

April 4, 2024

Canada - Metals & Mining

SPECULATIVE BUY

Price C\$0.74 (close 4/4/24)

FLASH NOTE**Salinas a Sweetener; Time-to-Market Thesis Underpinned by Construction Permit Guidance****Summary**

Impact: Neutral on tonnage, with our main competitive speed + growth thesis unchanged: LTH provides exposure to a speedy, low-capex-intensity lithium development project in an increasingly strategic geography underpinned by low-cost, growth-oriented tonnage. While headline 45% increase in global tonnage is a 'nice to have', with the global resource now standing at 47.8MMt versus the 22.9MMt on the current Bandeira PEA with scale potential of Salinas to grow from the initial 14.8MMt announced today to 30-40MMt, **our main takeaway is positive timeline clarity for forward catalysts.** We think the stock has underperformed recently on DFS timeline concerns for Bandeira; with forward guidance now intimating a DFS release in May followed by construction permits in 3Q24, we see risk/reward paired to the upside as the market sees increased confidence in the speed-to-market thesis.

Key Points**What's New?**

- Lithium Ionic announced a maiden Mineral Resource Estimate for the Salinas Project, located approximately 100km north of their flagship Bandeira deposit in Minas Gerais, Brazil. Total resources at the deposit are estimated at 14.76MMt grading 1.02% Li₂O for 373kt Lithium Carbonate Equivalent (LCE).
- An update on the company's main Bandeira Project was also given. Based on ongoing engagement with Brazilian regulators, **the company has reiterated their expectation of receiving their Environmental and Installation License (LAC) in Q3 2024. In addition, the company now expects to receive results from the Feasibility Study being conducted for Bandeira in 4-6 weeks.**

Implications

- Recall Salinas is directly adjacent to Latin Resources' (LRS) Colina deposit which hosts 63.5MMt @ 1.3% Li₂O for 2.056MMt Lithium Carbonate Equivalent (LCE). Today's MRE places the Salinas deposit directly adjacent to Latin Resource's Colina - and we continue to highlight the possibility of eventual strategic activity in an optimized development scenario, lest LRS run into pit-wall constraints on the eastern edge of their deposit.
- We note that Salinas' initial estimate of 373kt contained LCE, while modest, is remarkably similar to adjacent Colina, which debuted as a 395kt contained LCE resource, and was able to grow to over 2,056kt LCE in one year - highlighting the geological fertility and growth potential of spodumene-bearing deposits in the district.
- While the market reaction to the tonnage headline may be muted, we note investors will likely put more stock into the development timelines for Bandeira as the key driver for the name's speed-to-market thesis. On this front, **we are encouraged by reiterated guidance on permitting expectations and take the view that a May announcement for the DFS will ultimately have little impact given the permitting timelines.**

What's Next

- A preliminary Economic Assessment (PEA) for Salinas is currently underway and is expected to be completed in H2 2024.
- The Company also plans to begin work on an Environmental Impact Assessment (EIA) for Salinas, expected to be completed by Q1 2025. An EIA is requisite prior to project licensing in Brazil.

Valuation

- Valuation on LTH remains compelling, trading at a P/NAV of just 0.09x, a discount to peers at 0.25x and the cheapest stock by this metric in our coverage universe, **a metric we think provides asymmetric risk/reward now given project timeline clarity reiterating our time-to-market thesis.**
- With this update, LTH trades at an EV/tonne LCE of \$36/t, compared to the Brazilian hardrock developer average of \$82.5/t and closest comp Latin Resources at \$129/t.

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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 levels. 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\$5.50/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 costs 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

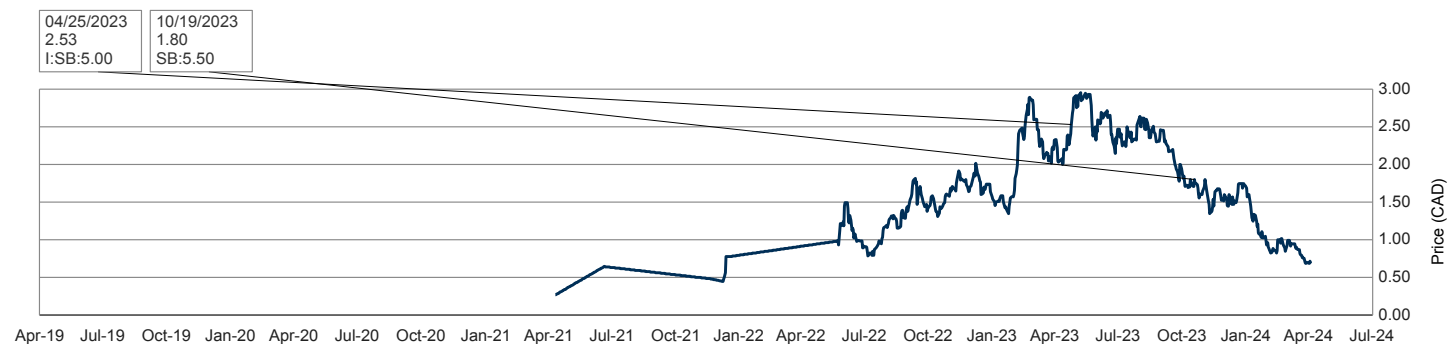
Lithium Ionic is a lithium development company with properties covering 14,183ha located in the prolific Aracuaí province in Minas Gerais State, Brazil. The Project Area is proximal to infrastructure, including highways, hydroelectrical grid power, water, and nearby commercial ports. Its Itinga Project 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 April 03, 2024 (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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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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