

July 25, 2023

Canada - Metals & Mining

SPECULATIVE BUY

Price C\$2.40 (intraday, 7/25/23)

FLASH NOTE

Positive early results from Salinas drilling

Summary

Lithium Ionic announced the first drilling results from their 20,000m drill program at their Salinas Project in Minas Gerais, Brazil. Highlights include **1.38% Li₂O over 16m, 1.60% Li₂O over 12m, and 1.55% Li₂O over 9m**. These are positive early results that indicate good grades over minable widths and shallow depths from the spodumene-bearing pegmatites at Salinas. Salinas consists of 5,700 hectares of exploration properties and has the potential to add meaningful tonnage to the company's maiden resource estimate (19.43MMt grading 1.42% Li₂O for total contained LCE of 682.7kt) announced in June. LTH currently trades at 0.33x P/NAV vs peers at 0.45x P/NAV, and we rate it as a Speculative Buy with a target price of C\$5.00/share.

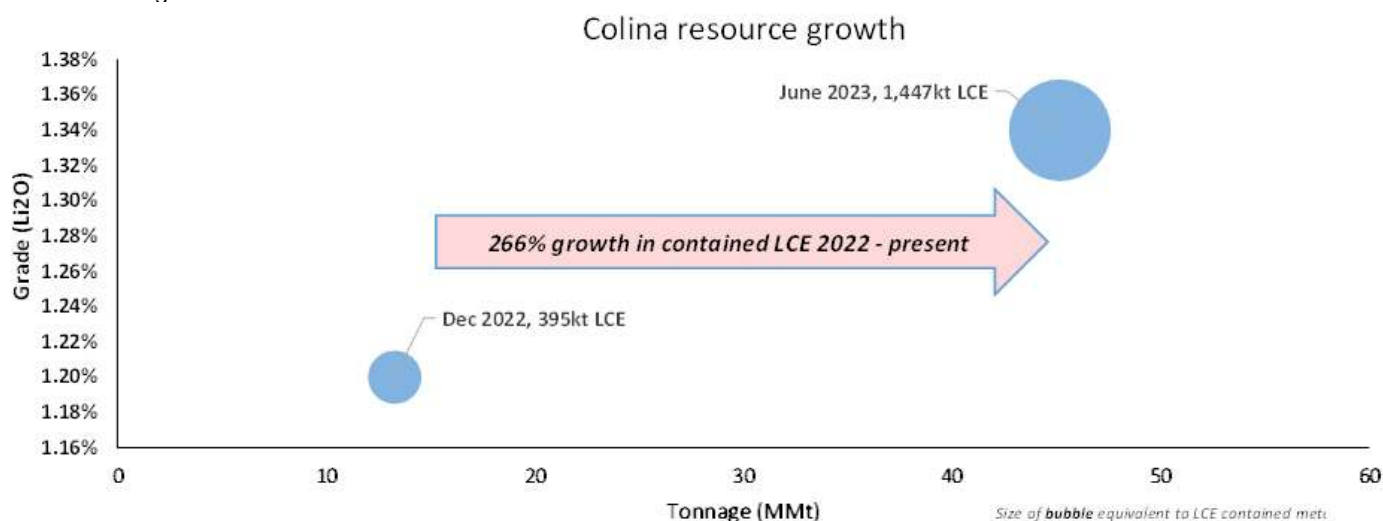
Key Points**What's New?**

- Lithium Ionic announced the first drill results from its 20,000m drill program at the Salinas Project. Highlights include:
 - 1.38% Li₂O over 16m from 40.4m depth.
 - 1.60% Li₂O over 12m from 68.2m depth.
 - 1.55% Li₂O over 9m from 129m depth.
 - 1.26% Li₂O over 11m from 63m depth.
- Salinas is located approximately 100km north of Lithium Ionic's flagship Itinga Project in Minas Gerais, Brazil. The project consists of 5,700ha of exploration tenements and was acquired in March 2023.

Implications

- We view today's results as a positive start to LTH's drilling at Salinas that show good grades over minable widths at shallow depths. The weighted-average grade of today's intercepts is 1.34% Li₂O, over an average intercept width of 9.4m.
- The ongoing 20,000m drill program will build on a smaller 4,000m program completed by the previous owners in 2022; highlights included 1.53% Li₂O over 11.36m from 43.8m; 1.22% Li₂O over 13.76m from 36.6m; 1.71% Li₂O over 9.82m from 97.7m; and 1.19% Li₂O over 13.35m from 239.7m.
- Adjacent to Salinas is Latin Resources Colina deposit, which recently reported an upsized mineral resource estimate of 45.2Mt at 1.34% Li₂O. Latin Resources built their current resource with just ~39,000m of drilling: ~10,500m for the maiden resource estimate of 13.3Mt @ 1.2% Li₂O announced in December 2022 followed by ~28,500m to produce the current estimate.

