

Latin Resources (LRS)

Resource Upgrade Due and Solis Investment Increase Target Price

KEY POINTS

- Continued drilling success prompts us to adopt our upside scenario for lithium tonnes within the Colina Ore Body.
- We now assume 43Mt for Colina** (previously 36Mt). This values the company at \$0.29c using A\$500/t Lithium Carbonate Equivalent and nominal values for other assets.
- Latin is due to release a Resource Upgrade in coming weeks. After its recent share price rise to ~\$0.20c, **we see the stock pricing in 33Mt of resource.**
- The larger JORC resource should give way to project development scenarios larger than first envisaged. PEA is due in Q3, DFS and FID due in 2024.
- Latin has also increased investment in Solis Minerals (SLM, not covered) to a 18% shareholding. Solis's flagship project "Jaguar" is located in North East Brazil, has grades up to 4.95% Li2O from samples and a pegmatite body has been mapped with over 1km of strike. Following Solis move from obscurity to prominence on the ASX we include Solis in our base case valuation of Latin (but is <\$0.01c).

INVESTMENT VIEW AND VALUATION: INCREASED

- Increase target price** to \$0.29c and reiterate BUY recommendation. This follows our comments in our post [site visit note in March](#) that our previous \$0.25c target price could be released in 2023 given the quality of the project we witnessed on site in Brazil.

KEY DRIVERS: TONNES OF POTENTIAL IN 2023

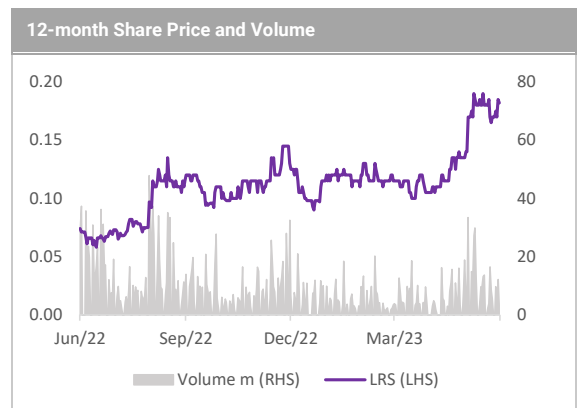
- Coming weeks:** Results from pending assay results from a total of 135 diamond drill holes is expected within the month.
- H2:** Drilling will continue to operate at full capacity with Latin securing 8 diamond drilling rigs for the rest of 2023
- Q3 Preliminary Economic Assessment (PEA):** Our own project model is 4Mt mining for ~500kt/yr of 6% LiO2 spodumene concentrate, US\$200m of capex.
- 2024 Definitive Feasibility study (DFS) and Final Investment Decision:** If these achieved in 2024 then first production would be late 2025.

RISKS

- Risks overcome:** Latin is debt free and has cash in bank of \$50.2 million. It is well capitalised to continue the expansion of their Colina Lithium deposit as it seeks to expand their JORC resource
- Exploration success is key risk.
- Other risks include (and not limited to):** Lithium price declines to uneconomic levels, failure on funding, or fallout with local, regional and federal regulatory authorities, or failure to gain the environmental and export approvals as required. From our visit, these risks do not appear elevated, with the lithium concentrate price showing a recovery in recent weeks.

Recommendation	Buy
12 Month Price Target	\$0.29/Share (was 0.25c)
Risk Rating	High
Current Share Price	\$0.185/Share
Previous Recommendation	Speculative Buy
Price target Methodology	EV+Resource tonne
Total Return (Capital + Yield)	59%
Market Capitalisation \$m	470
Liquidity \$p/d	\$6m/day

	Units	Valuation
Our Upgrade Estimate	Mt	42.0
Grade	Li2O %	1.21
EV/t LCE	A\$/t	500
Indicative value	\$	0.25
Cash and Solis	\$	0.04
Total	\$	0.29



Source: CapIQ

Figure: Latin Resources - Sum of Parts Valuation (all assets) and key metrics

Latin Resources (LRS)			
Price A\$	0.195 <small>14-Mar-23</small>	Ticker (ASX)	ASX:LRS
Share price last raise	0.11 <small>April 2023 \$37m</small>	Ticker (Frankfurt)	XL5
Shares out (m)	2,551	Yr end	31-Dec
Market cap A\$m	497	Options on issue	184.0 7%
Net debt (cash) A\$	-50.1 <small>Apr-23</small>		
EV A\$m	447.3		
Cash burn per qtr	~\$4m per qtr (Brazil is a lower cost geography)		

