

AVZ MINERALS LIMITED

Ministerial Decree to Award Mining License – Buying Opportunity

EVENT

AVZ Minerals announced that the Minister of Mines has signed the ministerial decree to award the Mining License for AVZ's 75%-owned Manono Lithium and Tin Project in the DRC. Reports challenging ownership interests in the project were also addressed by AVZ.

IMPACT

Positive: We view this as a major milestone for AVZ and its shareholders and partners. With the ministerial decree, AVZ will be able to complete its agreement with strategic investor and partner CATH bringing in \$240 MM to accelerate construction and keeping to its timeline of first spodumene production in late 2023. We view the challenges to ownership interests as a distraction and expect them to be resolved in the near-term with no negative impact to AVZ. As such, we view the recent sell-off in the stock as a buying opportunity. We maintain our Speculative Buy rating and \$1.00 target price.

FOCUS POINTS

- **World Class Deposit:** The Roche Dure lithium deposit at Manono currently totals 402 MMt grading 1.65% Li₂O and 715ppm tin making it the largest and highest-grade undeveloped lithium mineral deposit in the world.
- **Short Timeline to Production:** AVZ is on track for first production of spodumene by late 2023.
- **Compelling Economics:** Based on our upfront capital cost estimate for an expanded project of US\$850 MM, operating costs of US\$370/t of SC6 produced and a US\$950/t SC6 price, a 22-year operation returns a post-tax NPV_{10%} of US\$4.5 B.
- **Funding Partner and Offtake Agreements:** CATH has agreed to pay US\$240 MM for a 24% participating interest in the Manono Project. Agreements are signed with 3 other Chinese lithium processors for over 540kt of SC6 annually.
- **Upside Potential:** The lithium-bearing pegmatites at Manono extend for more than 13km with potential to grow the resource to 1.2Bt supporting mine expansions, longer mine life and/or in-country lithium hydroxide production.

Recommendation:

Speculative BUY

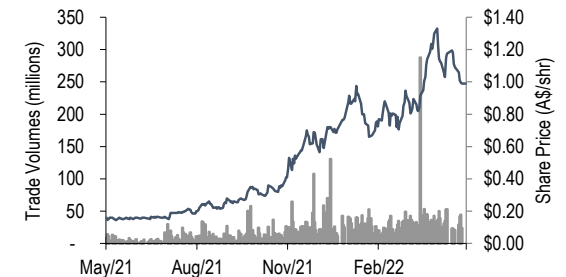
Symbol/Exchange:	AVZ-ASX
Sector:	Metals & Mining
<i>All dollar values in AUD unless otherwise noted.</i>	
Current price:	\$0.80
One-year target:	\$1.00
Target return:	25%
52-week Range:	\$0.14 - \$1.37

Financial Summary

Market Cap (\$MM)	2,823.0
Cash & Equivalents (\$MM)	76.3
Debt (\$MM)	0.1
Basic Shares O/S (MM)	3,528.7
Fully Diluted Shares O/S (MM)	3,605.4
Avg. Weekly Volume (k)	39,585

	2021A	2022E	2023E	2024E
Sales				
Spod SC6 (kt)	-	-	-	450
PMS Sales (kt)	-	-	-	18
SC6 Sales (kt)	-	-	-	372
Unit Cost (US\$/t SC6)	-	-	-	366

EPS	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.17
CFPS	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.08
Free CFPS	\$ (0.00)	\$ (0.00)	\$ (0.23)	\$ 0.06



Company Profile: AVZ Minerals is a lithium development company bringing the world class Manono Lithium and Tin project into production. The Manono Project is located in the Democratic Republic of Congo and hosts the largest undeveloped lithium mineral deposit in the world and should be producing spodumene concentrate by H2/2023.

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See disclosure and a description of our recommendation structure at the end of this report.

