

September 27, 2023

Canada - Metals & Mining

SPECULATIVE BUY

Price C\$1.82 (9-26-23 close)

FLASH NOTE**Drilling at Bandeira hits high grades at depth to support incremental resource growth****Summary**

Lithium Ionic announced drill results from their Bandeira property in Minas Gerais, Brazil. Highlights include 1.94% Li₂O over 15.0m and 1.91% Li₂O over 9.8m, hits which extended a spodumene-bearing pegmatite 250m down-dip to a depth of 450m. We note the possibility of an underground development scenario at Bandeira, that would benefit from an accelerated permitting path to potentially allow for a shortened timeline to production. Lithium Ionic currently trades at a P/NAV multiple of 0.25x, a discount to peers at 0.36x 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 drill results from infill and extension drilling at Bandeira, which, along with Outro Lado, is one of the two main deposits that makes up the company's flagship Itinga Project in Minas Gerais, Brazil. Highlights:
 - 1.94% Li₂O over 15.0m from 453.97m depth (hole ITDD-23-158)
 - 1.91% Li₂O over 9.8m from 411.87m depth (hole ITDD-23-151)
 - 1.68% Li₂O over 9.1m from 257.5m depth (hole ITDD-23-148)

Implications

- Noteworthy among the results are holes ITDD-23-158 and ITDD-23-151, collared at the north-western edge of the property, which extends the length of a spodumene-bearing pegmatite by 250m to 800m and confirms its depth to 450m (see figure below). Results also show a widening of the pegmatite as it dips.
- The discovery of more high-grade tonnage over minable widths at depth could support an emerging underground story at Bandeira. Recall that CBL's Cachoeira, located just ~500m from Bandeira, has been mining lithium via underground operations since 1991. We estimate Cachoeira produces a 5.5% spodumene concentrate via a dense media separation (DMS) process with an annual capacity of 42kt annually off a reserve base of 4MMt grading 1.6% Li₂O.
- In Minas Gerais, small-footprint mines not requiring deforestation can apply for a Concomitant Environmental and Installation License (LAC) that accelerates the permitting process. The company is currently completing work to apply for a LAC for the underground portion of the Bandeira deposit. With the lead time from discovery to production for global mining projects averaging ~17 years over the last decade on our estimates, we see a distinct advantage for projects that can shorten this timeline to produce into what could be an emerging lithium supply/demand deficit (425kt LCE by 2030 in our base case, more details on which can be found in our recent note, "[Strategic Activity Imminent in the Lithium Space; Who Wins?](#)").
- The weighted-average grade of today's reported intercepts is 1.68% Li₂O, accretive to the current resource estimate grade at Bandeira of 1.41% Li₂O.

What's Next?

- An important upcoming catalyst for the stock will be a Preliminary Economic Assessment expected in the coming weeks.
- The company is also advancing work to support environmental licensing applications for the underground portion of Bandeira. Work on completing an Environmental Impact Assessment for the entire deposit is expected by year-end.

Valuation

- Lithium Ionic currently trades at a P/NAV multiple of 0.25x, a discount to peers at 0.36x. On a EV/contained LCE basis it trades at \$225/tonne LCE. This compares to \$223/tonne for lithium hardrock developers in Canada and \$457/tonne for Australian peers.

