value of financial instruments carried at amortised cost

For financial assets and liabilities carried at fair value, the Group uses the following to categorise the fair value method used, as defined by AASB 13 *Fair Value Measurement*.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair value, except as detailed in the following table:

	Face value		Fair value ⁽¹⁾	
	31 December 2022 \$	30 June 2022 \$	31 December 2022 \$	30 June 2022 \$
Government loans				
Borrowings – current	-	35,498	103,716	35,498
Borrowings – non-current	6,863,509	1,029,425	3,127,344	386,399
Total Government loans	6,863,509	1,064,923	3,231,060	421,897

⁽¹⁾ The fair value is a level 2 valuation. Fair values of the Group's borrowings are determined using amortisation models that use discount rates that reflect the Group's borrowing rate at the end of the reporting period, which is currently at 12.72% (2021: 10.33%).

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 9: GOVERNMENT LOANS (continued)

At the end of the report period, the Group had:

- \$1,382,855 (C\$1,261,579) Government unsecured loan with Canadian Northern Economic Development Agency (CanNor) fully drawn down (2022: \$1,064,923 (C\$946,184)), with terms as follows:
 - **Maturity date:** 1 January 2033
 - **Interest on loan:** 0%
 - **Repayment terms:** agreed repayment schedule, over 10 years, commencing 1 April 2023
- \$5,480,653 (C\$5,000,000) Government unsecured loan with PrairiesCan fully drawn down (2022: Nil), with terms as follows:
 - **Maturity date:** 1 March 2029
 - **Interest on loan:** 0%
 - **Repayment terms:** agreed repayment schedule, over 5 years, commencing 1 April 2024

Amounts recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	31 December	30 June
	2022	2022
	\$	\$
Finance income	221,497	644,771
Finance expense	(71,825)	(22,677)
	<hr/>	<hr/>
Net Finance income	149,672	622,094
	<hr/> <hr/>	<hr/> <hr/>

Finance income represents the fair value adjustment of the CanNor loan discussed above. The fair value adjustment on the PrairiesCan loan has been capitalised to Capital Works in Progress in the Property, Plant & Equipment Note 5 as a borrowing cost as the loan was granted to contribute to costs toward the Saskatoon plant.

NOTE 10: FINANCIAL LIABILITIES

	31 December	30 June
	2022	2022
	\$	\$
Credit card liabilities - current	57,061	(31,462)
Lease liabilities - current	679,287	260,574
Lease liabilities - non-current	3,088,198	316,539
	<hr/>	<hr/>
Total Financial liabilities	3,824,546	545,651
	<hr/> <hr/>	<hr/> <hr/>

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 11: CHANGES IN EQUITY SECURITIES ON ISSUE

Movements in shares on issue during the half year	Number of Shares	\$
Beginning of the half year	4,170,483,084	107,553,071
Issued during the half year:	-	-
Shares issued on exercise of options	10,666,667	160,000
Shares issues on placement, net of transaction costs	1,125,000,000	42,681,097
End of the half year	5,306,149,751	150,394,168

Movements in options on issue during the half year	Options
Beginning of the half year	446,833,334
Issued during the half year:	
– Exercisable at 4.5 cents (subject to vesting conditions) and expiring 30 November 2026	40,000,000
Exercised during the half year:	
– Exercised at 1.5 cents and expiring 19 July 2022	(10,666,667)
Expired during the half year:	
– Expired on 19 July 2022	(666,667)
End of the half year	475,500,000

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 12: SHARE BASED PAYMENTS

Vital Metals Limited has issued the following share-based payments to directors/employees and consultants.

Set out below are summaries of the options granted:

	Consolidated			
	31 December 2022		31 December 2021	
	Number of options	Weighted average exercise price (cents)	Number of options	Weighted average exercise price (cents)
Outstanding at the beginning of the half year	446,833,334	2.7	443,083,334	2.4
Directors/ Employees:				
Granted	40,000,000	4.5	-	-
Forfeited	-	-	-	-
Exercised	-	-	(11,250,000)	1.2
Consultants:				
Granted	-	-	20,000,000	7.0
Forfeited	(666,667)	1.5	-	-
Exercised	(10,666,667)	1.5	-	-
Outstanding at half year-end	475,500,000	2.9	451,833,334	2.7
Exercisable at half year-end	419,500,000	2.6	384,833,334	2.6
Un-exercisable at half year-end	56,000,000	4.8	67,000,000	3.4

The weighted average remaining contractual life of share options outstanding at the end of the half year was 1.99 years (2021: 2.75 years), and the exercise price ranges from 2.0 to 7.0 cents.

