Large-Scale Tardiff Deposit in Focus; Heavy Rare Earths Strategy Shapes Up

Simple Three-Stage Development Strategy

VML's goal is to be a capable, reliable producer of rare earth (RE) feedstock independent of China, across light + heavy REs to serve the full range of customers. The current stage 1 process sets up VML as a reliable supplier with a product that is consistent and to customers specifications. Stage 2 is VML's growth project, expanding via the large scale Tardiff deposit, while stage 3 sees VML expand into Heavy Rare Earth production utilising North T's Xenotime subzone, Tardiff, Kipawa (VML: 68%) and Zeus (100%). We see this as a sensible, simple, deliberately staged plan, driven by the deep industry experience of VML's senior leadership.

Stage Two - Tardiff - Long-Term Production

VML has defined and accelerated its development plan at the large-scale second stage of the Nechalacho project, which focuses on the significant resource at Tardiff (94mt @ 1.4% REO). A 48-hole drilling program is underway, focused on 3 distinct zones/operational modules, which represent in aggregate 16.3mt @ 1.85% TREO (303kt TREO/70kt NdPr contained). VML expects this program to support the definition of a reserve and to underpin the first 5–10 years of planned production. We believe this modular approach to development at Tardiff, which adds operational flexibility also adds strong potential for a mine life much beyond 10 years.

Stage Three - Positioning to be a Unique Supplier of Heavy + Light REs

VML has announced plans for a third stage targeting the addition of heavy rare earths (RE) production, via a 10-year operation from the North T Xenotime Zone (situated towards the base of the currently defined mining area). VML has stated it will develop a detailed work program for this strategy, including further drilling if required. This potential addition to VML's existing light REs–focused development strategy (on track for first production in mid-2022) positions the company as potentially the first diversified producer of both heavy and light REs globally.

Vital Metals Limited (ASX: VML) is an emerging Australian mining company with a 100% interest in the operating Nechalacho Project in Canada. VML has also agreed to purchase the Kipawa and Zeus HREO projects in Canada and has a 100% interest in the Wigu Hill rare earth project in Tanzania.

www.vitalmetals.com.au

Stock	ASX: VML
Price	A$0.053
Market cap	A$221m
Valuation (per share)	A$0.21 (Previous A$0.17)

Next steps	
2H2022: Stage 2 scoping study	Mid-2022: First product, Saskatoon
Ongoing: Tardiff drilling	

VML share price (A$) – 1 year

Source: FactSet.

Michael Bentley, michael.bentley@mstaccess.com.au

2022: Critical Milestones Beckon, with Potential Catalysts Throughout the Year

VML will concurrently advance Stages 2 and 3 of its strategic plan in 2022. We expect several crucial upcoming catalysts, including the first sales of product from the Saskatoon extraction plant (coming online mid-2022) and the realisation of initial product sales via its offtake agreement with REEtec. We believe VML's shares will benefit from numerous catalysts throughout 2022, supported by very strong global commodities markets, particularly for companies exposed to battery metals.

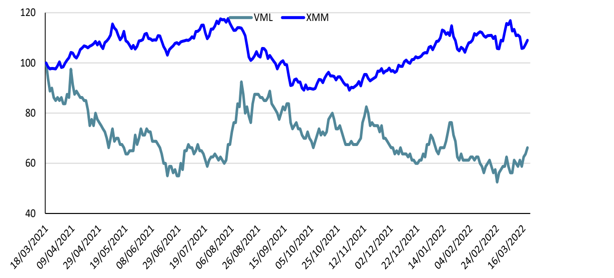
Valuation Upgrade to A$0.21 (Previously A$0.17) on Strong Prices

We have upgraded our assumed RE price to US$60/kg (from US$50/kg) on stronger long-term RE market fundamentals, lifting our valuation to A$0.21/share (from A$0.17). We see further upside as the scale of the resource and its location in Canada uniquely position VML to supply the market with light and heavy REs from outside China. Risks: Saskatoon plant completion, delivery of product, reliance on partners/offtake customers, cost/commodity price changes.