MINISTERIAL DECREE FOR MANONO MINING LICENSE

AVZ announced that the DRC Minister of Mines has signed the ministerial decree to award the Mining License for AVZ's 75%-owned Manono Lithium and Tin Project in the DRC. The signing of the Ministerial Decree to award the Mining License to Dathcom Mining SA (Dathcom), in which AVZ holds a 75% interest, is now with the Cadastre Minier (CAMI), which operate under the supervision of the Minister of Mines, to officially award the Mining License. In accordance with DRC Mining Code, CAMI are required to calculate the surface rights fees payable by Dathcom (expected to be nominal) and provide the Mining License following receipt of this payment. The Mining License to be issued, will cover the entirety of the Roche Dure JORC Mineral Resource (401 MMt @ 1.65% Li₂O) and the Carriere de l'Este exploration target (see Exhibit 5 below). Land holding further to the north of this area, will be renewed under a 5-year Permit de Research (PR or Exploration License). This is a major milestone for AVZ and its shareholders and partners. With the ministerial decree, AVZ will be able to complete the Transaction Implementation Agreement (TIA) with strategic investor and partner CATH who will provide \$240 MM for a 24% participating interest in the project paving the way for the new partners to commence major works with first SC6 production targeted for late 2023.

CLARIFYING OWNERSHIP

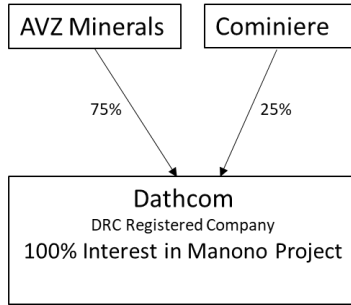
The positive announcement on the Mining License has been overshadowed by media reports highlighting claims against its current and future ownership interests and led to selling of the stock. The Company considers these reports to be spurious and immaterial. We discuss the ownership structure and claims below.

AVZ Majority Interest: The Manono project is held within DRC registered company Dathcom Mining SA, which is currently owned 75% by AVZ Minerals and 25% by La Congolaise D'Exploitation Miniere SA ("Cominiere"). AVZ increased its interest in the Manono Project in 2019 and 2021 from 60% to 75% by exercising its options to purchase Dathomir Mining Resources SARL's minority 15% shareholding in Dathcom for US\$20 MM. In its September Activities Report, AVZ noted that the share certificates for this increase had been awarded and registered at the courts in the DRC.

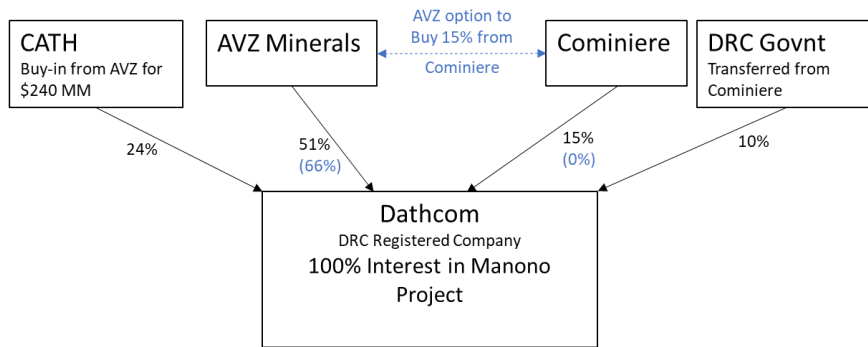
Path Ahead: Following the official award of the Mining License, and under the terms of the Joint Venture Agreement with Cominiere, Cominiere will cede 10% of its interest in Dathcom (Manono) to the DRC Government such that AVZ retains legal title to a 75% interest in the Manono Project. As per the Transaction Implementation Agreement (TIA) with CATH, AVZ will sell 24% of its interest to CATH for US\$240 MM leaving AVZ with a 51% controlling interest in the project and a new participating partner. We currently base our AVZ valuation on this 51% ownership. AVZ is also in advanced discussions with the DRC Government regarding the purchase of Cominiere's remaining 15% interest in Dathcom as is its right under terms of the existing Dathcom Shareholder Agreement. We see this as a potential upside.

