

August 24, 2023

Canada - Metals &amp; Mining

**SPECULATIVE BUY**

Price C\$2.42 (intraday 8-24-23)

**FLASH NOTE**

## Positive initial results from the previously-undrilled Itira property

**Summary**

Lithium Ionic released drill results from their previously-undrilled Itira property. Highlights include 1.19% Li<sub>2</sub>O over 8.9m and 1.64% Li<sub>2</sub>O over 4.7m. We view today's results as a positive that showcases the exploration potential of the company's substantial ~14,000 hectare land package. **Scaling-up tonnage through exploration has the potential to narrow the company's valuation discount with peers as well as grow the resource into a needle-moving acquisition for potential acquirers in an intensifying M&A market.** Lithium Ionic currently trades at a P/NAV multiple of 0.33x, a discount to peers at 0.37x and we rate it as a Speculative Buy with a target price of C\$5.00/share.

**Key Points****What's New?**

- Lithium Ionic has released drill results from their Itira property. Highlights:
  - 1.19% Li<sub>2</sub>O over 8.9m from 184.3m downhole.
  - 1.64% Li<sub>2</sub>O over 4.7m from 191.40m downhole.
- The company also released infill drilling results from Bandeira. Highlights:
  - 1.44% Li<sub>2</sub>O over 6.9m from 189.8m downhole.
  - 1.59% Li<sub>2</sub>O over 5.9m from 172.68m downhole.

**Implications - Positive**

- Importantly, these are the first drilling results from the company's Itira exploration tenement. Itira is located ~6km from Bandeira, and adjacent to Outro Lado, the two deposits that make up the company's flagship Itinga Project.
- Positive results from initial drilling at Itira showcase the company's ability to grow resources across their prospective land package. Itira is 3,100ha, out of a company-wide exploration package of 14,183ha. A larger resource will also likely attract more attention from lithium-feedstock-seeking potential acquirers requiring projects of scale.
- Accretive tonnage. Resource growth via drilling could provide a compelling case to right-size production beyond the scale of an initial construction decision/scenario and consequently we have modeled the potential NAV accretion of new discoveries to our base case assumption of a ~19Mt initial resource, and value each additional 10MMt discovery at ~C\$2.00/share
- Infill drilling results from Bandeira are solid, and are consistent with previous drilling at the deposit. The weighted-average grade of these intercepts was 1.46% Li<sub>2</sub>O, slightly above the Mineral Resource Estimate grade for Bandeira of 1.41% Li<sub>2</sub>O.

**What's next?**

- Today's results are part of the company's ongoing 50,000m drill program for H2 2023. The program is focusing on upgrading resources at Bandeira through infill drilling as well as exploring regional targets such as Itira and at the company's Salinas Project, located ~100km north of the Itinga Project in Minas Gerais, Brazil.
- Work is progressing on a Preliminary Economic Assessment for the Itinga Project, and is expected in the coming months.
- An Environmental Impact Assessment for Itinga, a prerequisite for environmental licensing, is expected to be completed by year-end.

**Valuation**

- Lithium Ionic currently trades at a P/NAV multiple of 0.33x, a discount to peers at 0.37x.
- On an EV/contained LCE basis using today's mineral resource estimate, LTH trades at \$312/tonne LCE. This compares to \$271/tonne for lithium hardrock developers in Canada and \$543/tonne for Australian peers. LTH's neighbour Sigma Lithium trades at an EV of ~\$1,200/tonne LCE, indicating the potential for valuation upside through project advancement over time.
- LTH's closest comp is Australia-based Latin Resources, whose comparatively larger resource (adjacent to LTH's Salinas Project) commands a greater enterprise value and a per-tonne global resource premium. Positive exploration results such as today's from LTH can help potentially close this gap.

