

Lithium Chile Inc.
(TSXV: LITH / OTCQB: LTMCF)

Supply Disruptions and Rising Demand to Support Near-Term Lithium Prices

BUY

Current Price: C\$0.97

Fair Value: C\$1.53

Risk: 5

Sector / Industry: Junior Resource

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Highlights

- A maiden resource estimate on the Arizaro de Salar project returned 1.42 Mt of lithium carbonate (Li₂CO₃) in indicated and inferred resources. The resource (which was based on single test well) **accounts for just 29% of the main concession**, implying significant resource expansion potential.
- Test results showed a pumping (flow) rate of 21.94 liters per second (L/s) vs the typical range of 5-10 L/s for other salars. Note that **higher flow typically leads to higher production and lower OPEX**.
- The resource has an average grade of 298 mg/l (ranging up to 555 mg/L) vs the typical range of 200-700 mg/L of other salars.
- A Phase 2 resource **upgrade and expansion drill program** consisting of three holes (totaling 1,500 m) is set to commence immediately. Management believes that they will be able to increase the average grade to 500+ mg/L.
- Lithium prices are up 390% YoY on stronger demand, inflation, and supply disruptions. Prices are expected to stay strong in the coming months due to a deficit in supply. However, we expect prices to ease in the latter half of the year **as supply chain bottlenecks ease in China**, and production ramps up in South America.
- The sector had **several M&A transactions last year**, and we believe that larger miners and battery manufacturers are constantly seeking attractive lithium projects for acquisition. We believe LITH can be a target if it is able to prove up its resource-base and complete a robust PEA.
- **Upcoming catalysts** include phase 2 drilling and resource update.

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Price Performance (1-year)



	YTD	12M
Ret.	23%	15%
TSXV	-7%	-16%

Company Data

52 Week Range	\$0.26 – \$1.21
Shares O/S	159M
Market Cap.	\$155M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	12x

(\$)	2020	2021 (9M)
Cash + Restricted Cash	\$568,339	\$4,475,494
Working Capital	\$1,358,530	\$4,478,139
Mineral Assets / Patents	\$6,843,653	\$7,033,055
Total Assets	\$8,946,001	\$12,866,039
Net Income (Loss)	-\$648,248	-\$2,535,154
EPS	-\$0.00	-\$0.02

***See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.**

Maiden Resource Estimate

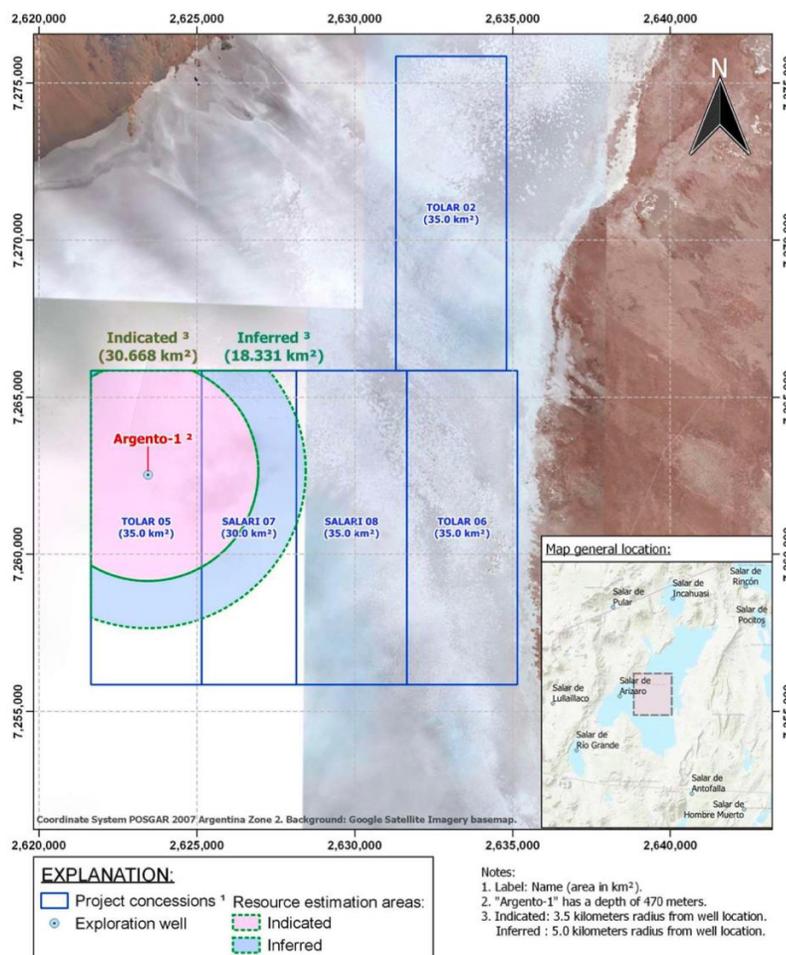
The initial resource estimate includes results from Argento-1, the first test well of the Salar de Arizaro project in Salta province, Argentina.