	NEW Base Case			NEW Bull Case	
	\$m	/Share	% of total	\$m	/Share
Colina (enlarged with West) (EV per tonne basis)	648	0.25	87%	648	0.25
Other surrounding tenements (now hotly bid for by peers)	30.0	0.01	4%	60	0.02
Catamarca Argentina (JV Integra Capital \$1m for 50%)	5.0	0.00	1%	20	0.01
Total Lithium South America	683	0.27	92%	728	0.29
Cloud Nine Halloysite-Kaolin WA (NPV, risked) <small>WA Kaolin Ltd (WAK)</small>	0.0	0.00	0%	33	0.01
Peep O'Day gold prospect (100%), NSW	0.0	0.00	0%	2.0	0.00
Solis Minerals (17.8%) (was Copper Peru now Brazil Lithium) <small>SLM.ASX</small>	8.8	0.003	1%	8.8	0.00
MT03 Project in southern Peru.	0.0	0.00	0%	1.0	0.00
Other Projects	8.8	0.00	1%	44.8	0.0
Total Enterprise Value	692	0.27	93%	773	0.30
Net debt (cash)	-50.1	-0.02	-7%	-50.1	-0.02
Equity value	742	0.29	100%	823	0.32
Relative to share price		49%			65%

Solis	Price	Shares out (m)	Holding %	Shares Owned (m)	Value	Comment
ASX:SLM	0.82	60.5	18%	10.8	8,830,580	Peru Copper and (New) Brazil lithium exploration.

Board		Management	
David Vilensky (Chair, NED, Independent)		Chris Gale (MD)	
Chris Gale (MD)		Anthony Greenaway (VP of Operations – Americas)	
Brent Jones (NED)		Mitch Thomas (Chief Financial Officer)	
Peter Oliver (NED) (Independent / Highly experienced lithium operator)		Sarah Smith (COY Sec)	
Pablo Tarantini (NED) (10% shareholder, Argentina Catamarca)			
<i>NED remuneration pool \$350k unchanged from IPO date, Chair \$64.8k/yr, NEDs \$50k/yr. MD \$359k/yr.</i>			

Register	
Integra Capital	7% Farm in partner at Argentina lithium project
E&D Fund (Waratah)	5% Common shareholder with Sigma
Brent Jones	2%
Unrandom Pty Ltd	2% New Shareholder since March-2023
Directors & Management	3%
Free float	82%

Source: PAC Partners analysis / IRESS / ASX

Financial Summary	F'cast->					Project Yr 0	
Key Drivers	2019	2020	2021	2022	2023	2024	2025
Mineral Resource (Mt)				13.3	43.30	43.30	43.30
Grade Li ₂ O %				1.21	1.21%	1.21%	1.21%
Spodumene Price US\$/t CIF						2,840	2,840

Cash Flows A\$K (Year end December)	2019	2020	2021	2022	2023	2024	2025
Net cash flows used in operating activities	(722)	(1,073)	(1,761)	(3,089)	(2,911)	(2,911)	(2,911)
Lithium	(450)	(7)	(122)	(7,262)	(22,711)	(22,711)	(7,000)
Others	(391)	(741)	(2,924)	(5,593)	(3,000)	(3,000)	(3,000)
CapEx - Exploration & Evaluation	(841)	(748)	(3,046)	(12,856)	(25,711)	(25,711)	(10,000)
CapEx - PPE	0	(5)	(98)	(401)	(1,000)	(1,000)	(1,000)
Net cash flows used in investing activities	(841)	(863)	(3,747)	(13,291)	(26,745)	(26,745)	(11,034)
Proceeds from Equity Raising	1,523	7,176	2,298	35,000	37,100	0	0
Net cash flow from financing activities	2,091	5,736	1,618	42,162	34,874	2,500	2,500
Cash at the end of the period	733	4,533	643	26,277	31,494	4,338	(7,108)