Colina resource growth



Source: Company disclosures, Stifel research

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Flash Note

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- Salinas is exemplary of Lithium Ionic's acquisitive approach to building out a scalable resource within the Araçuaí Pegmatite District in Minas Gerais State, Brazil, which now totals over 14,000 hectares. Resource growth via drilling could provide a compelling case to right-size production beyond the scale of an initial construction decision/scenario which could provide significant NAV accretion.

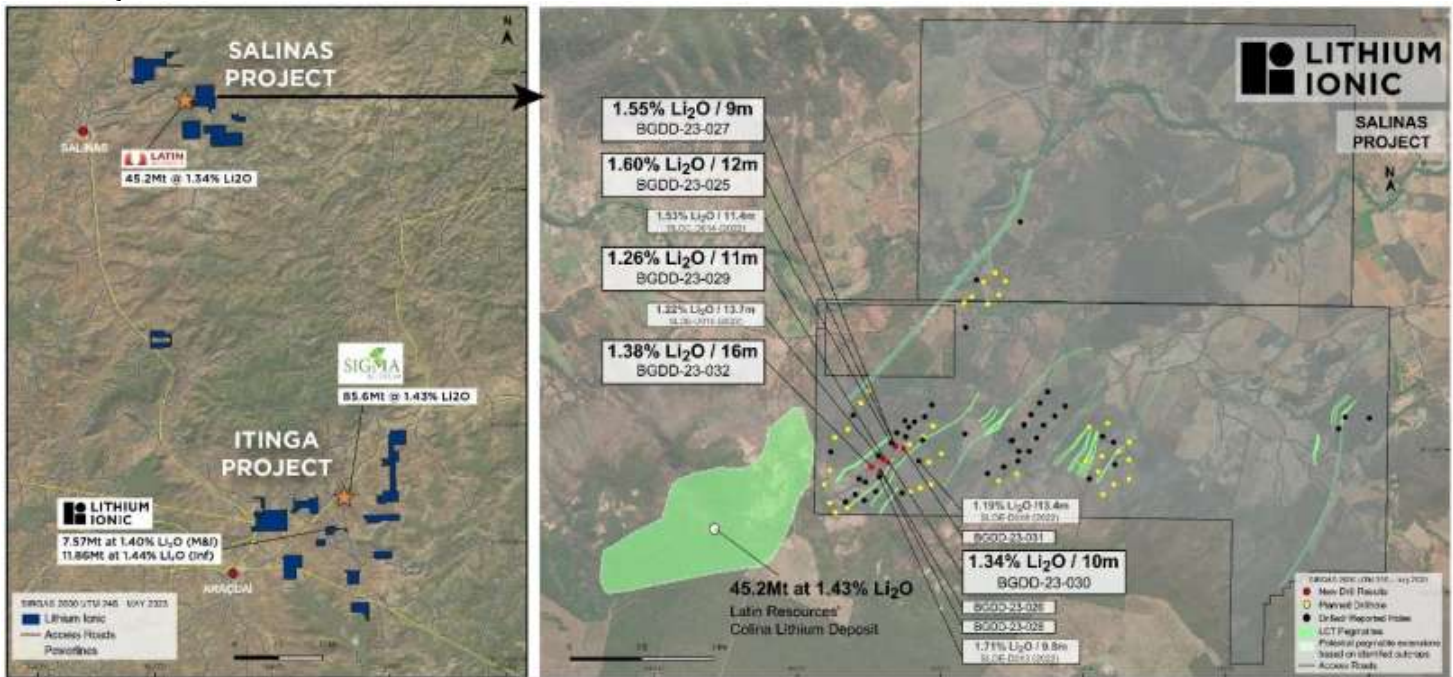
What's Next?

- Drilling will continue at Salinas (see planned drill holes in map below) along with drilling at Itinga and regional targets as part of the company's ongoing 50,000m program to be completed this year.

Valuation

- LTH trading at 0.33x P/NAV versus peers at 0.45x.
- On an EV/LCE basis, Lithium Ionic currently trades at \$297/t LCE global. This compares to \$401/t and \$1,179/t for neighbours Latin Resources and Sigma Lithium Resources, respectively, showing the potential for valuation upside via project advancement over time.