Exhibit 1. Ownership Structure Path

Current



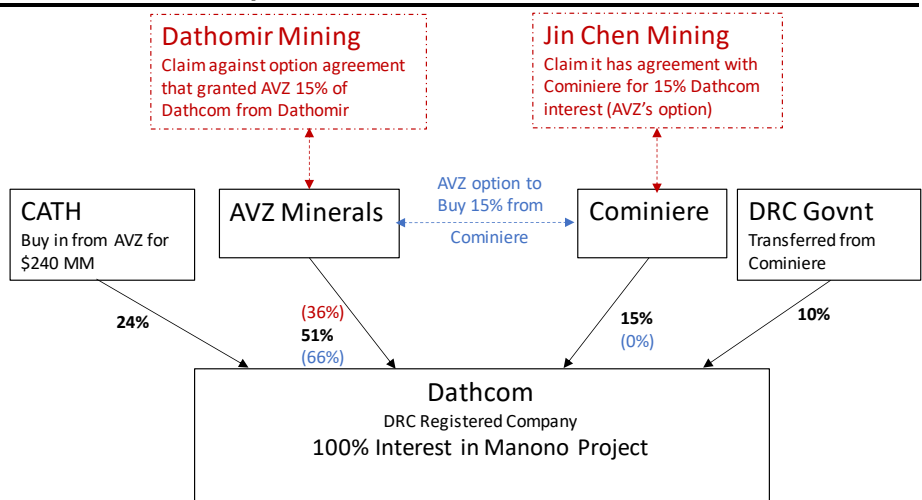
Post-Mining License



Source: Cantor Fitzgerald

Ownership Claims: AVZ made reference to recent media speculation in respect of several matters in connection with AVZ’s interest in the Manono Project. We side with management and view the claims challenging ownership interests as a distraction and expect them to be resolved in the near-term with no negative impact to AVZ.

Exhibit 2. Ownership Structure Claims



Source: Cantor Fitzgerald

Dathomir Claim: A claim by former Dathcom shareholder Dathomir Mining regarding the validity of a share certificate was reported by a reference to a decision by ‘Le Tribunal de Grande Instance’ in the DRC (Tribunal Decision). As noted by AVZ, the Tribunal Decision does not purport to (nor does it, in fact or under DRC law) have any effect on AVZ’s 75% equity interest in the Manono Project, to which AVZ holds good legal title noting that the Tribunal Decision is without foundation or merit.

Cominiere Claim: A claim has also been made that Cominiere has transferred 15% of its interest in Dathcom to Jin Cheng Mining Company. AVZ notes any such purported transfer would be restricted under the terms of the existing shareholders agreement between the Dathcom shareholders and accordingly, any purported transfer of the 15% interest to a third party would be a material breach of the pre-emptive rights contained in the existing Shareholders Agreement owed to AVZ, invalid and of no force or effect.

AVZ has considered each of the Dathomir Claim and Cominiere Transfer Claim in detail and believes them to each be spurious in nature, without merit, contain fundamental and material errors, and have no substance or foundation in fact or law. The Company is continuing to take all necessary actions to resist these vexatious and meritless claims and to protect Dathcom’s and its interests, and the Company will consider all options including engaging with the DRC Government and seeking international law remedies.

AVZ AND MANONO PROJECT OVERVIEW

AVZ Minerals Ltd. is an Australian-based lithium development company focused on advancing the Manono lithium-tin project located in the southern DRC to production. The project focuses on developing the world class Roch Dure lithium pegmatite to produce a spodumene concentrate and lithium sulphate for use in the global lithium-ion battery market with potential to produce value-added lithium hydroxide. The Company completed a definitive feasibility study (DFS) in 2020 and is on track for initial production of concentrate targeted for H2/2023.