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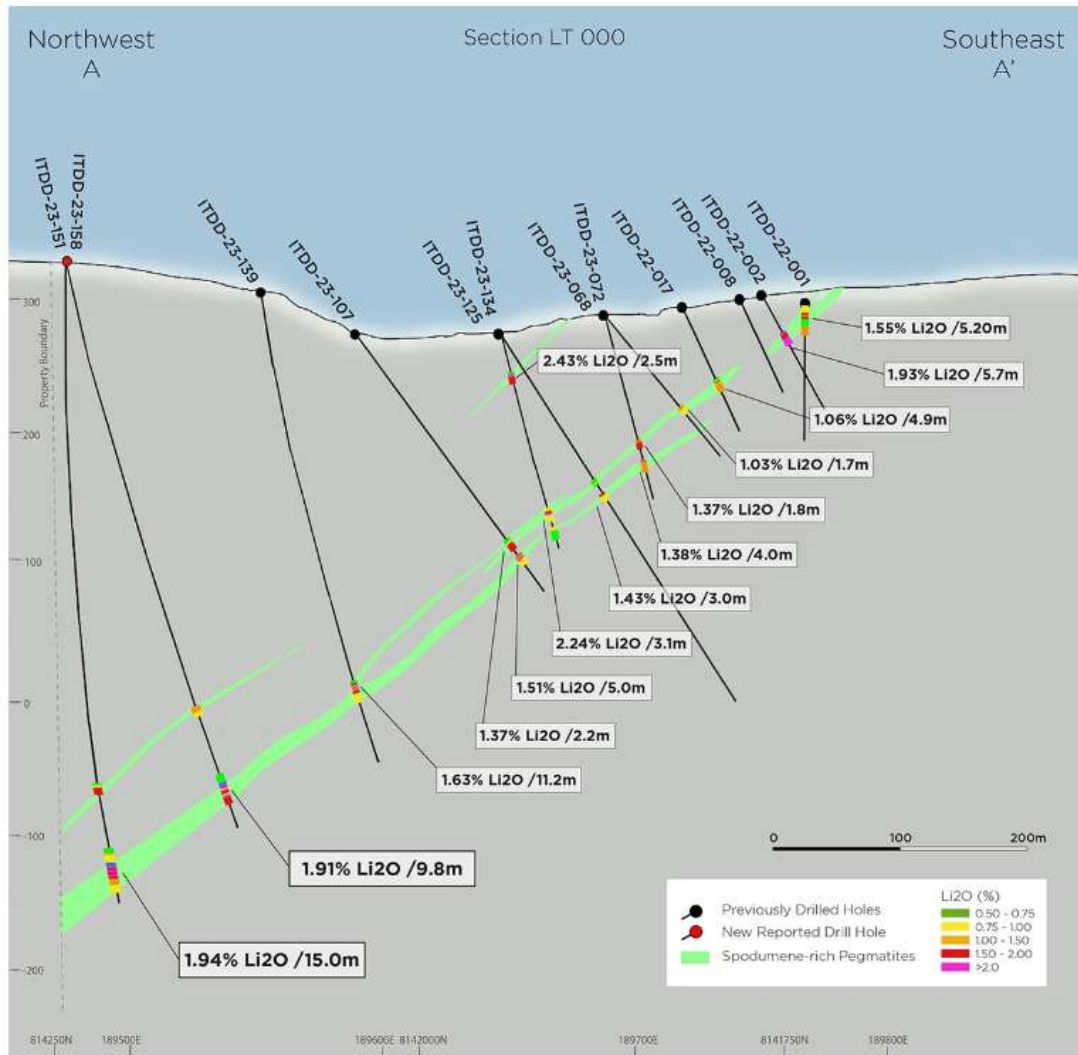
Completed: 27 September 2023 09:40EDT
Disseminated: 27 September 2023 09:40EDT

Prepared by Stifel Nicolaus Canada Inc.

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

Bandeira drilling results



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

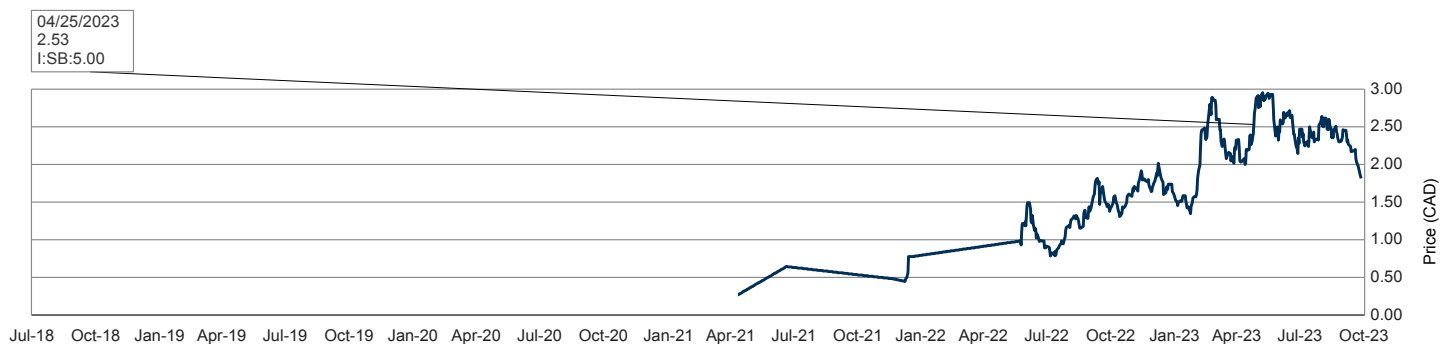
Lithium Ionic is a lithium development company with properties covering 14,183ha located in the prolific Aracuaí province in Minas Gerais State, Brazil. The Project Area is proximal to infrastructure, including highways, hydroelectrical grid power, water, and nearby commercial ports. Its Itinga Project 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 September 26, 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

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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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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.

Speculative Buy¹ - We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

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¹ This rating is only utilised by Stifel Canada.

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