

## Stock Commentary

**Subject: Vital Metals Limited:**

### VITAL TO ACCELERATE HEAVY RARE EARTH OXIDE (HREO) PRODUCTION STRATEGY

**Aiming to be World's First "One Stop Shop" Commercial Heavy & Light REO Feedstock Producer by Adding HREO Production to LREO Production**

**\*REALITY\*: VML is now currently one of less than a handful of Rare Earth companies globally, devoid of Chinese influence, involvement or control, capable of being able to near term commercially produce both Heavy & Light Rare Earths to assist the US Government with their bi-partisan bill to the US Senate seeking to reduce reliance on China for Rare Earth Elements by 2026**

### **Background**

Vital Metals Limited (ASX:VML) announced last week on 17<sup>th</sup> February 2022 that the Company plans to accelerate its Heavy Rare Earth (HRE) strategy and focus its 2022 work programs on becoming the world's first Rare Earths producer capable of producing commercial quantities of both light and heavy rare earths.

Aiming to add HRE to its production base VML has announced it is implementing a 3-stage development strategy:

Stage 1: "Development" of North T deposit at Nechalacho, Canada (underway) to provide continued customer acceptance and initial revenue to fund expansion.

Stage 2: "Expansion & Growth" at Nechalacho with the development of the decades long life Tardiff deposit to provide long term revenue and a secure long term supply chain out of Canada. Commencement of Wigu Hill Tanzania (upon assumed granting of a mining licence in the future) to provide additional supply and revenue stream.

Stage 3: "Addition of HRE Production" initially from North T, then Tardiff, then Kipawa & Zeus, Canada. VML's business strategy is aiming to become the first producer of commercial quantities of both HREs and LREs fully qualified to meet US requirements for REEs sourced outside of China.

This strategy is in alignment with the now introduced bi-partisan bill to the US Senate in relation to the REEShore Act\*

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\***REEShore Act** bipartisan legislation is designed to support the domestic production of rare earth metals and rare earth metal products in the United States. The crux of the legislation if enacted would:

- require the establishment of a US rare earth metals strategic reserve by 2025
- force certain Department of Defence ("DoD") contractors to disclose "country of origin" for materials made of rare earth metals such as rare earth magnets
- prohibit the use of rare earth metals processed or refined in China in DoD contracts by December 2026
- require audits of compliance with the REEShore Act
- require the United States Trade Representative ("USTR") to investigate and monitor China's practices regarding rare earth metals
- require reports on U.S. allied efforts to reduce dependence on rare earth metals from non-allied countries.

The REEShore Act defines "rare earth metals" as: beryllium, cerium, cobalt, dysprosium, erbium, europium, gadolinium, graphite, holmium, lanthanum, lithium, lutetium, manganese, neodymium, praseodymium, promethium, samarium, scandium, tantalum, terbium, thulium, tungsten, ytterbium, and yttrium.

## Key Takeaway Points & Comment

- 1) This is another surprise positive announcement from VML which we have taken some time to digest, assess and discuss with the company before comment.
- 2) We view that the unveiling of a concerted effort to step up and accelerate the Company's HREO strategy is extremely favourable and the announcement is timely in that this will essentially enable VML, to market the full suite of Rare Earth Elements much earlier than previously planned and thus allow the Company to reach out to a much larger prospective customer base as a unique globally significant "One Stop Shop" Rare Earth feedstock producer" independent of China influenced/controlled supply.
- 3) Furthermore, we note with significance that VML, as a Rare Earth Company, now *sits front & centre* in an almost lone candidate position as a company with realistic potential of being able to deliver into US REE demand, the supply of which, if enacted on, will be governed by the requirements of the now introduced bi-partisan bill to the US Senate in relation to the REEShore Act\* (summary details of the act provided above).
- 4) Assuming metallurgical test work delivers positive results and at this stage there's nothing to say it would not, we envisage the addition of a HRE production stream in parallel with existing LRE production at Nechalacho as being achievable. The Company has known for some time that it has a HRE rich Xenotime horizon located just below the base of the North T pit. Accessing this zone would not be technically difficult requiring a modest deepening of what is by international mining standards a shallow pit.
- 5) Also of encouragement was Managing Director Geoff Atkins' comment that VML already has *in-house* expertise in the specialist field of extracting HREs from Xenotime, pointing out that VML's COO Tony Hadley was part of the Northern Minerals Ltd team that successfully designed and commissioned the world's first HRE process plant for Xenotime feedstock as Browns Range General Manager.
- 6) In terms of primary processing, we don't see any changes being required to the ore sorter on site at Nechalacho, other than recalibration of the sorter's waste/ore recognition criteria, which would be different to the LRE bastnaesite ore sorting criteria.
- 7) Therefore, critically analysing the current (*pre-network*) situation, the main *unknown* at this point is what secondary processing plant (and subsequent additional capital) would be required to provide a HREO production stream, which we would assume would be located at the Company's LRE Saskatoon processing facility. From discussion with the Company, the key here we see is pulling from the in-house experience of Tony Hadley, referencing Browns Range which, in addition to sorting, uses magnetic separation and floatation prior to a sulphation bake, importantly taking into consideration substantial synergies with current operations to reduce both capex and opex. This new plant component could and would be encompassed in the already scheduled expansion plan for Saskatoon in the future as the main long term Tardiff pit is developed and comes on line.
- 8) We believe we cannot over emphasise the fact that HRE rich REE projects are hard to come by globally and HRE elements are extremely sought after by the developed world which, is currently and alarmingly almost 100% reliant on a country-monopolised (Chinese) controlled supply.
- 9) Further emphasising this concerning statistic, we note this timely announcement has closely coincided with another market announcement from arguably VML's closest ASX listed peer, Peak Rare Earths Limited (ASX:PEK). On 14<sup>th</sup> February 2022 PEK announced that it had been informed

of a 19.9% stake acquisition by a part Chinese government owned Rare Earths group Shenghe Resources Limited. We note the strategic, substantial holding stake was negotiated and undertaken without any consultation or discussion with PEK management. Up to that point PEK with its mine in Tanzania and new processing facilities located on Teesside in the UK was considered another rare breed of REE company promoting itself as a REE company striving to produce REE's into a wider global market outside of Chinese control. This is obviously now no longer the case and our *take away* from this recent strategic corporate activity is that it further strengthens VML's position as an extremely rare and almost unique *go to* independent REE producer outside of China and Chinese REE industry control.

**The reader of this Stock Commentary is strongly encouraged to read the Peloton Capital Initiating Coverage research report on VML dated 27th April 2021 for further details and Price Target Recommendation.**

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