

VITAL AND SRC SIGN A BINDING TERM SHEET TO NEGOTIATE DEFINITIVE AGREEMENTS FOR THE CONSTRUCTION AND OPERATION OF A RARE EARTH EXTRACTION PLANT

HIGHLIGHTS

- Vital Metals and Saskatchewan Research Council (SRC) have signed a binding Term Sheet to negotiate definitive agreements for the construction and operation of a Rare Earth Extraction Plant to produce a mixed rare earth carbonate product
- In August 2020, the Government of Saskatchewan and the Saskatchewan Research Council (SRC) announced a C\$31 million funding package for the construction of Canada's first Rare Earth Processing and Separating Facility in Saskatoon, Canada
- Vital's Rare Earth Extraction Plant is planned to be located adjacent to SRC's Separation Plant which will convert mixed rare earth carbonate to commercial grade separated rare earth oxides
- SRC's facility will require mixed rare earth carbonate product for separation making Vital a likely customer
- Capital cost estimate of the Rare Earth Extraction Plant is A\$5.25M
- Subject to execution of definitive agreements, processing operations are scheduled to commence in Quarter 3, 2021
- Off-take negotiations are progressing well with a number of non-China buyers

Vital Metals Limited (ASX: **VML**) ("**Vital**" or the "**Company**") is pleased to announce the signing of a binding Term Sheet between Vital's 100% owned subsidiary Cheetah Resources ("**Cheetah**") and Saskatchewan Research Council ("**SRC**") which sets out parameters for the design, procurement, construction, commissioning and operation of a Rare Earth Extraction Plant ("**Term Sheet**"). It is intended that Cheetah's Rare Earth Extraction Plant will produce a mixed rare earth carbonate product and will be located adjacent to SRC's recently announced Rare Earth Processing Facility which will produce separated rare earth oxides. SRC's Separation Plant will be a potential customer of Cheetah's mixed rare earth carbonate product.

Investors are cautioned that even though the Term Sheet is binding, there is no guarantee that the Definitive Agreements (defined below) will be entered into.

Commenting, Vital Metals' Managing Director Geoff Atkins said:

"The signing of this Term Sheet with SRC marks an important milestone for Vital and the development of the Nechalacho Project. Whilst the Definitive Agreements continue to be finalised in line with the Term Sheet, the Company is excited about the prospect of the construction and operation of a rare earth demonstration extraction plant, as well as it being co-located with SRC's recently announced rare earth separation plant. Being the only rare earth project in Canada with near term production capability, co-located with Canada's only Separation Facility, provides Vital the opportunity to be a cornerstone of the North America Critical Minerals Strategy."

