

Nick Agostino, MBA, CFA, P.ENG
416-933-3352
nick.agostino@europac.ca

TASMAN METALS LTD.

TSM-TSX.V: \$1.88 – STRONG BUY

12 MONTH TARGET PRICE : \$6.10 | PROJECTED RETURN: 224.5%
VALUATION: 15% DISCOUNT APPLIED TO NAV

INITIATING COVERAGE WITH A STRONG BUY

EVENT - INITIATING COVERAGE

We are initiating coverage of Tasman Metals Ltd.(TSM) with a STRONG BUY and \$6.10 target price. A full-length report titled "An Up-and-Coming, Low-Cost Heavy Rare Earth Producer in Sweden" will be available later today.

INVESTMENT OPINION –A LOW-COST, HREE PRODUCER

A HREE deposit in Europe with excellent regional amenities: TSM is a Scandinavian-focused RE exploration company with a 100%-owned flagship asset, Norra Kärr, located in mining-friendly Sweden (~300km from Stockholm). The 460m x 1,300m x ~110m deep deposit is particularly enriched in critical element Dy (4.8% of TREO), and Y (35.0% of TREO). Norra Kärr is the fourth largest known HREE deposit in the world, with the highest percentage of HREO concentration at 53.7%. The NI 43-101 compliant deposit has 60.5M tonnes inferred at 0.54% TREO (cut-off 0.4%) and 1.72% Zr. The project is surrounded by excellent infrastructure and has a very low concentration of U and Th relative to competitor projects.

Dy in short supply...that's a good thing: We expect an oversupply of LREE (except for Nd) but expect HREE, primarily Eu, Tb, Dy and Y to be in a deficit situation through to 2020 and likely beyond. This favours TSM as the Norra Kärr project's economics is skewed toward Dy (~55% of overall valuation). The key driver of this deficit situation is growing demand/applications for permanent magnets (for such things as EVs and wind turbines), which account for ~95% of all Dy consumption.

A low-cost RE producer: Based on an open-pit mine, at full capacity, we model a 4,000 tpd (1.5M tpa) mining and processing operation producing ~6,000 tpa of TREO concentrate, and ~14,100 tpa of ZrO2, at an average cash cost of ~\$15.60/kg REO, comparatively low due to the excellent surrounding amenities which help de-risk the project. We estimate total capital costs to production of ~\$200M, among the lowest compared to peers.

ACTION –A WORTHY INVESTMENT; BUY

TSM has all the necessary attributes and ingredients to become a successful HREE producer within the next 5 years. We recommend buying at current levels.

VALUATION –ONE TARGET PRICE OF \$6.10

Using a conservative 25-year mine life, we calculate a NPV for the Norra Kärr project of ~\$488M based on a DCF@15%. We use an average realized TREO price of ~\$80/kg over the life of the mine. TSM is well financed with ~\$13.5M in cash currently, a potential ~\$5.6M from in-the-money warrants, and no debt, which we believe is sufficient to support the company through to the pre-feasibility study for the Norra Kärr project expected in Q4/12. Based on this, we derive a one-year forward NAV for TSM, incorporating solely Norra Kärr, of \$581M or \$6.11 per share. We apply a 1x NAVPS multiple to arrive at a \$6.10 target price. The shares currently trade at 0.3x NAVPS.

MARKET DATA (as of January 11, 2012)

Market Capitalization (\$M)	110.4
Current Net Debt (\$M)	-13.5
Enterprise Value (\$M)	96.9
Basic S/O (M)	58.7
Fully Diluted S/O (M)	65.0
Avg Daily Volume (3mo, k)	138.0
52 Week Range (\$)	1.38-5.98

KEY FINANCIAL METRICS (C\$)

FY-Aug	F2016E	F2017E	F2018E	F2019E
Ore Mined (MT)	0.025	0.05	1.5	1.5
Change	---	---	---	---
TREO Prod'n (kT)	0.1	0.2	6.0	6.0
Change	---	---	---	---
TREO Price (\$/kg)	70.93	73.81	74.39	77.53
Change	---	---	---	---
Rev. (\$M)	5.0	10.4	313.7	325.4
Change	---	---	---	---
EBITDA (\$M)	3.5	7.3	219.8	231.5
Change	---	---	---	---
CFO (\$M)	-0.1	2.5	158.1	169.3
Change	---	---	---	---
CF/sh. (\$)	-0.001	0.03	1.61	1.72
Change	---	---	---	---

COMPANY DESCRIPTION

TSM is a Scandinavian-focused RE exploration company with a 100%-owned flagship asset, Norra Kärr REE-Zirconium project, located in southern Sweden, which is particularly enriched in Dy and Y. Norra Kärr is the fourth largest known HREE deposit in the world, with the highest HREO concentration at 53.7%. The project is the only NI 43-101 compliant REE resource in Europe with 60.5M tonnes inferred at 0.54% TREO and 1.72% Zr.

KEY RISKS – ABOVE AVERAGE

- end-market demand, realized REE prices, resource feasibility, dilution risk, project execution
- F/X fluctuations, Chinese government RE policies

UPCOMING EVENTS/CATALYSTS

- PEA and indicated resource estimate in Q1/12
- phase 4 drilling results



Source: BigCharts.com

Toronto

130 King Street West, Suite 2820
Toronto, ON, M5X 1A9
416-649-4273 | 888-216-9779

Montreal

1501 Mc Gill College Avenue Suite 1450
Montréal, Québec H3A 3M8
514-940-5096 | 888-216-9779

Vancouver

One Bentall Centre, 505 Burrard Street, Suite 710
Box 76, Vancouver BC V7X 1M4
778-331-5048 | 888-216-9779

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Company: Tasman Metals Ltd.

Ticker: TSM– TSX.V

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