

VITAL METALS' SEPTEMBER 2023 QUARTERLY REPORT

Highlights

- Vital finalises strategic review of Saskatoon plant and assigns VMCL into bankruptcy
- Vital secures cornerstone investment via a subscription agreement with Shenghe Resources (Singapore) Pte Ltd, a wholly-owned subsidiary of global rare earths leader Shenghe Resources Holdings Co., Ltd
- Shenghe will subscribe for:
 - 9.99% of the issued share capital in Vital (post-deal) at a subscription price of A\$0.01 per share to raise a minimum of approximately A\$5.9 million (Tranche 1 Subscription); and
 - Up to a further 592 million shares at a subscription price of A\$0.015 per share which, if exercised, would raise approximately A\$8.9 million (Tranche 2 Subscription), subject to Vital Shareholder approval
- Vital bolsters Board and Management with appointment of Dr Geordie Mark as Managing Director and CEO, and Lara Iacusso as Chief Financial Officer
- Richard Crookes becomes Vital's Chairman permanently after serving as interim Non-Executive Chairman since February 2023
- A\$2 million short-term loan secured to fund continued development of Tardiff deposit and for general working capital requirements

Vital Metals Limited (ASX: VML | OTCQB: VTMXF) ("Vital", "Vital Metals" or "the Company") reports on its activities during the September 2023 quarter, including at its 100%-owned Nechalacho Rare Earth Project in Yellowknife, Northwest Territories, Canada.



NECHALACHO RARE EARTHS PROJECT, NORTHWEST TERRITORIES, CANADA

Nechalacho's Tardiff Deposit boasts an impressive light rare earth oxides (LREO) resource of 119 million tonnes at 1.4% TREO¹ in the measured, indicated and inferred JORC 2012 categories and the 2023 drilling program aimed to assist development of this world-class light rare earth deposit.

Vital completed a 74-hole drilling program for a total of 6,664 metres at Tardiff during the year (Figure 1) that expanded on work completed in 2021 and 2022. The 2023 drill program aimed to convert resources defined in the upper Mineral Resource Estimate on the Tardiff Upper Mineralised Zone announced earlier in the year. This program was drilled on a nominal 50 m by 50 m grid to infill areas previously covered by a nominal 100 m to 200 m drill pattern. Vital reported results from 17 holes reported in May 2023², broadly confirming previous geological interpretations of mineralisation leading to potential conversion of resources and incrementally de-risking the understanding of the distribution of rare earth mineralisation at Tardiff.

Geological logging, processing and assaying of core from 57 drill holes is ongoing.

¹ See VML ASX Announcement 14/02/2023 – Vital Achieves 26% Increase in Tardiff Mineral Resource

² See VML ASX Announcement 30/05/2023 – Vital intersects up to 2.8% TREO in drilling at Tardiff