Exhibit 1 – Company summary – year-end 30 June

MARKET DATA		
Share Price	A$/sh	**0.05**
52 week high/low	A$/sh	0.08/0.03
Valuation	A$/sh	**0.21**
Market Cap (A$m)	A$m	221
Net Debt / (Cash) (A$m)	A$m	(18)
Enterprise Value (A$m)	A$m	203
Shares on Issue	m	4,165
Options/Performance shares	m	452
Other Equity	m	0
Potential Diluted Shares on Issue	m	4,617

12-Month Relative Performance vs S&P/ASX Metals & Mining



INVESTMENT FUNDAMENTALS		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Reported NPAT	A$m	(4.6)	(4.7)	3.9	14.1	22.6
Underlying NPAT	A$m	(4.6)	(4.7)	3.9	14.1	22.6
EPS Reported (undiluted)	¢ps	(0.2¢)	(0.2¢)	0.1¢	0.3¢	0.5¢
EPS Underlying (undiluted)	¢ps	(0.2¢)	(0.2¢)	0.1¢	0.3¢	0.5¢
Underlying EPS Growth	%	6.4%	-27.6%	-156.5%	265.6%	60.3%
P/E Reported (undiluted)	x	(0.2)	(0.3)	0.6	0.2	0.1
P/E Underlying (undiluted)	x	(0.2)	(0.3)	0.6	0.2	0.1
Operating Cash Flow / Share	A$	(0.00)	(0.00)	0.00	0.00	0.01
Price / Operating Cash Flow	x	(62.4)	(106.8)	41.0	10.9	6.8
Free Cash Flow / Share	A$	(0.01)	(0.00)	(0.00)	0.00	0.01
Price / Free Cash Flow	x	(10.4)	(13.6)	(14.2)	11.8	7.4
Free Cash Flow Yield	%	-9.6%	-7.4%	-7.1%	8.5%	13.5%
Book Value / Share	A$	0.01	0.02	0.02	0.02	0.03
Price / Book	x	7.2	3.5	3.2	2.6	2.0
NTA / Share	A$	0.01	0.02	0.02	0.02	0.03
Price / NTA	x	7.2	3.5	3.2	2.6	2.0
Year End Shares	m	2,143	4,154	4,154	4,154	4,154
Market Cap (spot)	A$m	114	220	220	220	220
Net Debt / (Cash)	A$m	(2)	(35)	(19)	(38)	(68)
Enterprise Value	A$m	112	185	201	182	152
EV / EBITDA	x	(44.6)x	(44.6)x	38.4x	9.0x	5.7x
Net Debt / Enterprise Value		(0.0)	(0.2)	(0.1)	(0.2)	(0.3)

PRODUCTION AND PRICING	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
REO Production (t)	-	-	250	1,000	1,500
REO Price (US$/kg)	-	-	60.3	62.1	63.9

Profit & Loss (A$m)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales	-	-	7.6	31.0	48.1
Expenses	(4.5)	(4.5)	(2.3)	(8.6)	(12.5)
EBITDA	**(4.5)**	**(4.5)**	**5.3**	**22.5**	**35.6**
D&A	(0.1)	(0.2)	(1.1)	(4.7)	(7.2)
EBIT	**(4.6)**	**(4.7)**	**4.1**	**17.8**	**28.4**
Net Interest	0.0	0.0	1.0	1.0	1.7
Profit Before Tax	(4.6)	(4.7)	5.1	18.8	30.1
Tax	-	-	(1.3)	(4.7)	(7.5)
Underlying NPAT	**(4.6)**	**(4.7)**	**3.9**	**14.1**	**22.6**
Exceptionals	(0.0)	-	-	-	-
Reported Profit	**(4.6)**	**(4.7)**	**3.9**	**14.1**	**22.6**