Profit or Loss A\$K (December year end)	2019	2020	2021	2022	2023	2024	2025
Income	(1,119)	177	99	543	101	101	101
Expenses	(3,239)	(2,577)	(4,465)	(7,632)	(5,338)	(3,112)	(3,112)
NPBT	(4,358)	(2,400)	(4,366)	(7,356)	(6,237)	(4,011)	(4,011)
NPAT	(5,539)	2,323	(4,366)	(7,265)	(6,237)	(4,011)	(4,011)
EPS (cps)	3.70	0.40	(0.30)	(0.44)	(0.24)	(0.16)	(0.16)

Balance Sheet A\$K (December year end)	2019	2020	2021	2022	2023	2024	2025
Cash & Cash Equivalents	733	4,533	643	26,277	31,494	4,338	(7,108)
Current Assets	1,352	4,909	1,491	27,023	32,275	5,152	(6,259)
Non-Current Assets	11,365	8,422	13,504	28,956	54,568	80,179	90,079
Total Assets	12,717	13,331	14,995	55,979	86,842	85,331	83,820
Interest-bearing borrowings	2,536	900	0	0	0	0	0
Current Liabilities	4,293	2,301	1,721	5,226	5,226	5,226	5,226
Non-Current Liabilities	9,161	0	0	181	181	181	181
Total Liabilities	13,454	2,301	1,721	5,408	5,408	5,408	5,408
Net Assets	(737)	11,030	13,274	50,572	81,435	79,924	78,413
Total Equity	(737)	11,030	13,274	50,572	81,435	79,924	78,413

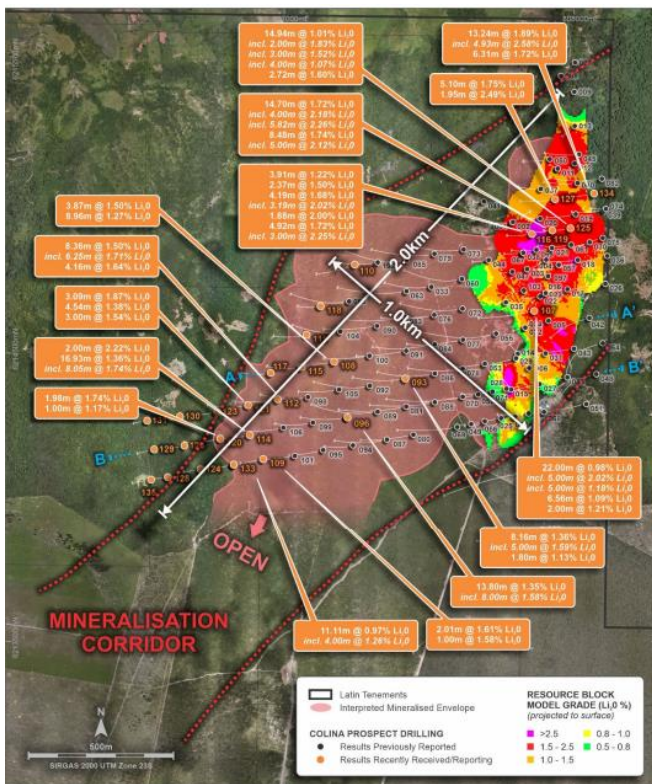
Source: PAC Partners analysis / IRESS / ASX

UPDATED VALUATION SCENARIOS

Continued impressive assay results.

Latin continues to provide upside potential on a JORC resource Basis. The major resource definition drilling program at Latin's Colina Deposit is now complete, with all assay results received. We anticipate the mineral resource update to be released in the coming weeks to provide material upgrades in the Colina Lithium deposit resource base.

Figure: Colina Deposit drill collar plan reflecting recent assay results and growth potential



While shares have been on the rise, there appears some upside to exploration success.

