



FOSTER STOCKBROKING

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## Watching Brief – VML – Targeting CY21 Production

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### Vital Metals Ltd (VML.ASX, \$0.046, mkt cap \$123M)

- **Rare earth developer with lightning go-to market strategy:** Vital Metals (VML) is an advanced stage rare earths developer looking to get into production shortly in CY21e. VML's main asset is the Nechalacho Project (100% interest) in the Northwest Territories, Canada, with a JORC Resource of 94.7Mt at 1.46% REO. The resource includes high grade pockets with discrete bastnaesite crystals enabling simple processing.
- **Staged development with rapid lead time into initial production and cash flow.** The North T Zone is a high-grade light rare earth deposit, which will form the basis of the initial pit in Stage 1 production. The North T Zone has a JORC Resource of 105kt at an outstanding 9% TREO, with good Nd and Pr distribution and shallow near surface mineralisation.
- **Ready to commence mining March 2021:** The company is on track to commence operations this year, having recently signed a contract to commence mining in March 2021. First product is expected at the end of CY21e.
- **Fully permitted for Stage 1 production:** the company has all requisite approvals to operate an open pit mine at North T as well as a crushing and ore sorting facility.
- **Capex-light footprint significantly helps rapid go-to market strategy:** maximum total construction cost to produce rare earth carbonate is A\$20M, a fraction of proposed starting capital of developer peers. The company has intentionally avoided the upward capex spiral that comes from chasing volume and scale to justify operations. The company will aim for the production of a minimum of 5,000tpa REO by 2025, beginning at 1,000tpa REO (ex cerium).
- **Simple processing and metallurgy...** Highlights including ore's amenability to sorting, while simple initial beneficiation produces robust 35%+ concentrate. Further gravity concentration will produce REO concentrate with grade 36-40%. The initial stage flowsheet will not require flotation. Leaching and precipitation will produce a mixed rare earth carbonate will be at the proposed Saskatoon site. Both high concentrate grades and recoveries have been delivered in process test work.
- **... Translates to low cost processing:** simple, low-cost processing enabled by high-grade ore with discrete bastnaesite crystals allowing ore sorting and simple processing. Low operating costs ensure project viability, especially in difficult market conditions. Low cost producers typically derive excellent operational leverage from price improvements; we further note spot NdPr prices are currently at multi year highs, breaking through US\$86/kg.

- **Binding offtake already secured:** REEtec is a Norwegian based rare earth separation company with deep expertise in renewable energy and advanced materials. REEtec has signed a binding offtake with VML for a base of 1,000tpa REO ex cerium for a 5 year period, with an option to increase offtake volumes to 5,000t REO ex cerium for a 10 year long term supply agreement. Pricing mechanism involves a guaranteed minimum of production cost plus margin, as well as profit share.
- **Critical step of customer acceptance satisfied:** VML has successfully produced rare earth carbonate samples, which satisfy target impurity levels agreed with offtake partner REEtec.
- **Separation partner REEtec provides significant technical derisking for downstream production:** REEtec has built a commercial scale demonstration plant in Porsgrunn, Norway in addition to having successfully operated a pilot plant for four years.
- **North American strategic RE source, western hemisphere integrated supply chain presents alternative to China RE supply:** With its resource and proposed mixed RE carbonate production located in Canada, and downstream separation in Europe, VML's project and downstream partner REEtec offers a credible alternative to China sourced RE supply. The growing demand for this alternative is not only driven by supply chain provenance, but the burgeoning need for ultimate end products to satisfy environmental audits.
- **Favourable market conditions and constructive price environment.** We think increased forecast RE demand, as well as a continuing trend of reduced Chinese exports and increased imports, point to tightening market dynamics. The strategic importance of RE supply and the growing political imperative to reduce reliance on Chinese supply could potentially contribute to growing push to decouple Western dependence from Chinese RE sources.
- **Attractive rare earth opportunity shortly moving to mining and production.** VML offers an attractive opportunity for exposure to an advanced rare earth development project, and is anticipating a rapid move into early production and cash flow with a capex light operation, and with offtake secured. We view the upcoming commencement of mining – tantalisingly close – as a major catalyst to unlock further value.

*Watching Brief provides select highlights of company news and announcements, both for stocks for which Foster Stockbroking provides formal research coverage, and for those that are not under formal coverage.*

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