Balance Sheet (A$m)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash	1.8	34.9	19.4	38.1	67.9
Receivables	0.4	1.3	0.6	1.3	2.6
Inventory	-	-	0.4	0.8	1.6
PP&E	1.5	16.1	35.9	32.8	28.0
Other	12.6	13.5	13.5	13.5	13.5
Assets	**16.3**	**65.8**	**69.7**	**86.4**	**113.6**
Creditors	0.4	2.3	0.6	1.3	2.6
Debt	-	-	-	-	-
Leases	0.1	0.2	0.2	0.2	0.2
Provisions	0.0	0.3	0.3	0.3	0.3
Other	-	-	-	-	-
Liabilities	**0.5**	**2.8**	**1.1**	**1.8**	**3.2**
Minorty Interest	-	-	-	-	-
Net Assets	**15.7**	**63.0**	**68.6**	**84.6**	**110.4**

Cashflow (A$m)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations	(1.9)	(2.4)	5.7	24.0	38.0
Interest	0.0	0.0	1.0	1.0	1.7
Tax	0.0	0.3	(1.3)	(4.7)	(7.5)
Net Cash From Operations	**(1.8)**	**(2.1)**	**5.4**	**20.3**	**32.2**
Capex	(1.5)	(7.4)	(20.5)	-	-
Exploration	(2.7)	(6.5)	(0.4)	(1.6)	(2.4)
Acquisitions	(4.9)	(0.2)	-	-	-
Free Cash Flow	**(10.9)**	**(16.2)**	**(15.5)**	**18.7**	**29.8**
Proceeds from issue of shares / (buyback)	-	49.6	-	-	-
Proceeds / (Repayment) of Borrowings	(0.1)	(0.1)	-	-	-
Dividend	-	-	-	-	-
Net Increase / (Decrease) in Cash	**(10.9)**	**33.3**	**(15.5)**	**18.7**	**29.8**

Source: MST estimates, company reports.

Stage 1: Proving the Process, Delivering to Customers Specifications

Progress: Executing to Plan, Upside Optionality Emerging

First Mining at North T Exceeds Expectations

VML successfully completed a maiden mining campaign at North T during 2021, commencing in April and winding down in October in preparation for winter. The campaign produced ~58 kt of ore which was crushed and upgraded through the ore sorting infrastructure located at the mine site. VML's execution of the initial mining campaign represents a key milestone for the company and has realised two key operational outcomes which lay the groundwork for the next stage of VML's evolution:

- >1,000 x 1,000 kg bags of beneficiated product (see Exhibit 2) was produced and transported from the mine site to the Saskatoon extraction plant which is currently under construction
- a stockpile of ~11.000 cubic metres (km^3) of crushed material remains at Nechalacho, comprised of 1.6km^3 of high-grade, 4.2km^3 of low-grade and 4.8km^3 of fines material.

Exhibit 2 – Bags of beneficiated product from North T in transit

Source: VML.

Additional Mining Campaign Scheduled at North T for 2023/2024

As a reminder, VML's initial strategy envisioned that only a single mining campaign would be required to exhaust the ore inventory at North T. However, during mining activities at North T, VML identified additional material including a high-grade zone which has been dubbed 'Dragon's Tail'. VML management has redesigned the North T pit and scheduled an additional mining campaign as a result of:

- identifying the larger zone of ore at North T including the high-grade Dragon's Tail
- its ore-sorting infrastructure successfully upgrading low-grade material previously excluded from the mine plan on the basis of cut-off grade.

As a result of the enlarged opportunity at North T, VML has stated a follow-up mining campaign will be completed 'in the 2023 or 2024 summer period'. We believe that what has been achieved at North T to date is a strong endorsement of the geology at site as well as the capable operational execution of VML's management team. Overall, the initial activities completed bode very well for the next stage of the company's development plan.

Saskatoon Plant Nearing Readiness

The second stage of processing to be completed at the RE extraction plant in Saskatoon (Saskatchewan) upgrades the concentrate from the Nechalacho site into mixed RE carbonate products. These products underpin the offtake agreement with REEtec in Norway. The company plans for the proceeds from the sale of initial production to provide funding for the Stage 2 expansion plans at Nechalacho which target the larger Tardiff deposit.