2022 Resource Estimate

Resource Category	Brine Volume (m ³)	Avg. Li (mg/l)	In situ Li (tonnes)	Li ₂ CO ₃ Equivalent (tonnes)
Indicated	5.65E+08	298	168,000	895,000
Inferred	3.37E+08	298	100,000	535,000
Total Indicated and Inferred	9.02E+08	298	268,000	1,420,000

Source: Company

Project Map



Source: Company

The surface area of Salar de Arizaro is larger than Millennial Lithium's Pastos Grande project (also in Salta), which was recently acquired by Lithium Americas (TSX: LAC) for \$400M

In December, Rio Tinto (NYSE: RIO) announced an agreement to acquire a lithium project in Argentina, from privately held Rincon Mining, for \$1B

The initial resource from the Argento-1 test well covers a limited portion (29%) of the project's main concession

Pumping tests returned a very high average rate of 21.94 L/s

The average grade of 298 mg/L (ranging up to 555) is on the lower end of comparables

The most favorable unit for production lies below a depth of 304 m; depths are in line with comparables

Financials

Strong balance sheet

Subsequent to Q3-2021, the company raised \$4.15M

Currently pursuing a \$7M financing

Liquidity Position

\$ (FYE - Dec 31st)	2020	2021 (9M)
Cash	\$568,339	\$4,475,494
Working Capital	\$1,358,530	\$4,478,139
Current Ratio	4.14	14.19
LT Debt / Assets	-	-
Monthly Burn Rate (G&A)	-\$45,901	-\$115,555
Exploration and Development	-\$563,834	-\$604,011
Cash from Financing Activities	\$1,410,926	\$5,875,338

Data Source: Financial Statements

Stock options and warrants – 6.58M options (weighted average exercise price of \$0.44 per share), and 22.19M warrants (\$0.63) are outstanding. 6.23M options and all of the warrants are in-the-money, implying a potential to raise up to \$17M.

Valuation

Project Owner	Pure Energy Minerals	Standard Lithium	Lithium Power	Neo Lithium	Millennial Lithium	Lake Resources	Cypress Development	American Lithium	Noram	E3 Metals	Enertopia	Ioneer	Spearmint
Location	Nevada, US	South Arkansas, US	Chile	Argentina	Argentina	Argentina	Nevada, US	Nevada, US	Nevada, US	Alberta, Canada	Nevada, US	Nevada, US	Nevada, US
Stage	PEA	PEA	Feasibility	PFS	Feasibility	PFS	PFS	Resource	PEA	PEA	Resource	DFS	Resource
Resources (100% M&I, 50% Inferred)	109,000	1,656,000	2,070,000	5,500,000	4,500,000	2,702,000	6,775,000	9,480,333	3,725,000	3,450,000	\$42,592	1,175,000	915,000
EV/Resources (\$)	\$330.28	\$818.84	\$206.50	\$171.82	\$78.44	\$363.43	\$33.21	\$69.51	\$17.45	\$37.97	\$14.74	\$918.30	\$38.25
Average (excl. outliers)	\$248.63												

Lithium juniors are trading at \$249/t (introducing in this report), and \$669/ha (previously \$826)

Company	Status	Location	EV / Area (\$/ha)
1 Lithium Power	FS	Chile	\$49,966
2 Standard Lithium	PEA	USA	\$46,370
3 Neo Lithium	PFS	Argentina	\$26,971
4 Bearing Lithium	FS	Chile	\$15,086
5 Millennial Lithium	FS	Argentina	\$14,895
6 RIO / Rincon		Argentina	\$12,623
7 Lake Resources	PFS	Argentina	\$4,910
8 Ultra Resources	Pre-Resource	Argentina/North America	\$4,031
9 Pure Energy	PEA	USA	\$3,810
10 Wealth Minerals	Pre-Resource	Chile	\$1,520
11 HeliosX Lithium	Pre-Resource	Argentina/USA	\$287
12 E3 Metals	PEA	Canada	\$220
13 ION Energy	Pre-Resource	Mongolia	\$200
14 Lithium Energi Exploration	Pre-Resource	Argentina	\$96
Average (excl. outliers)			\$3,951
Advanced Stage (average)			\$11,761
Pre-Resource (average)			\$669

Source: FRC / S&P Capital IQ / Various

Our fair value estimate on LITH is \$1.53 per share; we did not have a rating or fair value estimate previously

Valuation Summary	Fair Value	FVPS
Arizaro de Salar @ \$249/t	\$202,322,663	\$1.12
Properties in Chile @ \$669/ha	\$60,497,001	\$0.34
Working Capital (incl. current financing)	\$13,723,631	\$0.08
Fair Value	276,543,295	\$1.53

Source: FRC

We are assigning a BUY rating, with a fair value estimate of \$1.53 per share. Considering the project’s resource expansion potential, phase 2 drilling will likely be the next major catalyst for LITH shares.

Risks

- The value of the company is dependent on lithium prices.
- **Access to capital and share dilution.**
- The company has yet to complete an economic assessment on its projects.
- Development risks

Maintaining our risk rating of 5 (Highly Speculative)

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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