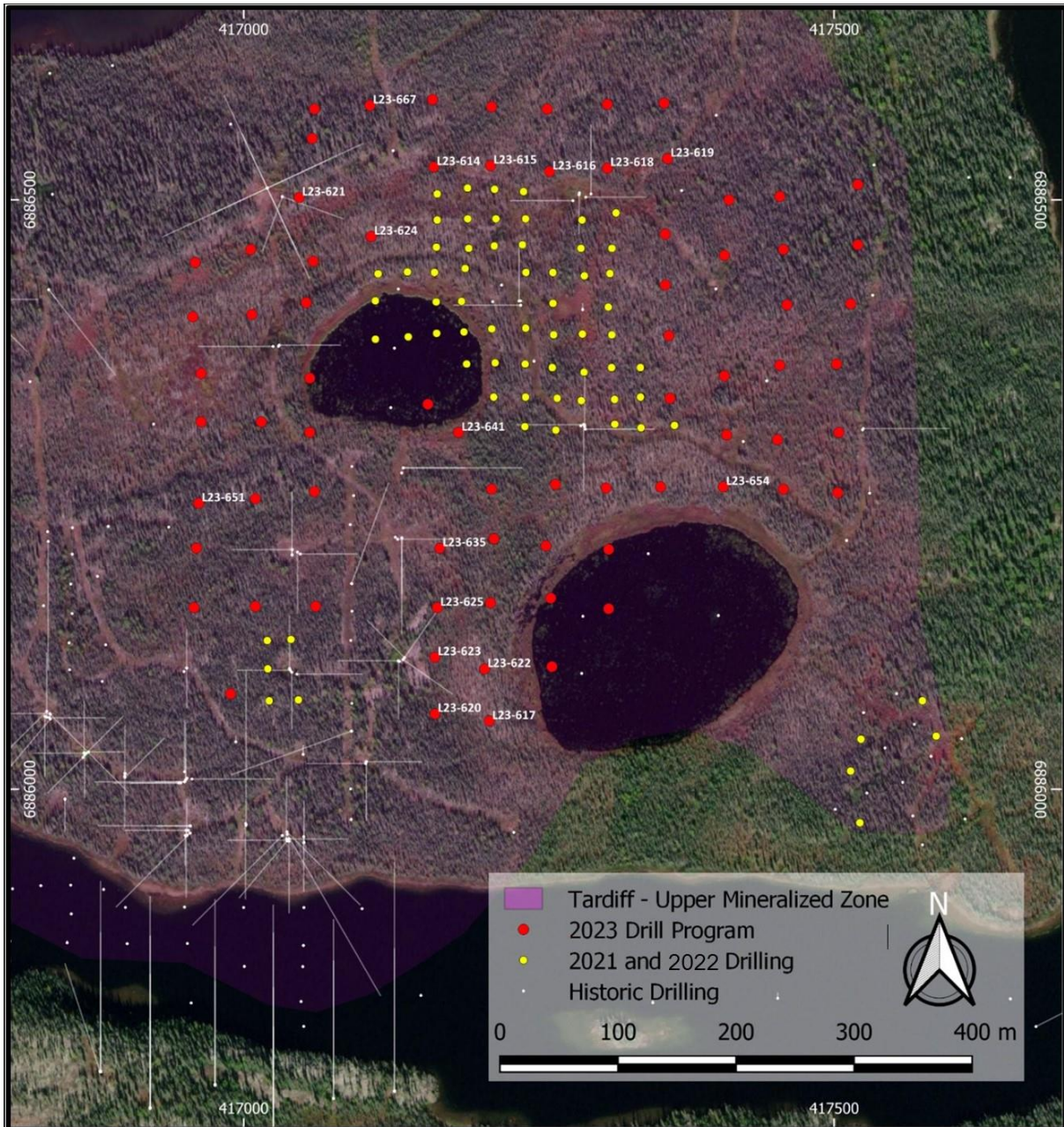


Figure 1: Plan view of the 2023 Tardiff drill program, showing locations of 2021- 2022 drilling and historical drillholes.

Saskatoon strategic review completed

Vital initiated a strategic review process in April 2023 to investigate potential pathways for the long-term future and viability of its rare earth processing facility located in Saskatoon, Saskatchewan, Canada (the “**Saskatoon Facility**”) following its decision in December 2022 to defer completion of the facility and plan to produce an intermediate product found not to be economic.



Vital previously concluded that operating North T and the Saskatoon Facility as originally envisaged was not economically viable under the existing business model. Construction at Saskatoon was halted in April 2023 to preserve cash and to seek alternative funding sources and strategic options to potentially build a sustainable business model for the Saskatoon business (see ASX release dated 19 April 2023).

As part of the strategic review, the Company evaluated alternative business strategies for its wholly-owned subsidiary, Vital Metals Canada Limited (“**VMCL**”), the owner of the Saskatoon Facility, to deliver a sustainable business model for the Saskatoon business. Contemporaneously with its strategic review, the Company engaged in dialogue with REEtec to amend the Offtake Agreement to address changes in key economic and technical conditions beyond the control of Vital and which would cause unfair hardship to Vital if the Offtake Agreement continued in force on its existing terms, as well as discussing other alternative options with REEtec.

While Vital’s preference was to complete the Saskatoon Facility as planned and renegotiate its arrangements with REEtec to account for these adverse changes in conditions, the Company also pursued a contingency plan in the event negotiations with REEtec were not successful. Accordingly, Vital investigated repurposing the Saskatoon Facility to enable it to accept alternative feedstock on the basis the facility is well located with respect to transport infrastructure, and its potential for intermediate processing of rare earth material could fulfill an important role within the expanding North American market. While preliminary discussions with various third parties were positive, the Company was unable to conclude any agreements for an alternative solution.

Vital was not able to reach a resolution with REEtec on the proposed terms of an amended Offtake Agreement, nor did REEtec agree to any other alternative. As a result of the failure to reach a negotiated solution, Vital issued a Notice of Termination under the Offtake Agreement, which was delivered to REEtec on 26 September 2023 (Australian time). The Offtake Agreement will terminate on 24 December 2023 — the date that is 90 days following the delivery of the Notice of Termination.