Salinas Project location



Source: Company release

Investment Thesis

Resource growth from a prospective land package. Lithium Ionic's Itinga Project is located within the exceptionally fertile Aracuaí lithium-cesium-tantalum Pegmatite District. The company has built up a substantial land package of prospective tenements across the district that will likely lead to further resource growth beyond a maiden resource estimate with continued exploration.

Supportive government for rapid progress. LTH is operating near the town of Aracuaí in the Brazilian state of Minas Gerais, where support for the development of lithium-projects is strong at the local, state, and federal level. Streamlined permitting and tax holidays should be available to support the project.

Infrastructure proximity. Company lithium deposits are steps from established road networks and any future development scenario will have easy access to established renewable-power infrastructure. Combined with straightforward processing, this will likely mean a low-capital-intensity build as already proven by area peers.

Strategic location. Company properties are adjacent to other advanced projects and an established mine and therefore could make for desirable targets in a district ripe for consolidation.

Target Price Methodology/Risks

Our target price, via a 0.75x NAV multiple, is C\$5.00/sh.

Commodity Price Risk: Any material decline in lithium product pricing from our estimates would negatively impact the profitability of the projects and may also render them uneconomical.

Exploration/Resource Risk: Any issues with resource delineation or definition could adversely affect the profitability of the project.

Financing Risk: The execution of the Itinga Project will be dependent on LTH's ability to fully fund the project and advance it to a positive final investment decision.

Execution Risk: There is the possibility that the projects will not be able to advance into the mine phase.

Construction Risks: A project during construction is subject to a number of engineering risks that might create unforeseen cost and schedule overruns, thus impacting economics.

Company-Specific Risk: We make several assumptions in our valuation, including estimates on mine life, throughput, metal recoveries, and unit costs. Such assumptions are subject to change as more project-specific information is available, which could adversely affect valuations.

Jurisdictional Risk: Every asset is subject to varying types of risks depending on its location. Such risks include government policies, taxation, import/export regulation, title rights, environmental regulations, complex permitting procedures and social challenges.

Company Description

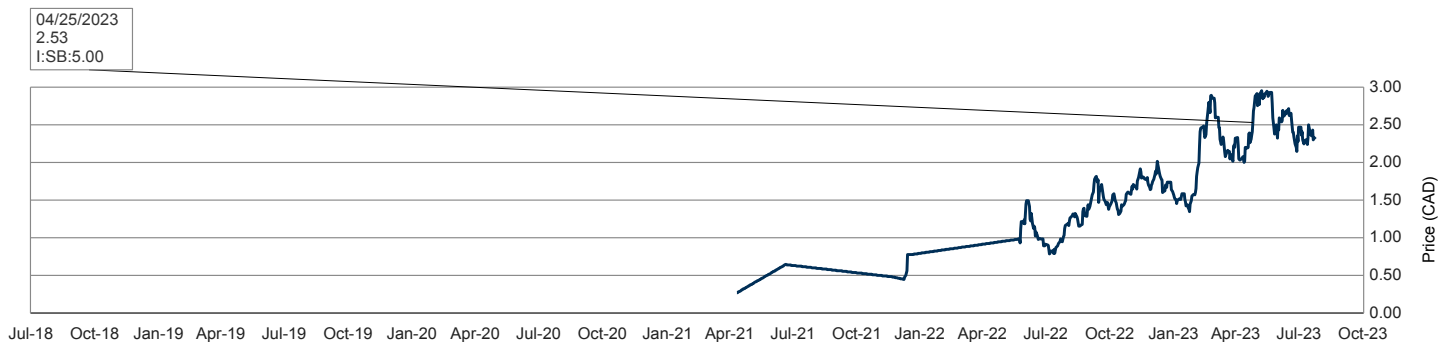
Lithium Ionic is a lithium development company with properties covering 14,183ha located in the prolific Aracuaí province in Minas Gerais State, Brazil. The Project Area is proximal to infrastructure, including highways, hydroelectrical grid power, water, and nearby commercial ports. Its Itinga Project neighbours CBL's Cachoeira lithium mine and Sigma Lithium Corp.'s construction-stage Grota do Cirilo project.

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Lithium Ionic Corp (LTH CN) as of July 24, 2023 (in CAD)



*Represents the value(s) that changed.

Buy=B; Speculative Buy=SB; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for LTH CN go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=LTH_CN

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Lithium Ionic Corp in the next 3 months.

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

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Our investment rating system is defined as follows:

Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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¹ This rating is only utilised by Stifel Canada.

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