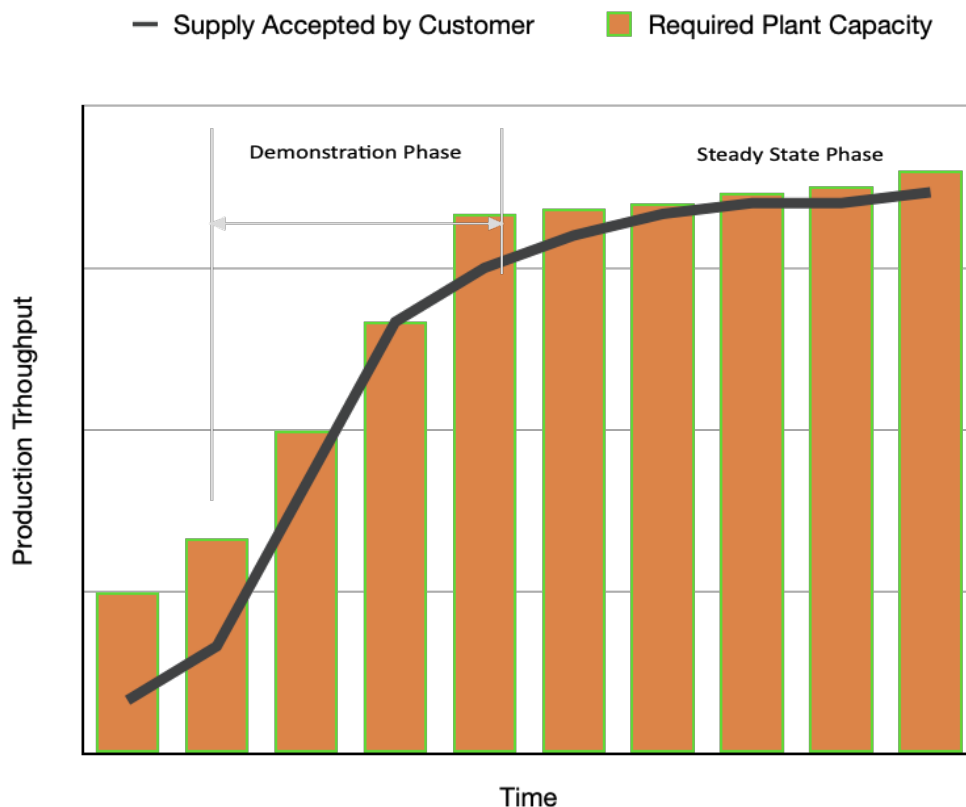
SRC Rare Earth Processing Facility

On Thursday, 27th August 2020, the Government of Saskatchewan and SRC announced C\$31 million in funding for the construction of a Rare Earth Processing Facility in Saskatchewan, Canada, the first of its kind in Canada. The facility will include the construction and operation of a Rare Earth Separation Plant, which will convert mixed rare earth carbonate feedstock into commercial grade separated rare earth oxides.

The plant is expected to be fully operational in late 2022 with construction anticipated to commence in Quarter 4 2021.

Vital's 3 Stage Development Strategy

With a target of becoming the largest, sustainable independent supplier of clean mixed rare earth feedstock to rare earth separation facilities outside of China, Vital is focusing on a 3 stage development approach over the next five years. This approach has been developed through management experience in the rare earth industry over the last 15 years and from ongoing negotiations with potential off-take partners. Key to the approach is recognition that prior to accepting large volumes of feedstock from a new supplier, separation facilities require a transition period whereby they are able to incrementally increase the volume of new feedstock which will be accepted and processed through their facilities. Therefore, supply to new customers must first proceed through a "Demonstration Phase" before "steady-state" sales are achieved. This is demonstrated in the chart below.



This has led to the following 3 stage development approach.

- **Stage 1 - Nechalacho North T:** Near Term/Low Capex Demonstration Plant to negotiate customer acceptance and ramp up:
- **Stage 2 - Nechalacho Tardiff:** Long Term/Large Scale Commercial Operation providing long term security of supply to the rare earth supply chain.
- **Stage 3 - Wigu Hill:** Expansion Capability Through Additional Project

Vital is currently proceeding with Stage 1: Near Term/Low Capex Demonstration Plant. The intention of this stage will be to transport beneficiated ore from Nechalacho North T to SRC at Saskatoon where Cheetah's Rare Earth Extraction Demonstration Plant will produce a mixed rare earth carbonate product for sale to separation facilities. Target outcomes of the Extraction Demonstration Plant are summarised below:

- demonstrate to customers the ability to produce product at specification on time;
- demonstrate the ability to ramp up production to meet the long term requirements of off-take partners;
- demonstrate the ability to develop a long term, sustainable throughput production volume;
- define parameters for the development of the Nechalacho Tardiff project for the 2nd stage of Vital's development strategy.

Rare Earth Extraction Demonstration Plant

The Term Sheet between SRC and Cheetah (together the "**parties**") provides that the parties will negotiate and enter into two definitive agreements: one for the design, procurement, construction and commissioning of the Plant (the "**EPCM Agreement**"); and a second for the operation of the Plant (the "**Processing Agreement**") (together, the "**Definitive Agreements**") which will address the following points contained in the Term Sheet.

Scope of Services

The Definitive Agreements are to provide that SRC is to design, procure equipment and materials for, manage the construction of, commission and operate a Rare Earth Extraction Plant ("**Plant**").

The EPCM Agreement will contain timelines with respect to the design, construction and commissioning of the Plant, as well the procurement of equipment, with the objective of the commencement of Plant processing operations in Quarter 3, 2021. The initial throughput capacity of the Plant will be finalised in conjunction with discussions with potential offtake providers.

The Term Sheet contemplates that the initial Processing Agreement will be for an initial term of four years following the successful completion of the commissioning activities, with the parties having the option to renew the initial term for an additional term of any number of years by mutual agreement. The compensation payable by Cheetah to SRC for processing services will comprise two components (base fee and variable fee) which are payable to SRC on a monthly basis. The actual fees are yet to be negotiated. During the operating period the Processing Agreement is to provide that Cheetah will have the option to increase the Plant's anticipated capacity of plant feed up to 250% of the initial throughput capacity. Upon such request by Cheetah, SRC will prepare a 'total installed cost' budget in relation to the expanded capacity requirement, and upon Cheetah's written acceptance of this budget the parties will enter into a

further EPCM agreement to expand the Plant capacity to the required specifications. The Definitive Agreements will otherwise deal with standard matters for agreements of their nature.