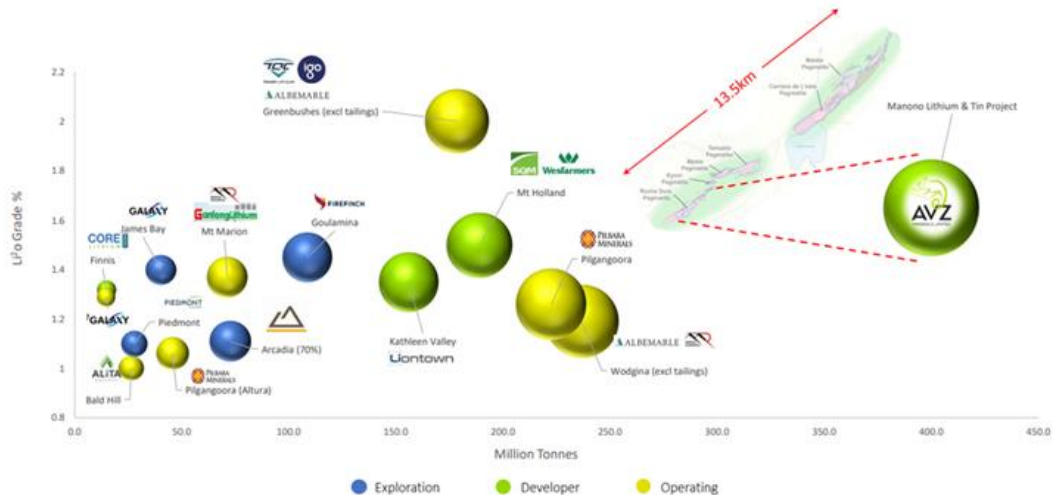
Exhibit 3. Manono Lithium-Tin Project Location Map



Source: AVZ Minerals Ltd.

World Class Resource Project: At its present size, the lithium resources at Manono stand out as one of the largest and highest grade undeveloped hard-rock lithium deposits in the world. The Roche Dure lithium deposit currently covers only 1.6 km of strike length with a current resource estimate of 402 MMt grading 1.65% Li₂O and 715ppm tin in the Measured & Indicated plus Inferred categories (M&I+Inf) for total contained lithium of 16.5 MMt lithium carbonate equivalent (LCE) and 302,000 t of tin. To put this into context, this lithium resource is more than double that of current producers. It also represents a huge opportunity to satisfy accelerating global demand which is expected to grow to 3.0 MMt/yr by 2030 to meet the rising demand from electric vehicles (EVs).

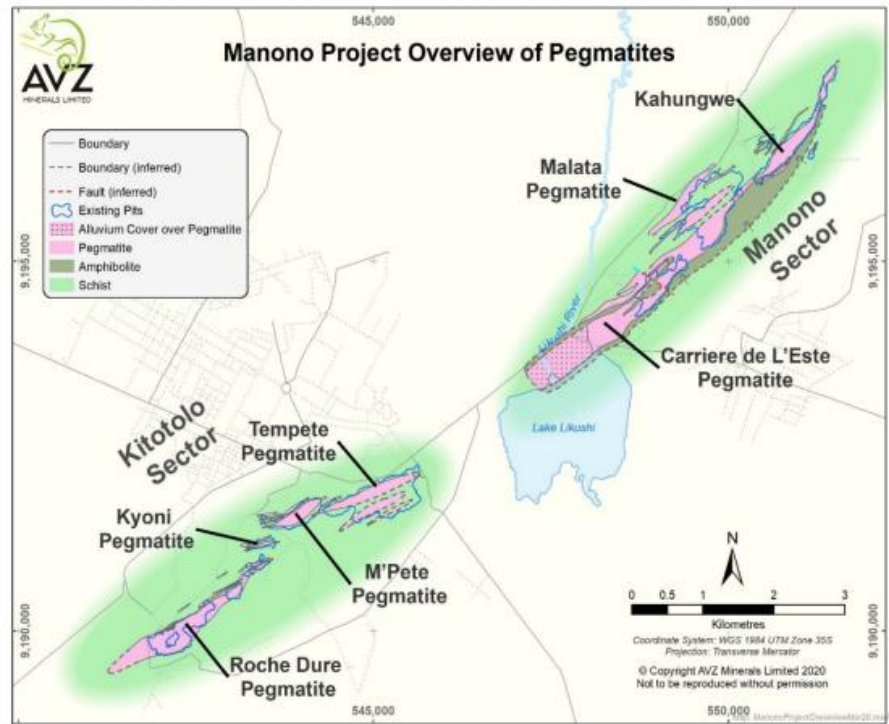
Exhibit 4. Manono Li-Tin Resource Compared to Peers