Figure: Significant drilling results

Final significant intercepts from the MRE drilling program include:

- SADD093: 8.16m @ 1.36% Li₂O from 318.00m
- SADD096: 13.80m @ 1.35% Li₂O from 283.30m
- SADD107: 22.00m @ 0.98% Li₂O from 309.00m
- SADD112: 8.36m @ 1.50% Li₂O from 243.59m
- SADD114: 16.93m @ 1.36% Li₂O from 187.07m
- SADD119: 14.70m @ 1.72% Li₂O from 132.94m
- SADD119: 8.48m @ 1.74% Li₂O from 209.84m
- SADD125: 14.94m @ 1.01% Li₂O from 166.00m
- SADD133: 11.11m @ 0.97% Li₂O from 134.44m
- SADD134: 13.24m @ 1.89% Li₂O from 168.07m

Source: Company announcement (7-June)

This anticipated resource upgrade is reflected in our increased share target price, driven by an increase in our total Colina deposit resource estimate, from 36mt to 43mt (3.2x increase from current JORC of 13.3). This increases our Latin valuation to 29c (from 25).

We expect Latin to continue trading at an EV:Resource multiple given the explorative nature of its Colina West deposit. Using 43Mt resource and A\$500/t LCE pricing with an average Li₂O grade of 1.21% gives our updated valuation of Colina at 25c alone, before factoring other assets to get to target price 29c.

Figure: Latin Resources - Salinas Project (Colina deposit) valuation scenarios

Current Colina footprint			West	Total Colina	Grade	Contained tonnes		EV/t LCE	Indicative Value		
Current JORC	Increase	Total	New	Mt	Li ₂ O %	Li ₂ O	LCE	A\$/t	A\$m	Per LRS Share	
13.3	1.0	14.3	15	29	1.21%	0.355	0.877	500	438	0.17	
13.3	3.0	16.3	20	36	1.21%	0.439	1.086	500	543	0.21	
13.3	5.0	18.3	25	43	1.21%	0.524	1.296	500	648	0.25	
13.3	3.0	16.3	30	46	1.21%	0.560	1.385	500	693	0.27	
13.3	3.0	16.3	35	51	1.21%	0.621	1.535	500	768	0.30	
Li ₂ O conversion to Li ₂ CO ₃ :			2.473						LRS shares out (m)		2,551

Source: PAC Partners analysis / IRESS / ASX

Latin is currently pricing 33Mt based on our calculations.

Figure: Latin Resources - Stock is pricing what tonnes?

What is the stock pricing?

LRS share price	A\$/share	0.195	
LRS EV (=mkt cap, ignore cash & other assets)	A\$m	497	
Peer group pricing per tonne of lithium carbonate equivalent			
	A\$/t	500	
Pricing Li2CO3 of	Mt	0.99	
Li2O conversion to Li2CO3:		2.473	
Pricing contained Li2O of	Mt	0.40	
At grade		1.21%	1.3%
Market is pricing tonnes of		33.2	28.7

At current JORC grade stock is pricing this tonnage.

Latin may also deliver a higher grade as a result of infill drilling around current

Source: PAC Partners Analysis, Company announcements, IRESS

Latin has committed to an additional \$3m as part of Solis's \$8m placement, bringing their total ownership to 17.8%

SOLIS MINERALS - INCREASED EXPOSURE TO BRAZIL LITHIUM

Latin has also increased their investments in Solis Minerals Limited (SLM, not covered) (previously 13.1% ownership) to 17.8%, in order to gain further exposure to the Brazilian lithium market. Latins' participation in the placement will be funded from existing cash reserves, committing an additional \$3m on the 7th June 2023 as part of Solis's oversubscribed \$8m capital raise. Latin has a strong financial position with \$50 million in cash and no debt, leveraging this to gain further exposure to the Brazilian Lithium market.

Solis is Latin American based lithium exploration company, dual listed on the ASX and TSX it has a total capitalisation of \$37m. The company owns 22 lithium exploration licenses covering over 248km² in North east Brazil.

Solis's flagship project "Jaguar" is located in North East Brazil, and has demonstrated Spodumene grades up to 4.95% Li2O from samples. Extensive pegmatite body has been mapped with over 1km of strike. The Jaguar project is located on a granted mining lease with all necessary permits in place for drilling. It also has in place a number of large copper projects, located within Peru's costal Copper belt. This include Ilo Este, Ilo Norte and the Cinto Copper Project totalling 3200ha of exploration tenements. Solis also has a number of other greenfield projects within the Peruvian costal copper belt.

