

May 29, 2024

Canada - Metals & Mining

SPECULATIVE BUY

Price C\$0.95 (intraday, 5/29/24)

FLASH NOTE**Bandiera DFS Provides a Low-Cost Beach Head to Growth****Summary**

Impact: Positive. LTH released a beachhead DFS for Bandiera, outlining 178ktpa SC5.5 average production over 14 years at competitive \$444/t cash costs. With a manageable initial capex of \$266MM (just 14% increase from PEA), the Bandiera DFS prioritizes speed over scale, in line with our thesis, with the construction permit expected in 3Q24. We see multiple levers to pull to optimize project value, not least the ~24MMt in resources at Bandiera that could translate into an additional nine years of mine life. Based off neighbor Sigma's GdC's 603% resource growth post initial resource and 184% full scale production run rate growth post PFS, we see LTH outlining a beachhead production strategy with room to grow from the DFS. Next up, we see the DFS as unlocking potential for balance sheet relief, with market precedence for a rerate over the current \$482/tpa (LRS @ \$940/tpa for the PEA stage Colina) valuation.

Key Points**What's New?**

- LTH released the DFS for Bandiera this morning. Key metrics include 178ktpa SC5.5 @ \$444/t cash costs over a 14-year mine life. Total production of 2.5MMt SC5.5 is driven by 17.2MMt mined via a 1.3MMtpa concentrator, of similar scale to the PEA.

Implications

- Speed to market thesis coming back to focus.** The DFS is slightly lower scale than the PEA (*178ktpa SC5.5 over a 14-year mine life versus 217ktpa SC5.5 equivalent over a 20-year mine life*) for what we see as two main reasons. First, LTH has chosen to focus designing a project with palatable capex, where PEA capex has only increased 14% to US\$266MM after the company has chosen to focus on the production of just SC5.5 and not tails concentrate. Second, in an effort to maintain the balance sheet, we see the potential for upgraded tonnage on the flanks of Bandiera to meaningfully boost mine life. The Bandiera DFS prioritizes speed over scale, with the LAC expected in 3Q24.
- Low cost spodumene exposure.** While the average project pricing assumption of \$2,277/t SC5.5 used is aggressive versus the current market, we instead focus on the cost profile of the asset. Cash costs of \$444/t came in below our estimate of \$454/t, and remain competitive within the industry, providing attractive payback.
- Bandiera DFS a beach head with multiple levers to pull to optimize.** We stress that the Bandiera DFS represents a line in the sand with respect to the buildability of a bite sized project, providing timely exposure to a spodumene belt that has a track record of resource growth, value creation, and potential for consolidation.
- With respect to project optimization, we see ~24MMt in resources at Bandiera not included in the mine plan. Via a 50% conversion rate, this alone translates into nine years of additional mine life. Notable is much of this tonnage (~7MMt, or 4 years of mine life) occurs on the flanks of the upper mine levels, in good proximity to planned infrastructure, and would require less vertical development, which could drive accretive economics.
- Value accretion track record next door.** LTH has grown its maiden MRE ~209% from an initial 395kt LCE to the current 1.9MMt LCE. In a fertile belt, where LTH has realized a drilling efficiency of 26.1t LCE/metre drilled at Bandiera, we see potential for further tonnage, and scale to be added post construction. Nowhere else is this more apparent than neighbour Sigma. Based off GdC's 603% resource growth post initial resource and 184% full scale production run rate growth post PFS, we see LTH outlining a beachhead production strategy with room to grow from the DFS.

What's Next

- Construction permits expected in 3Q24.** Part of our thesis for LTH is based on speedy exposure to production, and with Bandiera given priority status from InvestMinas, alongside a smaller footprint operation, the project is able to qualify for a fast tracked LAC licence (construction permit) expected in 3Q24.
- DFS opens the door for balance sheet relief, which has been received well in the current market.** Now with DFS level diligence on the project, we see line of sight to execution on non-dilutive financing options that would provide balance sheet relief.