REEtec indicated that it does not agree with Vital’s assessment that it has suffered unfair hardship, nor considered the Notice of Termination to be valid. REEtec has therefore reserved its rights in that regard, which may include arbitration proceedings.

To protect the significant value of the Company’s mineral tenements in the NWT and to provide the best possible chance of advancing to successful mining and processing operations at the Tardiff Project, the Board has assigned VMCL into bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) and has appointed MNP Saskatoon as trustee in bankruptcy of VMCL. As a result of the bankruptcy, all the property, assets and undertaking of VMCL have vested in the trustee in bankruptcy, which will liquidate the assets and distribute the proceeds to proven creditors of VMCL in accordance with the applicable priorities. Information and documents relating to the VMCL



bankruptcy are available from the Trustee at <https://mnpdebt.ca/en/corporate/corporate-engagements/vital-metals>

Vital's other Canadian subsidiary, Cheetah Resources Corporation, the owner of the mineral properties in NWT, remains unaffected by this process. Vital intends to continue funding the development of these assets towards the Company's goal of rare earth production at the Tardiff Project.

OTHER PROJECTS

Vital did not undertake activities at its projects in Tanzania, Burkina Faso or Germany during the quarter.

CORPORATE

Vital secures cornerstone investment from Shenghe Resources

Post quarter-end, on 27 October, Vital announced it had entered into a subscription agreement (Subscription Agreement) with Shenghe Resources (Singapore) Pte Ltd, a wholly-owned subsidiary of Shenghe Resources Holding Co., Ltd. (Shenghe), a global leader in the rare earth sector with experience across the entire value chain.

Subject to the satisfaction of conditions precedent, Shenghe has agreed to subscribe for:

- 9.99% of the issued share capital in Vital (post-deal) at a subscription price of A\$0.01 per share to raise a minimum of approximately A\$5.9 million (Tranche 1 Subscription); and
- At its election and subject to Vital shareholder approval, up to a further 592 million shares at a subscription price of A\$0.015 per share which, if exercised, would raise approximately A\$8.9 million (Tranche 2 Subscription).

Vital will issue Tranche 1 Subscription shares utilising its available placement capacity under ASX Listing Rules 7.1 and 7.1A to provide immediate funding. The Tranche 2 Subscription shares will be issued subject to Shenghe exercising its option to complete the Tranche 2 Subscription and the Company's shareholders approving the issuance of shares under the Tranche 2 Subscription³.

³ Shenghe may elect to subscribe for the Tranche 2 Subscription shares at any time in the 12 months after completion of the Tranche 1 Subscription.



Shenghe and Vital have agreed, subject to grant of a mining licence to Vital (or its controlled entity) and satisfaction of other conditions precedent, that Shenghe will acquire an initial 50% interest in the Wigu Hill Project, Tanzania. Under this agreement:

- Shenghe will acquire 50% of the issued share capital of Kisasi Mining Ltd, which is the applicant for the mining licence, thereby acquiring an indirect 50% interest in the Wigu Hill Project.
- Consideration for initial 50% interest equal to 50% of the total costs, expenses and liabilities incurred by or on behalf of Vital in relation to the Wigu Hill Project (capped at US\$1.5 million).
- Shenghe can earn up to a 75%⁴ ownership interest upon sole funding completion of a preliminary feasibility study and definitive feasibility study on the Wigu Hill Project.

The Tranche 1 Subscription will provide funding for Vital to:

- Repay existing debt and creditors (approximately A\$3.0 million);
- Progress development of its Nechalacho Project, including completion of a scoping study expected to be delivered Q1 2024 (approximately A\$1.5 million); and
- General working capital (approximately A\$1.4 million).

About Shenghe Resources

Shenghe Resources Holding Co Ltd (Shenghe's parent company) is a large Chinese rare earth group with operations spanning mining and beneficiation, refining and separation, alloy and metals production, and marketing. Shenghe Resources has an extensive financial investment background and significant balance sheet strength. Its international interests include an approximate 7.7% holding in MP Materials Corp (NYSE:MP) which is the largest rare earth producer in North America with a market capitalisation of approximately US\$3.5 billion, a 19.8% holding in Peak Rare Earths Limited (ASX:PEK), a 100% holding in Vietnam Rare Earth Company Limited, and a 9.2% holding in Energy Transition Minerals Limited (ASX:ETM).