Despite the broad challenges in accessing labour and obtaining the timely delivery of industrial equipment and materials resulting from persistent global supply chain issues, VML expects first production of mixed RE carbonate from the Saskatoon plant in mid-2022.

As a reminder, VML has an agreement with the Saskatchewan Research Council (SRC) to construct and operate VML's extraction plant at Saskatoon (see Exhibit 3). Notably, SRC is responsible for securing all the required permits and approvals including waste disposal. SRC's C$31m rare earth separation plant is located directly adjacent to VML's facility and has been designed to convert mixed RE carbonates (such as those targeted for production by VML) into commercial-grade separated REs. The larger SRC facility is also currently in construction and represents a logical target customer for VML as it comes online.

Exhibit 3 – Saskatchewan Research Council's RE 'precinct': VML's plant is shown adjacent in yellow

Source: VML.

Stage 2: Large-Scale Tardiff Deposit – Setting Up for the Long Term

VML's development plan at Nechalacho (see Appendix 1 for project overview) was originally defined across two stages as follows:

- **Stage 1 – North T Zone (currently in production):** high-grade, near-surface deposit, easily accessible (low capex) and processed via mechanical sorting to produce a high-grade concentrate
- **Stage 2 – Tardiff Zone (first production targeted for 2025):** long-term, large-scale production targeting 5,000t REO per annum for 20 years.

New Focus on Stage 2 Expansion – Tardiff a Long-Life Asset – Beyond 10 years

Working to define a reserve at Tardiff

We see potential for the large Tardiff zone to have a longer life and have higher production levels than our current forecasts, which could provide further valuation uplift beyond our current A$0.21/share estimate.

With Stage 1 underway, VML is now focused on the longer-term story at Nechalacho and is working towards defining a reserve at the Tardiff deposit to progress Stage 2. VML will proceed to define a mining and processing operation at Tardiff, which will start by mining and processing Tardiff Zone 1 ore before expanding into Zones 2 and 3 (see Exhibit 4). VML has proposed further drilling programs for all three zones as part of this work.

Starting with Zone 1 drilling, which could underpin the Stage 2 scoping study

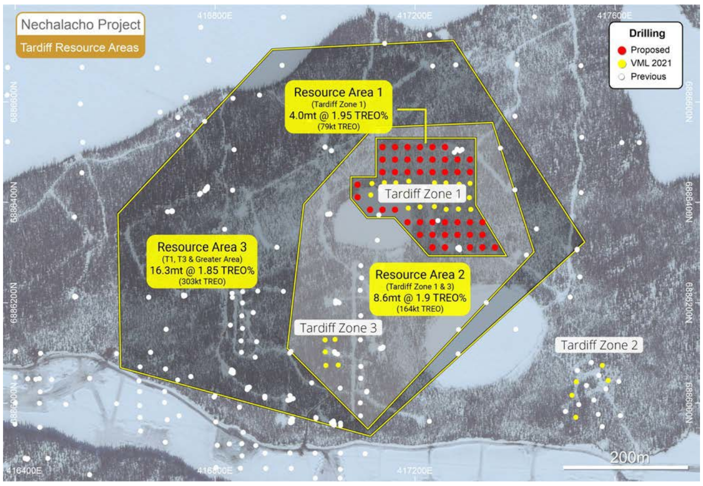
Initially VML intends to drill Tardiff Zone 1 which hosts a current resource of 4.0mt grading 1.95% TREO (79kt contained TREO) with a 48-hole program targeting the upgrade of resources into higher-confidence categories. Management have also flagged the potential to 'define a reserve to support the first 5–10 years of operation at Tardiff'.

The modular approach, with the addition of zones 2 and 3, adds significant potential mine life, extending beyond 10 years.