Source: AVZ Minerals Ltd.

Exploration Upside: The presence of lithium mineralization in multiple large pegmatites at Manono has been confirmed to extend along strike for more than 13km and AVZ has generated an internal exploration target of between 1Bt to 1.2Bt of 1.25% to 1.5% Li₂O for the entire Manono Project. This growth potential will be used to support mine expansions, a longer mine life and/or a value-add lithium hydroxide facility.

Exhibit 5. Manono Lithium-Tin Geological Map



Source: AVZ Minerals Ltd.

Strong Economics: While the 2020 DFS contemplated a 4.5 MMt/yr open pit operation, increased demand from its pending partner CATH and current work on an expanded startup, we expect a 10 Mtpa operation will be built ramping up to produce 1.8 Mtpa of saleable SC6 and 92ktpa of PLS. Based on an upfront capital cost estimate of US\$850 MM, operating costs of US\$370/t of SC6 produced and pricing of US\$950/t of SC6, we see a minimum 22-year operation returning a post-tax NPV_{10%} of US\$4.5 B on a 100% basis.

Exhibit 6. Manono Project: Base Case and Expansion Scenario

Throughput 4.5 Mtpa		Throughput 10 Mtpa			
2020 DFS Case	Base Case	Expansion/ Cantor Case	Stage 1	Stage 2	Stage 3 (Potential)
	4.5 Mtpa throughput & PLS Train 1		10 Mtpa throughput & PLS train 1	Add flotation circuit and PLS train 2	Add PLS trains 3&4
Capex	US\$550 MM	Capex	US\$850 MM	US\$200 MM	US\$300 MM
Production		Production			
SC6 Total	700 ktpa	SC6 Total	1,600 ktpa	2,200 ktpa	2,200 ktpa
SC6 saleable	550 ktpa	SC6 saleable	1,400 ktpa	1,800 ktpa	1,400 ktpa
PLS saleable	46 ktpa	PLS saleable	46 ktpa	92 ktpa	184 ktpa

Source: Cantor Fitzgerald

Chinese Funding Partner and Offtake Agreements: In Q3/2021, AVZ entered into an agreement with Suzhou CATH Energy Technologies (CATH) whereby CATH will earn a 24% equity interest in the Manono Project by paying US\$240 MM in cash and a further amount to fund their pro-rata portion of development costs.. In addition, offtake agreements have been signed with three Chinese lithium processors for over 540kt of SC6 annually, a combined total of ~80% of early production.

Experienced Team: AVZ is led by Nigel Ferguson, Managing Director who is a geologist who has held senior management positions for the past 20 years including direct in-country experience in the DRC since 2004. He is supported by an African-centric team of officers and directors with experience in exploration, mine development, metals and minerals processing, bulk commodities, off-take agreements and project financing.

Target and Rating: We rate AVZ Minerals a Speculative BUY with a \$1.00/shr target price based on valuation of 1.0x NAV_{10%} for a 51% ownership interest an expanded 10 Mtpy operation. Since our valuation relies on a much larger operation than has yet to be committed to, and several near-term milestones still to be passed, we apply a Speculative Buy rating. However, given the strong demand for lithium, world class nature of the deposit, signed off-take agreements, strong partner in CATH, our bias is to the upside.