Shenghe Resources is listed on the Shanghai Stock Exchange (SSE: 600392.SS) and has a market capitalisation of approximately US\$2.6 billion.

More details on the subscription agreement are available in Vital's ASX announcement dated 27 October 2023.

⁴ Subject to grant of the Mining Licence, the Government of Tanzania will acquire a free-carried, 16% ownership interest in the Wigu Hill Project, as is customary practice upon grant of an SML in Tanzania. The interest which may be acquired by Shenghe does not include the Tanzanian Government's interest



Vital bolsters Board & Management

On 16 October, Vital announced the appointment of Dr Geordie Mark as its Managing Director and CEO. Most recently, Dr Mark was the Head of Mining for Haywood Securities Inc., where he held different roles and sub-sector coverages from 2008.

He also held an analyst position at Passport Capital that encompassed a spectrum of coverage from explorers to large cap. producers across a diverse range of commodities.

Prior to moving to Canada, Dr Mark was a lecturer in Economic Geology and Logan Fellow at Monash University in Melbourne. He has a BSc Honors degree and PhD in Science from James Cook University.

In addition, Lara Iacusso joined as Vital's Chief Financial Officer (CFO) in October. Ms Iacusso has more than 30 years' experience in financial advisory services in Australia and overseas across a wide range of industries including mining and exploration.

She was previously a partner of Deloitte Corporate Finance and is the former CFO of ASX-listed Oklo Resources, which merged with B2Gold in September 2022, and TSXV-listed Compass Gold Corp. She is currently CFO for a West African lime company and several private companies.

Ms Iacusso specialises in providing financial advisory services to emerging companies and has experience working with companies with operations in multiple jurisdictions including optimising cashflow, taxation and other cross-border matters.

Vital also announced that Richard Crookes would become its Chairman permanently, after serving as interim Non-Executive Chairman since February 2023. Mr Crookes has been on Vital's Board since August 2022.

Vital secures \$2m loan

In September, Vital entered a short-term loan agreement with a syndicate of three lenders – Malekula Projects Pty Ltd, INVL Group Pty Ltd and Treasury Services Group Pty Ltd as trustee for the Nero Resource Fund ("Lenders"), for A\$2 million to fund continued development of the Tardiff rare earths deposit in Northwest Territories, Canada and for general working capital requirements.

Material terms of the Loan are as follows:

- Loan Amount - A\$2 million. Maturity date – 3 months from drawdown;
- Interest payable - The Loan Amount will bear interest at the rate of 3% per month. An additional 1% is payable while an event of default subsists;
- Security – General Security Agreement over all the assets of the Company, including the shares which the Company holds in each of its wholly-owned subsidiaries;



- Establishment fee – A\$60,000; and
- Options - the Company will issue 200,000,000 Options to the Lenders (or their nominees) with an exercise price of 1.5 c with a 1 year expiry date from the date of issue, subject to shareholder approval at the Company's next general meeting.

Each of the Lenders are unrelated parties of the Company.

Cash position

As of 30 September 2023, the Company held approximately \$2.6 million in cash.

During the quarter, the Company made payments of \$96 k to related parties and their associates. These payments relate to existing remuneration agreements for the Non-Executive Directors.

During the quarter, Vital spent \$1.5 million on exploration and evaluation expenditure and mine under development costs. Details of activities carried out during the quarter are set out in this report.

TENEMENT SCHEDULE

Location	Tenement	Status	Interest at beginning of quarter	Interest acquired or disposed	Interest at end of quarter
Canada	Nechalacho	100%*	100%	0%	100%
Burkina Faso	Nahouri	100%	100%	0%	100%
	Kampala	100%	100%	0%	100%
	Zeko	100%	100%	0%	100%
Germany	Aue	100%	100%	0%	100%
Tanzania	Wigu Hill	0%**	0%	0%	0%

* Vital owns 100% of the mineral rights of the Nechalacho Project above the 150 m elevation level.

** Vital has entered into an agreement to acquire this licence. The Company is awaiting the issuance of the licence by the Tanzanian Government.

Contact:

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Chairman
Vital Metals Limited
Phone: +61 2 8029 0676
Email: vital@vitalmetals.com



This announcement has been authorized for release by the Board of Vital Metals.

ABOUT VITAL METALS

Vital Metals Limited (ASX: VML) is developing the large Nechalacho Rare Earth Project in Canada's Northwest Territories. Nechalacho has the potential to underpin a significant rare earths supply chain for North America and Europe with responsibly sourced critical minerals for the green economy transformation.