Valuation

- LTH currently trades at \$482/tpa SC5.5 on the DFS avg. LoM production of 178ktpa SC5.5, or just \$307/tpa our scaled project valuation at 280ktpa SC5.5, compared to \$940/tpa SC5.5 for LRS or \$9.3k/tpa for Sigma's current 270ktpa capacity (\$3.2k/tpa runway 766ktpa). On a EV/tonnage basis, LTH is valued at \$41/t, versus LRS at \$195/t, and Sigma at \$668/t.

Cole McGill, Director | (416) 943-6631 | cmcgill@stifel.com

Derek Rosin | (416) 941-0208 | drosin@stifel.com

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Prepared by Stifel Nicolaus Canada Inc.

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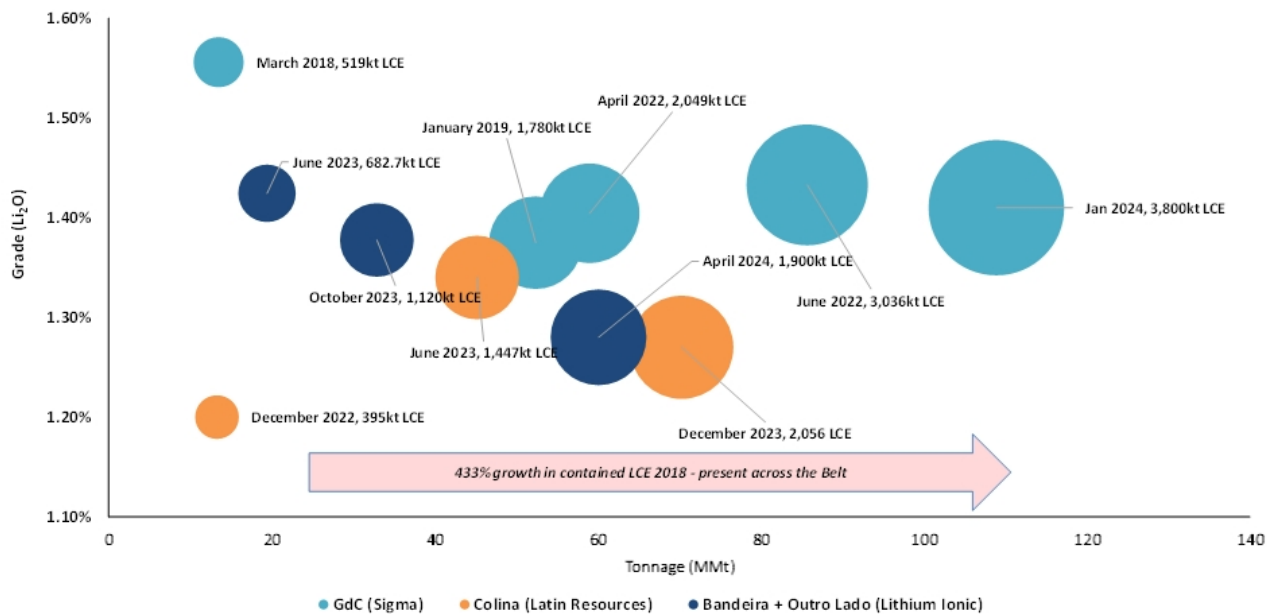
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Aracuai Pegmatite Belt Asset Side x Side

Company		Sigma	Latin Resources	Lithium Ionic	Lithium Ionic
Project		GdC	Salinas	Itinga	Itinga
Study		DFS, 2023	PEA, 2023	PEA, 2023	FS, 2024
Physical					
LoM	Years	13	11	20	14
Plant Capacity	Mmtpa	4.2	3.6	1.3	1.3
LoM Avg Head Grade	Li2O, %	1.39	1.24	1.23	1.16
Total Mined	MMt	54.8	31.4	22.9	17.2
Strip	w:o	14.7	17.6		
Production					
Total Production	MMt SC6	8.11	4.45	4.34	2.49
Avg Production	ktpa, SC6	766	405	217	178
Avg Production	ktpa, LCE	96	51	27	24
Recovery	%	54.2	78.3	75	69
Cost					
Opex	US\$/t SC6, AISC	410	536	349	444
Capex	US\$MM	271	308	233	266
Capital Intensity	US\$/ktpa SC6	354	760	1,074	1,494
Economics					
Price	US\$/t	2063	1699	1859	2277
NPV	US\$MM	15200	2520	1.6	1.31
IRR	%	1273	132%	125%	40%
Global Resource					
MMt		108.9	70.28	32.9	60.1
Grade	Li2O, %	1.41	1.27	1.38	1.28
MMt LCE		3.80	2.21	1.12	1.90