CONCLUSION

We view the signing of the ministerial decree to award the Mining License for the Manono Project as a major milestone for AVZ and its shareholders and partners. With the ministerial decree, AVZ will be able to complete TIA with strategic investor and partner CATH to accelerate construction and meet its target of first production in late 2023. We view the claims challenging ownership interests as a distraction and expect them to be resolved in the near-term with no negative impact to AVZ. As such, we view the recent sell-off in the stock as a buying opportunity: We maintain our Speculative Buy rating and \$1.00 target price.

AVZ Minerals Ltd.					
Rating	Spec BUY	Basic Shares (MM)	3,528.7	Cantor Fitzgerald	
Target Price	\$1.00	Diluted Shares (ITM / FD) (MM)	3,605.4	Matthew O'Keefe	
Share Price	\$0.80	Basic Mkt Cap (\$MM)	2,823.0	416-849-5004	
Potential Return	25%	Enterprise Value (\$MM)	2,746.7	matthew.o'keefe@cantor.com	

BALANCE SHEET					
A\$MM, Jun30.YE	2021A	2022E	2023E	2024E	2025E
Assets					
Cash	2.5	339.8	30.5	244.8	537.1
Other Current Assets	0.4	0.4	0.4	0.4	0.4
Total Current Assets	2.9	340.2	30.8	245.2	537.4
Non-current Assets	91.3	120.9	876.4	926.9	961.2
Total Assets	94.2	461.1	907.3	1,172.0	1,498.6
Liabilities					
Current Liabilities	7.3	7.3	7.3	7.3	7.3
Long Term Debt	-	-	472.2	472.2	472.2
Other Liabilities	-	-	2.4	2.4	2.4
Total Liabilities	7.3	7.3	481.9	481.9	481.9
Shareholder Equity	76	443	415	680	1,006
Non-controlling interest	10.5	10.5	10.5	10.5	10.5

INCOME STATEMENT					
A\$MM, Jun30.YE	2021A	2022E	2023E	2024E	2025E
Total Revenue	-	-	-	759.5	1,186.2
Operating Costs	-	-	-	(103.8)	(313.8)
Depreciation	-	-	-	(6.3)	(22.3)
G&A	(5.0)	(4.8)	(4.8)	(4.8)	(4.8)
Interest Expense	(0.0)	-	(23.6)	(47.2)	(47.2)
Other	(0.5)	-	-	(40.4)	(122.0)
EBT	(5.5)	(4.8)	(28.4)	557.1	676.1
Taxes	-	-	-	292.4	349.5
Net Income (Reported)	(13.1)	(4.8)	(28.4)	264.7	326.6
Net Income (Adjusted)	(13.1)	(4.8)	(28.4)	264.7	326.6
EPS (Adjusted) (\$/sh)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.17	\$ 0.20
Average shares (MM)	2,871	3,364	3,364	3,364	3,364
EBITDA	(12.7)	(4.8)	(4.8)	604.3	723.3

CASH FLOW STATEMENT					
A\$MM, Jun30.YE	2021A	2022E	2023E	2024E	2025E
Cash Flow from Operations					
Net Income	(13)	(5)	(28)	265	326.6
Non-Cash Items	0.2	-	-	-	-
WC changes	(0.2)	-	-	-	-
Total CF Operations	(1.5)	(4.8)	(28.4)	271.0	348.9
CF Operations(\$/sh)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.08	\$ 0.10
Cash Flow from Investing					
Capital Expenditures	(0.1)	(0.1)	(755.6)	(56.7)	(56.7)
Other Investments	(12.6)	(27.0)	-	-	-
Total CF Investing	(12.7)	(27.1)	(755.6)	(56.7)	(56.7)
Cash Flow from Financing					
Debt Financing	-	-	472.2	-	-
Equity Financing	3.1	40.0	-	-	-
Options & Warrants	-	0.2	-	-	-
Financing Costs	(0.1)	331.5	-	-	-
Total CF Financing	3.0	371.7	472.2	-	-
Change In Cash	(11.7)	339.7	(311.7)	214.3	292.3
Free Cash Flow	(1.6)	(4.9)	(784.0)	214.3	292.3