We expect the program of drilling to form the basis for an eventual scoping study for the Stage 2 operation. Our financial model incorporates a development scenario at Tardiff which features the following:

- US$50m capex for Nechalacho Stage 2 for ore sorting infrastructure and a flotation circuit at site
- life-of-mine mined grade of 2.4% REO and 60% conversion of in-situ metal to payable metal
- 10-year mine life at average production and mine production rate of 350,000tpa and 5,000tpa REO ex-Cerium
- development of the Tardiff Zone to commence in CY2025 with first ore production in 1HFY26.

Exhibit 4 – VML's projected production schedule at Nechalacho Project – Tardiff resource areas



Source: VML.

Stage 3: Takes Shape with Heavy REO Optionality

VML is accelerating work on the addition of a Stage 3 in its long-term corporate strategy, focused on including heavy REs into the production profile in order to position VML as a 'one-stop shop' in the RE market. 2022 therefore represents a major inflection point for VML with the Stage 3 heavy RE component of the strategy expected to firm up, as well as potential for further clarity regarding the large-scale Stage 2 production plan at Nechalacho.

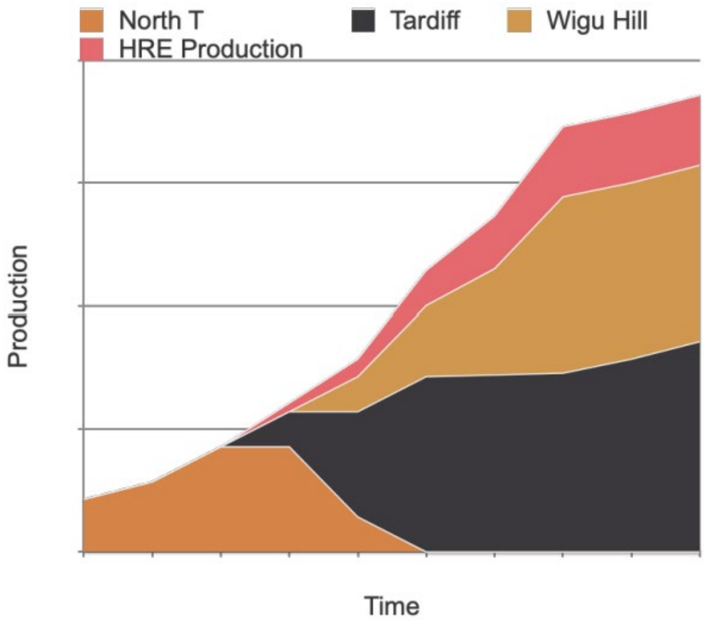
Some details on the substantive plan underpinning VML's strategic vision around heavy REs have been included in VML's recent ASX announcements. The company has suggested three potential sources of heavy REs:

- the Xenotime Zone (North T)
- the Kipawa Project (Quebec)
- the Zeus Project (Quebec).

VML will also look for heavy RE opportunities at Tardiff.

VML has released an illustration of the production profile including the heavy RE component. As Exhibit 3 shows, the heavy RE production is anticipated to commence around the same time as Stage 2 of the Nechalacho project (Tardiff).

Exhibit 5 – VML's indicative production growth (inc. Wigu Hill Project in Tanzania)



Source: VML.

The Xenotime Zone at North T represents the first phase of VML's heavy RE strategy. The North T Zone at Nechalacho contains two distinct zones of RE mineralisation: (1) a bastnaesite subzone located at surface (the focus of the recent initial campaign mining program), overlaid upon (2) a xenotime subzone which currently contains 351kt or JORC resources at 0.156% CeO_2 and 0.27% Y_2O_3. Xenotime sits conveniently at the base of the current North T mining envelope.

During 2022 the company will redefine the current resource at Xenotime and conduct scouting metallurgical test work with a view to establishing a draft process flowsheet. VML will re-assay core samples from within the zone as a basis of revising the current resource.

Kipawa (68% VML) will be concurrently advanced in 2022 via a program of work to extend upon the 2013 DFS completed at the project, with the intention of minimising capex, opex and compressing the development timeline. VML has flagged that utilising VML's Saskatoon processing facilities will form part of this process.