Figure 1: Solis market summary

Solis Minerals Summary	
Shares on Issue (m)	60.5
Warrants Outstanding (m)	24.35
Option outstanding (m)	2.88
Share Price (A\$)	0.8
Market Cap (A\$m)	35.67
Major Share holders	
Latin resources	17.80%
Non Executive Chairman	Christopher Gale

Source: ASX, CapIQ

Latin MD Chris Gale also acts as the Non-Exec Director of Solis

The \$8m placement will be used to commence exploration drilling at Jaguar lithium project. Latin has continued its validation of Solis's lithium strategy and will use its expertise to aid Solis in exploration. PAC Partners note Christopher Gale (MD of Latin) represents Latin as the Non-Exec Chairman of Solis, giving Latin a clear voice in the direction of Solis going forwards.

LATIN'S COLINA - WHAT DOES A DEVELOPMENT SCENARIO LOOK LIKE?

It is also useful to consider possible future project size and valuation scenarios given Colina is shaping into a potential world class orebody. Latin's momentum towards potential development will likely become evident soon after JORC resource update is delivered. Using Sigma as a benchmark it can take only 12 months to build a lithium project once FID has been reached.

After our site visit it is evident to us that the minable reserve and development project could be scoped larger than Sigma's Phase 1 operation (12Mt reserve, 1.5Mt/yr mining, 270kt/yr lithium spodumene concentrate), if not Phase 2 (2 deposits ~21Mt each, 3.5+Mt/yr, 500+kt/yr concentrate).

Our broad expectations on a possible Colina development scenario are:

- Mining reserve: ~40Mt at 1.25%
- **Mining rate:** **4mt/yr** (10 year mine life)
- Operating costs: Strip ratios (13:1) and opex inline with Sigma
- **Production:** **~500kt/yr of 6% LiO₂ spodumene concentrate**
- Capex: ~US\$200m (similar intensity per tonne to Sigma)
- Development build time: ~12 months from final investment decision (FID)
- Offtake: 3rd party processing
- Product pricing US\$1,500/tonne 6% lithium concentrate battery grade (spot US\$5,000).

This would yield project valuation of around:

- NPV₁₀: ~**US\$1.9bn** or A\$2.7bn.
- Per LRS share: US\$0.89 or **A\$1.27**
- (see appendix for Project Scenario model)

Figure: Latin Resources - Colina Project model scenario

Capital Costs (US\$m)				Operating Costs (US\$)			
Object	Cost	Contingency	Total	Mining	2.50	US\$/t material mined	
Mine	10.0	1.5	12	Process	10.2	US\$/t ore feed	
Plant	85.0	12.8	98	G&A	3.30	US\$/t ore feed	
Environmental	22.0	3.3	25	Shipping	119	US\$/t SC	
Engineering Services	25.0	3.8	29				
Substation & Utility Power Supply	10.0	1.5	12				
Total Construction Capital Costs	152.0	22.8	175				
Working Capital and Spares	10.0	1.5	12				
Owner Project Costs	10.0	1.5	12				
CAPEX	172.00	25.80	198				
Key Project Inputs				Valuation output			
Mining Reserve	Mt	43.3		NPV	8%	US\$m	2,091
LiO ₂ Grade %	%	1.21%			10%	US\$m	1,861
Strip Ratio	x	13.0		IRR			142%
Royalty rate	%	2.8%		Scenario NPV per share		US\$	0.73
Spodumene Concentrate Produced	Kt/yr	484				AUD	1.04
Concentrate grade		6.0%		FX	AUD:USD	0.70	
Price 6% Spod Conc	USD/t cif	1,500	Spot price ~\$5,000				
Overall recovery	%	60.0%	Conservative given 80% to date				

Source: PAC Partners analysis / IRESS / ASX

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RECOMMENDATION CRITERIA

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Speculative buy = We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have strong capital appreciation but also has a high degree of risk and there is a significant risk of capital loss.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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PAC Partners was Co-manager to the April 2023 Placement raising \$30m, and was joint lead manager on the April 2022 A\$35m Institutional Placement by Latin Resources Ltd and received fees on commercial terms for its services PAC Partners and its associates own securities in LRS. Ryan Gale is a corporate authorised representative of PAC Partners and also an immediate family member to the Managing Director of LRS. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities associated with the Company. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report. PAC Partners has also helped raise capital for Solis Minerals (SLM) on commercial terms.

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>20%	20% – 5%	<5%

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