VALUATION DATA					
	2021A	2022E	2023E	2024E	2025E
P/E	NM	NM	NM	4.8x	4.0x
P/CF	NM	NM	NM	9.9x	7.7x
P/NAV	-	0.8x	-	-	-
EV/EBITDA	NM	NM	NM	4.5x	3.8x
FCF Yield	NM	NM	NM	0.1x	10%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Consensus data - Factset, Historical Data - Company Filings, Forecasts/estimates - Cantor Fitzgerald Canada

RESOURCE BREAKDOWN					
Project	Category	Tonnes Mt	Grade %	Li Metal 000t	LCE 000t
Manono	P&P	131.7	1.63	2,140	5,292
	M&I	274.0	1.66	4,541	11,230
	Inferred	128.0	1.65	2,112	5,223
	M&I+Inf	402.0	1.65	6,653	16,453

OPERATING STATISTICS						
Year (fiscal)		2021A	2022E	2023E	2024E	2025E
Production						
SC6	(t)	-	-	-	449,973	1,530,000
Sales						
SC6	(t)	-	-	-	371,673	1,334,250
Lithium Sulphate	(t)	-	-	-	18,000	45,000
Costs						
SC6	(\$/t)	-	-	-	366	367
Lithium Sulphate	(\$/t)	-	-	-	1,830	1,830

PROJECT SUMMARY - 100% Basis (Cantor Model)

Manono Project

Resource

Category	P&P
Reserves (MMt)	131.7
Li content % Li2O	1.63

Operation

First Production	2024
LOM (yrs)	22
SC6 (MMt/yr)	2.04
Lithium Sulphate (t/yr)	76,333
SC6 Unit Cost (US\$/t)	388
PMS Unit Cost (US\$/t)	2,406

Capital

Upfront (US\$MM)	850
Expansion 1 (US\$MM)	200
Expansion 2 (US\$MM)	0
Sustaining (US\$MM)	188
Total (LOM) (US\$MM)	1,238

Economics

LT SC6 Price (US\$/t)	950
LT PLS (US\$/t)	7,848
NPV8% (US\$MM)	7,680
NPV10% (US\$MM)	5,191
IRR	68.3%

Project Ownership (assuming CATH deal closes)

NET ASSET VALUE			Target Price Breakdown				
Asset	Valuation (NAV (\$MM))	A\$/Share	NAV Valuation	Per share	Multiple	Value	
Manono							
Mine & Plant	DCF10%	3,067	\$0.89	Minesite	\$1.05	1.0x	\$1.05
Exploration Upside		556	\$0.16	Financial	-\$0.01	1.0x	-\$0.01
Total Mining Assets		3,623	\$1.05	Total	\$1.04		\$1.04
Pro-forma Cash		427	\$0.12	EV/EBITDA (2024e)		8.0x	\$1.39
Pro-forma Debt		(472)	-\$0.14	Target Weightings			
				NAV		100%	\$1.04
Net Financial Assets		(32)	-\$0.01	EV/EBITDA		0%	\$0.00
Total		\$2,576	\$1.04	TARGET PRICE			\$1.00

INPUT PRICES					
	2021A	2022E	2023E	2024E	2025E
Key Commodities					
SC 6	-	3,200	2,600	2,400	950
Lithium Sulphate	-	36,000	7,848	7,848	7,848
Key Currencies					
AUD:USD	-	0.72	0.72	0.72	0.72

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The analyst responsible for this report *has not* visited the material operations of AVZ Minerals Ltd. No payment or reimbursement was received for related travel costs.

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BUY (Speculative): The stock is attractively priced relative to the company’s fundamentals, however investment in the security carries a higher degree of risk.

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TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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