Valuation: Raised to A$0.21 (from A$0.17), Driven by Higher RE Prices; Tardiff and Heavy RE Strategy Implies Further Upside

Pricing Upgrade to US$60/kg for VML's RE Basket

RE pricing is currently extremely strong. Exhibit 6 shows the strong movement in the pricing of VML's basket of REs. (To illustrate, if we apply a 'spot' price of US$97.32/kg to VML's basket, our valuation would increase to A$0.35 per share.)

Our valuation was previously based on a long-term basket price of US$50/kg, but due to current strong market conditions and generally buoyant commodity markets, we believe that this forecast is too conservative. Given supply constraints in REs and the desire of the US government to source REs from outside China, we expect prices will remain higher than our original forecasts. We also consider that to ensure new sources of production are economic that a price of at least US$60/kg is required. As a result, we are upgrading our price assumption for the VML RE basket to US$60/kg and consider there may be further upside to these forecasts.

Exhibit 6 – North T: separated rare earth oxides and prices at 16 March 2022 (top table) vs prices at initiation (18 November 2021) (bottom table)

Rare Earth Metal	Symbol	Distribution (%)	Market Price (as at 16 Mar, 2022) US$/kg	US$ / kg VML (as at 16 Mar, 2021)	US$ / kg REEtec (as at 16 Mar, 2021)
Lanthanum	La_2O_3	47.4%	$1.33	$0.63	$0.58
Praseodymium	Pr_6O_{11}	10.4%	$165.36	$17.20	$19.24
Neodymium	Nd_2O_3	34.3%	$181.03	$62.09	$69.46
Samarium	Sm_2O_3	3.5%	$4.15	$0.15	$0.13
Europium	Eu_2O_3	0.4%	$30.56	$0.12	$0.11
Gadolinium	Gd_2O_3	1.5%	$101.88	$1.53	$1.39
Terbium	Tb_4O_7	0.2%	$2,257.00	$4.51	$4.11
Dysprosium	Dy_2O_3	0.5%	$464.00	$2.32	$2.11
Ytterbium	Y_2O_3	1.4%	$14.66	$0.21	$0.19
	Total	**100%**		**$88.76**	**$97.32**

Rare Earth Metal	Symbol	Distribution (%)	Market Price (as at 18 Nov, 2021) US$/kg	US$ / kg VML (as at 18 Nov, 2021)	US$ / kg REEtec (as at 18 Nov, 2021)
Lanthanum	La_2O_3	47.4%	$1.37	$0.65	$0.59
Praseodymium	Pr_6O_{11}	10.4%	$129.04	$13.42	$15.01
Neodymium	Nd_2O_3	34.3%	$126.69	$43.46	$48.61
Samarium	Sm_2O_3	3.5%	$4.14	$0.15	$0.13
Europium	Eu_2O_3	0.4%	$30.50	$0.12	$0.11
Gadolinium	Gd_2O_3	1.5%	$61.00	$0.91	$0.83
Terbium	Tb_4O_7	0.2%	$1,587.00	$3.17	$2.89
Dysprosium	Dy_2O_3	0.5%	$459.00	$2.30	$2.09
Ytterbium	Y_2O_3	1.4%	$8.99	$0.13	$0.11
	Total	**100%**		**$64.30**	**$70.38**

Source: VML, Metal.com, MST estimates.

Base-Case Valuation – Risked NPV Increased to A$0.21/Share, Fully Diluted

We use a risk-weighted NPV methodology to arrive at our base-case valuation. On the back of our increased RE price assumptions, our valuation is now A$0.21 per share, fully diluted (previously A$0.17) (see Exhibit 7).

We have applied a 100% probability/risk weighting for Stage 1. For Stage 2, we have assigned a probability/risk weighting of 85% ahead of the publication of scoping study information. We believe our methodology and assumptions appropriately balance the risks to the valuation against the prior investment and existing infrastructure at the Nechalacho site as well as the deliverable project development plan. VML's current share price does not reflect the underlying value of the project based on our forecast project parameters, after weighting the valuation for risks typically associated with the remaining uncertainty for projects at this stage of advancement (the scoping study stage).