Source: Stifel estimates, company reports, Factset

Resource Growth of the Aracuai Pegmatite Belt



Source: Stifel estimates, company reports

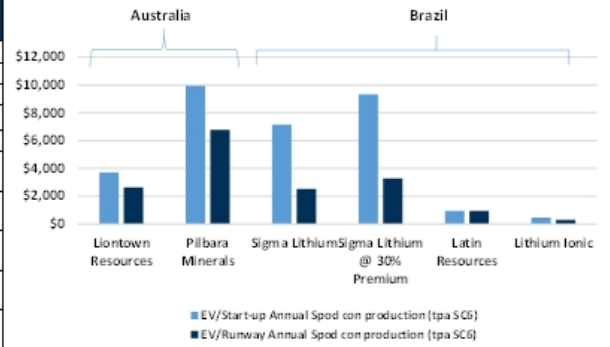
Single asset spodumene firms runrate valuations

	Liontown Resources	Pilbara Minerals	Sigma Lithium	Sigma Lithium @ 30% Premium	Latin Resources	Lithium Ionic
EV (US\$M)	\$1,858	\$6,756	\$1,932	\$2,512**	\$381	\$86
Stage	Construction	Production	Production	Production	PEA	DFS
Resource tonnage (Mt)	156.0	413.8	108.9	108.9	70.3	60.1
Resource grade (% Li ₂ O)	1.40%	1.15%	1.41%	1.41%	1.27%	1.28%
Contained LCE (Mt)	5.77	11.87	3.76	3.76	2.20	1.90
Start-up production (kt spod con p.a.)	500e	680e	270e	270e	405	178
Runway production (kt spod con p.a.)	700e	1000e	766e	766e	405	280*
EV/LCE Resource	\$322	\$569	\$514	\$668	\$173	\$45
EV/Start-up Annual Spod con production (tpa SC6)	\$3,716	\$9,936	\$7,157	\$9,304	\$940	\$482
EV/Runway Annual Spod con production (tpa SC6)	\$2,654	\$6,756	\$2,523	\$3,279	\$940	\$307

*Stifel estimate

**Implied 30% premium to market as of today

Source: Stifel estimates, Factset, company reports



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\$4.00/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 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.

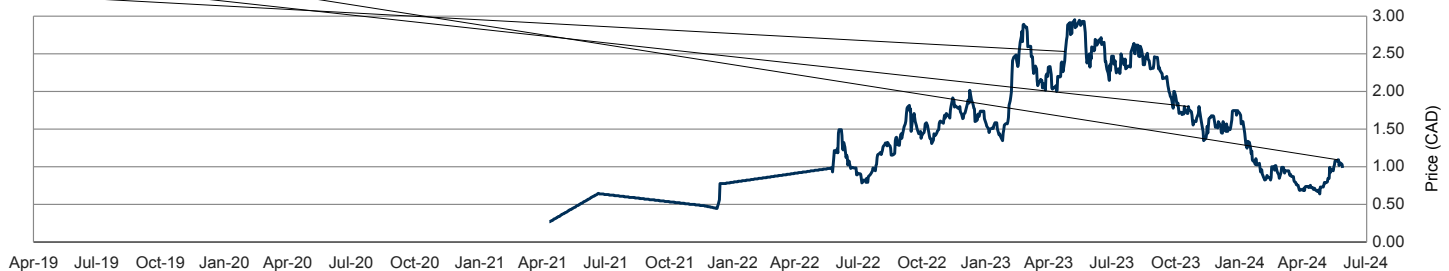
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Lithium Ionic Corp (LTH CN) as of May 28, 2024 (in CAD)

04/25/2023 2.53 I:SB:5.00	10/19/2023 1.80 SB:5.50	05/21/2024 1.10 SB:4.00
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*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.

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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.

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.

Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Sell - We expect a total return below -5% 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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