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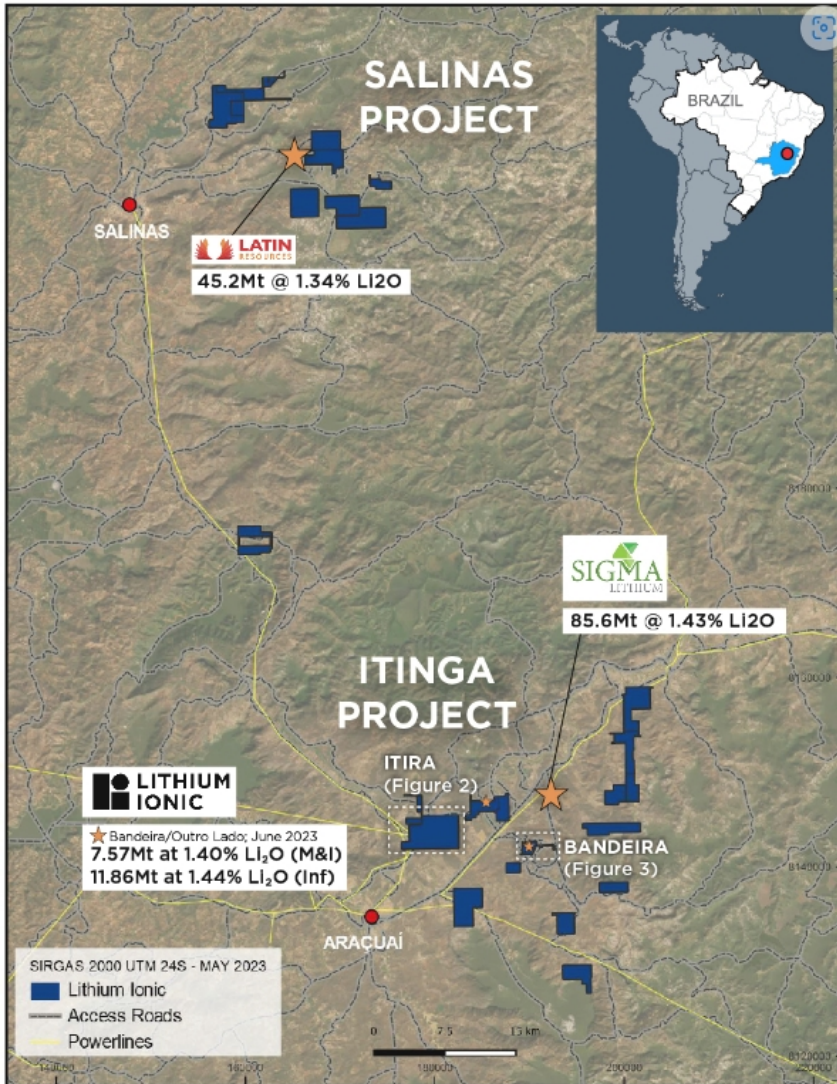
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All relevant disclosures and certifications appear on pages 4 to 6 of this report.

Company	Enterprise Value (US\$M)	Global Resource Contained LCE (kt)	EV/LCE
Sigma Lithium	3682	3036	\$1,213
Latin Resources	552	1477	\$374
<b>Lithium Ionic</b>	<b>213</b>	<b>682.7</b>	<b>\$312</b>

Lithium Ionic properties



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**

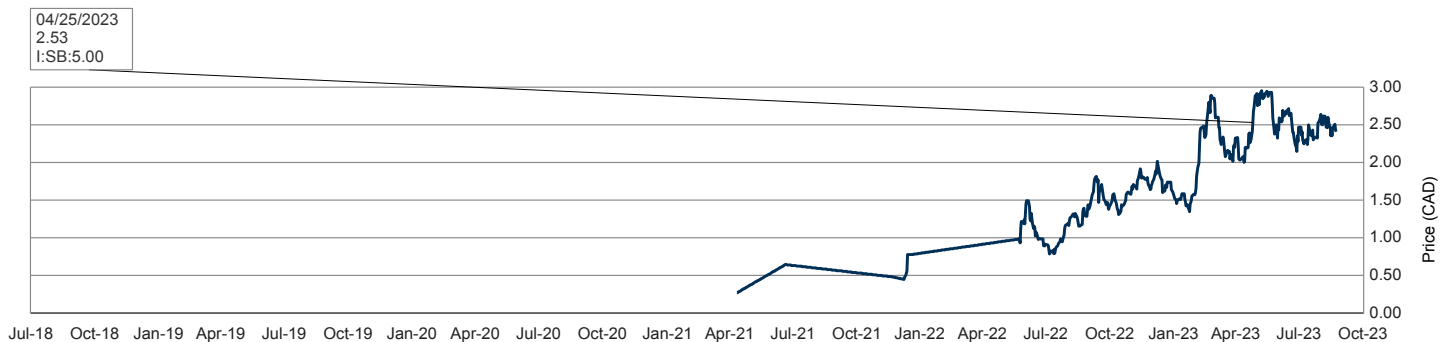
Lithium Ionic is a lithium development company with properties covering 14,183ha located in the prolific Aracuaí province in Minas Gerais State, Brazil. The Project Area is proximal to infrastructure, including highways, hydroelectrical grid power, water, and nearby commercial ports. Its Itinga Project 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 August 23, 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](http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=LTH_CN)

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