Exhibit 7 – Base-case valuation using risked NPV

NPV OF PROJECTS	US$M	Ownership	Risk Weight	A$M	A$/share	Valuation Methodology
Nechalacho - Stage 1	92	100%	100%	132	**0.04**	Risked Project NPV (100%)
Nechalacho - Stage 2	560	100%	85%	680	**0.15**	Risked Project NPV (85%)
Kipawa /Zeus	6	68%	100%	6	**0.01**	EV/Resource
Wigu Hill	9	100%	100%	13	**0.01**	EV/Resource
Enterprise NPV	**668**			**831**	**0.21**	
Corporate Costs	(25)	100%	100%	(36)	**(0.01)**	
Net Cash (Debt)	13	100%	100%	18	**0.00**	As at 31/12/2021
Total	**1323**			**1644**	**0.21**	
WACC					**10%**	
AUDUSD					0.70	
Shares on issue (Undiluted)					4,165	
Options on Issue					452	
Shares on issue (Fully Diluted)					**4,617**	

Source: MST estimates.

Exhibit 8 – MST Production Forecasts (tonnes per annum)

Source: MST estimates.

Potential Catalysts for Even More Valuation Upside

Potential grade increase, mine life extension, additional heavy REs: Our valuation does not take into consideration the potential valuation uplift that would occur due to an increase in grade, extension to mine life, and additional heavy RE production. Exploration results to date indicate further potential within the current resource as well as extensions surrounding the mine area.

We also conservatively assume that Stage 2 produces 5,000 tpa ex-Cerium. With the large resource at Nechalacho and options in the current offtake agreements, we see potential for production to go beyond this level and increase our valuation substantially.

Growth in resource base, increased grade: Nechalacho has a significant resource base, with substantial possible upside via exploration success. The potential to grow the resource base and/or increase the average grade of the project could add significant further value beyond our base-case valuation.

An exploration and reserves definition program continues at the larger Tardiff deposit to support the formulation of the mine plan for Stage 2 as well as feed into the scoping study information.

Financial Position

Cash Position

VML's December quarterly report indicated that the company had A$18.1m cash on hand. This marked a decline of A$10.5m over the quarter, driven primarily by the campaign mining program which took place at North T and wound down in October 2021 in preparation for winter.

Funding

The company is currently well funded against the backdrop of remaining development works at the Saskatoon extraction plant, which is on track for first production (and therefore cashflows to VML) in mid-2022.

The company has indicated that it expects Stage 1 operations to provide sufficient cash to fund the Stage 2 expansion plan at Nechalacho.

Appendix 1: The Nechalacho Project

The 100%-owned Nechalacho Project is an REO deposit of 94.7mt grading 1.46% situated in the Northwest Territories (NWT) of Canada. The North T starter pit has recently commenced mining operations focused on the North T ore zone which represents 101kt of high-grade ore at 9.01% LREO (2.2% NdPr), which VML states is one of the highest-grade RE deposits in the world.

VML is targeting production of >5,000tpa of contained REO by 2025, and has an established offtake agreement with Norwegian company REEtec in relation to the Stage 1 production of 1,000tpa REO over an initial 5 year period. A drilling program is underway which is looking to further define the mine plan for Stage 2 focused on the larger Tardiff deposit. The Stage 2 development plan is focused on proving up a large scale long-life operation.

VML acquired Nechalacho for A$14.6m in cash as part of the acquisition of Cheetah Resources in 2019. The project had previously been subject to a 2013 43-101 technical study and Feasibility Study by Avalon Rare Metals Inc, a Canadian listed company, which outlined a project with a $900m NPV for total capex of $1.6bn.

Vital has adopted a distinct development plan targeting an initial small scale, low-capex operation at North T which will transition to larger scale production at Tardiff in Year 6.

Exhibit 9 – Nechalacho Project regional setting (LHS) and the current project site (RHS)

Source: VML.

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