Nechalacho Rare Earth Project - Canada

The Nechalacho project is located at Nechalacho in the Northwest Territories of Canada and has potential to develop into a significant large-scale supplier of critical electric motor magnet minerals.

ASX Listing Rule Information

This announcement contains information relating to Mineral Resource Estimates in respect of the Nechalacho Project extracted from ASX market announcements reported previously and published on the ASX platform on 14 February 2023. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed.

This announcement contains information relating to Exploration Results extracted from ASX market announcements reported previously in accordance with the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" ("2012 JORC Code") and published on the ASX platform on 30 May 2023. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

VITAL METALS LIMITED

ABN

32 112 032 596

Quarter ended ("current quarter")

30 SEPTEMBER 2023

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	-	-
	(b) development	-	-
	(c) production / inventory	-	-
	(d) staff costs	(244)	(244)
	(e) administration and corporate costs	(129)	(129)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	15	15
1.5	Interest and other costs of finance paid	(44)	(44)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(402)	(402)

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(620)	(620)
	(d) exploration & evaluation, mine under development	(1,488)	(1,488)
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	216	216
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (Cash outflow from discontinued operations)	(366)	(366)
2.6	Net cash from / (used in) investing activities	(2,258)	(2,258)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	2,000	2,000
3.6	Repayment of borrowings	(72)	(72)
3.7	Transaction costs related to loans and borrowings	(60)	(60)
3.8	Dividends paid	-	-
3.9	Other (repayment of lease liabilities)	(194)	(194)
3.10	Net cash from / (used in) financing activities	1,674	1,674

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,621	3,621
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(402)	(402)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,258)	(2,258)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,674	1,674

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(77)	(77)
4.6	Cash and cash equivalents at end of period	2,558	2,558

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,357	2,073
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details) Term deposits supporting bank transaction facilities	1,201	1,548
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,558	3,621

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	96
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	3,346	3,346
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	3,346	3,346
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. Cheetah Resources Corp has received an unsecured loan of C\$1.26m from the Canadian Northern Economic Development Agency ("CanNor"), with no interest payable. The repayment period is in equal quarterly payment over 10 years commenced 1 April 2023. During the quarter Vital Metals Limited received a secured loan of \$2m from a syndicate of three lenders; Malekula Projects Pty Ltd, INVL Group Pty Ltd and Treasury Services Group Pty Ltd as trustee for the Nero Resource Fund ("Lenders"). Material terms of the Loan are as follows: • Loan Amount - A\$2m. Maturity date – 3 months from drawdown; • Interest payable - The Loan Amount will bear interest at the rate of 3% per month. An additional 1% is payable while an event of default subsists; • Security – General Security Agreement over all the assets of the Company, including the shares which the Company holds in each of its wholly-owned subsidiaries; • Establishment fee – A\$60,000; and • Options - the Company will issue 200,000,000 Options to the Lenders (or their nominees) with an exercise price of 1.5c with a 1 year expiry date from the date of issue, subject to shareholder approval at the Company's next general meeting. Post quarter end the Company has entered into a subscription agreement (Subscription Agreement) with Shenghe Resources (Singapore) Pte Ltd (Shenghe), as a cornerstone investor, for the subscription of up to \$14.8 million in two tranches. The Subscription Agreement is subject to conditions precedent including no 'material adverse change' occurring in relation to the entity and receipt by Shenghe of overseas direct investment approvals in China. The first tranche is for a minimum of approximately A\$5.9 million (Tranche 1 Subscription) and is expected to be completed by 30 November 2023.		

	8. Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(402)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(1,488)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(1,890)
8.4	Cash and cash equivalents at quarter end (item 4.6)	2,558
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	2,558
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3)	1.4
	<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8	If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: Yes.	
8.8.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: Yes, as announced on 27 October 2023, the entity has entered into a subscription agreement (Subscription Agreement) with Shenghe Resources (Singapore) Pte Ltd (Shenghe), as a cornerstone investor, for the subscription of up to \$14.8 million in two tranches. The Subscription Agreement is subject to conditions precedent including no 'material adverse change' occurring in relation to the entity and receipt by Shenghe of overseas direct investment approvals in China. The first tranche is for a minimum of approximately A\$5.9 million (Tranche 1 Subscription) and is expected to be completed by 30 November 2023.	
8.8.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: Post the Tranche 1 Subscription, the Company expects to be able to continue its operations and to meet its business objectives.	
	<i>Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 October 2023

Authorised by: The Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.