Cheetah may terminate the Term Sheet at any time, and SRC may terminate the Term Sheet upon providing Cheetah with 30 days' prior written notice.

Capital Cost Estimate

The Capital Cost for the Rare Earth Extraction Plant as estimated by SRC and as included within the Term Sheet, is summarised below.

Item	Description	CA\$ 000	AU\$ 000
Equipment Costs			
1	Crushing	365	379
2	Leaching	1,222	1,268
3	REO Precipitation and Finishing	610	633
4	Water & Waste Treatment	650	675
Other			
5	Miscellaneous Design, Fabrication and Installation	1,700	1,765
6	EPCM	516	535
Total		5,063	5,255
CAD:AUD 1.038			

Cautionary Statement: The Capital Cost Estimates set out above are estimates only and have been prepared by SRC. SRC does not guarantee the accuracy of the above estimates. The estimates set out above are non-binding on the parties and may be more fully considered and amended in the Definitive Agreements.

Permits/Approvals

SRC will obtain all necessary permits and authorisations required to construct and operate the Rare Earth Extraction Plant. This includes waste disposal. As Cheetah's Rare Earth Extraction Plant will be located within SRC's Rare Earth Processing Facility, which will be located within SRC's existing operations, SRC's existing operating approvals, including waste disposal licenses, will be utilised.

Next Steps

Cheetah and SRC will continue to negotiate and finalise the Definitive Agreements in line with the terms and conditions contained within the Term Sheet.

Notwithstanding the Definitive Agreements above, in order to ensure processing operations are able to commence in Quarter 3, 2021, Cheetah and SRC have agreed that engineering works will proceed in parallel with the finalisation of the EPCM Agreement to define the following:

- process design criteria
- process flow sheet finalisation
- mechanical equipment list
- procure long-lead time items

- ENDS-

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

ABOUT VITAL METALS

Vital Metals Limited (ASX:VML) is an explorer and developer focussing on rare earths. Our projects are located across a range of jurisdictions in Canada and Tanzania.

ABOUT SASKATCHEWAN RESEARCH COUNCIL

SRC is Canada's second largest research and technology organisation. With more than 290 employees, C\$91 million is annual revenue and nearly 75 years of experience, SRC provides services and products to its 1,500 clients in 27 countries about the world. More information at <http://www.src.sk.ca/REE>

Nechalacho Rare Earth Project - Canada

The Nechalacho project is a high grade, light rare earth (bastnaesite) project located at Nechalacho in the Northwest Territories of Canada and has potential for a start-up operation exploiting high-grade, easily accessible near surface mineralisation. The Nechalacho Rare Earth Project hosts within the Upper Zone, a JORC Compliant Resource of 94.7Mt at 1.46% REO (25% NdPr). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement dated 13 December 2019 and 15 April 2020 in respect of the resource estimate and that all material assumptions and technical parameters underpinning the estimate in the original market announcement continue to apply and have not materially changed.

Wigu Hill Project - Tanzania

The Company has signed a project development and option agreement with Montero Mining & Exploration Ltd, to acquire and develop the Wigu Hill Project located near Kisaki in Tanzania.

The Wigu Hill project is a light rare earth element deposit and consists of a large carbonite complex with bastnaesite mineralisation with a NI 43-101 Inferred resource estimate of 3.3Mt at 2.6% LREO5 including 510,000t @ 4.4% LREO5 on 2 of 10 possible drill targets. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement dated 25 June 2019 in respect of the resource estimate and that all material assumptions and technical parameters underpinning the estimates in the original market announcement continue to apply and have not materially changed.

Investors should note that the Mineral Resource estimate for the Wigu Hill Rare Earth Project is a foreign estimate and is not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify this foreign estimate as a mineral resource in accordance with the JORC Code and it is uncertain that following further exploration or evaluation work that the foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

Forward Looking Statements

This release includes forward looking statements. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", and "guidance", or other similar words and may include, without limitation statements



regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production output.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the company's actual results, performance and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of resources or reserves, political and social risks, changes to the regulatory framework within which the company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on the company and its management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the company's business and operations in the future. The company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or management or beyond the company's control.

Although the company attempts to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be anticipated, estimated or intended, and many events are beyond the reasonable control of the company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.

Forward looking statements in this release are given as at the date of issue only. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.