The fair value of options issued during the half year ended 31 December 2022 were calculated by using a Black-Scholes pricing model, applying the following inputs.

	Director
Grant dated	18/11/2022
Number Issued	40,000,000 ¹
Share price at grant date	\$0.028
Exercise price	\$0.045
Life of options (years)	4
Expected share price volatility	75%
Weighted average risk free interest rate	3.42%
Fair value per option	\$0.0131

VITAL METALS LIMITED

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 12: SHARE BASED PAYMENTS (continued)

Notes:

1. These options vest 1/3 at a time over the first 3 years after their award, subject to continued employment and are otherwise issued upon terms and conditions considered standard for options of this nature.

These options will be deemed to have fully vested in the event of change of control of the Company.

(b) Expenses arising from share-based payment transactions

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

	Consolidated	
	December	December
	2022	2021
	\$	\$
Options issued to directors (vested)	27,277	-
Options issued to employee (vested)	64,440	214,086
Options issued to consultant	24,984	217,250
	<u>116,701</u>	<u>431,336</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group has capital commitments of \$5.4 million due in the next 12 months (30 June 2022: \$13,984,606).

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

NOTE 14: RELATED PARTY TRANSACTIONS

On 18 November 2022, the Company issued the following to KMP, John Dorward (Managing Director):

- **No. of options:** 40,000,000
- **Term:** 4 years from date of issues
- **Exercise price:** \$0.045
- **Vesting period:** 1/3 at a time over the first 3 years after issue, subject to continued employment.
These options will be deemed to have fully vested in the event of change of control of the Company.

There has been no other material changes in related party transactions since 30 June 2022.

NOTE 15: EVENTS OCCURRING AFTER THE REPORTING PERIOD

ESG Performance

Subsequent to period end, in January 2023, Canada's Prime Minister Justin Trudeau visited Vital's rare earth processing facility to draw attention to Canada's newly announced Critical Minerals Strategy and highlighted the need to develop critical minerals in partnership with and respecting Indigenous people.

VITAL METALS LIMITED

31 DECEMBER 2022

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 15: EVENTS OCCURRING AFTER THE REPORTING PERIOD (continued)

Increase in Tardiff Mineral Resource

There is a substantial increase in the Mineral Resource Estimate for the Tardiff Upper Zone Deposit and has updated the MRE with the incorporation of 4,483 metres of drilling from 66 holes drilled over the 2021 and 2022 drilling seasons. Total MRE tonnage (across all classifications) has increased by approximately 26%, with a slight reduction in TREO grade of approximately 4%.³

Key points:

- Vital selected a cut-off grade percentage of the full suite of rare earth oxides as opposed to the previous practice of using an Nd₂O₃ based cut-off value;
- the MRE was interpolated using Ordinary Kriging;
- 5,500 metres of drilling is planned for the 2023 field season at Nechlacho with a focus on increasing confidence in the current MRE with additional infill drilling; and
- additional exploration drilling will be focused on assessing the potential to increase North T's resources through extension drilling and testing other potential satellite targets.

Resignation of Non-Executive Chairman

In February 2023, Evan Cranston resigned from his role as Non-Executive Chairman and the Board of Directors to focus on other business interests. With the appointment of John Dorward as Managing Director and the addition of Lionhead Resources, Mr Cranston felt it was time for the new team to implement the strategy of bringing forward production at Tardiff.

Mr Crookes has been appointed interim Non-Executive Chairman until Vital appoints a permanent replacement to the role.

COVID-19

The Company, its staff and contractors based in Canada have been minimally impacted by the COVID-19 pandemic and continue to operate its programs as planned.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2023 financial year.

³ Refer ASX Announcement dated 14 February 2023 – Vital achieves 26% increase in Tardiff Mineral Resource tonnes and 19% increase in contained NdPr

VITAL METALS LIMITED

31 December 2022

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 14 to 25 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 2022 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Vital Metals Limited will be able to pay its debts as and when they become due and payable.

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



Richard Crookes

Interim Chairman

Sydney, 14 March 2023

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Vital Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Vital Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 1.1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

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

BDO Audit (WA) Pty Ltd



Neil Smith

Director

Perth

14 March 2023