

Latin Resources Limited (ASX: LRS): A significant 41% increase in MRE at Colina to underpin the Definitive Feasibility Study in 2024

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Reading Time: 5 Mins

By Team Ace Investors

| Stock Code | ASX: LRS |
|----------------------------|----------------|
| Shares O/S | 2.79 billion |
| Closing Price | AUD 0.200 |
| Market Cap | 447.40 million |
| 52 W H/L | 0.428/0.098 |
| One Year Stock Performance | 70.83% |
| Avg. Volume | 13.20 million |
| EPS(TTM) | -0.004 |
| P/E | - |
| Annual Dividend Yield | 0.00% |
| Franking | - |
| Last Dividend Ex-Date | - |
| Last Dividend Pay Date | - |
| DPS (AUD) | - |
| ROE (%) | -15.41% |

(Source: ASX)

Company Overview

Latin Resources Limited (“LRS” or the “Company”) is an Australian-based mineral exploration company with a focus on commodities towards Net Zero emissions. The Company’s flagship Salinas Lithium Project is located in the Bananal Valley, northeast of Minas Gerais, Brazil. A maiden resource drilling definition campaign is underway at the Salinas project aimed at providing sufficient data to undertake

a maiden Mineral Resource Estimate ("MRE") for the Salinas Lithium Project in Brazil. Latin Resources has secured multiple tenements in the Bananal Valley district, including the Colina Prospect and the adjacent Monte Alto and Lajinha tenements. The Company announced a maiden MRE for Colina in Dec'2022, with an independent JORC Indicated and Inferred Mineral Resource Estimate ("MRE") of 13.3Mt @ 1.2% Li₂O reported above a cut-off of 0.5% Li₂O (2.08Mt Indicated and 11.17Mt Inferred). An Aggressive 65,000m drilling campaign is ongoing with the addition of four more drilling rigs for a total of eight on-site to fast-track rapid resource growth at the Colina and Colina West Deposit and underpin a rapid move towards potential future development. A Preliminary Economic Assessment (PEA) is well underway to allow the fast-tracking of DFS in 2023. Latin also holds the Catamarca Lithium Project in Argentina and aims to become one of the key lithium players. The company's Australian projects include the Cloud Nine Halloysite-Kaolin Deposit. The Cloud Nine Kaolin-Halloysite Deposit contains a large JORC-2012 compliant Mineral Resources of 207Mt of kaolin and halloysite. Latin's strategy is to discover, delineate, and develop mineral projects in commodities that progress global efforts towards net zero emissions. In South America, the Company's focus is on lithium and copper projects, with both commodities highly sought after as critical minerals to the burgeoning electric vehicle market. In Australia, Latin is undertaking studies to progress the kaolin component of the Mineral Resource to fast-track production as a Direct Shipping Ore product.

Investment Rationale

Announced a 241% increase in the Colina mineral resource to a total of 45.2Mt @ 1.34% Li₂O

On 20 June 2023, Latin Resources announced a substantial upgrade to the Colina mineral resource estimate ("MRE") at its 100% owned Salinas Lithium Project ("Salinas") in Brazil. A resource definition drilling program ("Program") was undertaken at Colina in the first half of 2023 on significant pegmatite swarms, down dip, and extending to the southwest of the existing Colina Mineral Resource Estimate ("MRE") Key highlights-

- The updated JORC Measured, Indicated, and Inferred Mineral Resource Estimate ("MRE") for the Colina Deposit has increased by over 241% to a total of 45.2Mt @ 1.34% Li₂O, reported above a cut-off of 0.5% Li₂O.
- The updated MRE reflects higher lithium tonnage and grade with 67%, or 30.2Mt @ 1.4% Li₂O of the total resource now sitting in the Measured + Indicated category, providing strong support for a positive Preliminary Economic Assessment ("PEA"), scheduled for completion by SGS in the third Quarter of 2023.
- This upgraded resource of 45 million tonnes represents a Lithium Carbonate Equivalent ("LCE") of 1,477,000 tonnes.
- The Colina Deposit remains open at depth and along strike to the southwest, where systematic step-out drilling is ongoing, highlighting the significant potential and providing the Company with confidence that one large, continuous mineralized lithium system exists in the immediate project area.
- The 65,000m DD drilling campaign has been successful in expanding and extending the Colina Deposit into a much larger scale exploration project than expected, with the Colina Deposit footprint now increased to a strike length of over 2.0km (southwest) and 1.0km(west). The company continues to expand the overall footprint of the Colina Deposit to the west and southwest.

Table 2: Comparison of updated MRE and Maiden MRE for the Colina Lithium Deposit

| Deposit | Resource Category | Grade Cut-off | 2023 Updated MRE | | 2022 Maiden MRE | | % Change 2023 v 2022 | |
|---------|-------------------|---------------|------------------|-----------------------------|-----------------|-----------------------------|----------------------|-----------------------------|
| | | | Tonnes (Mt) | Grade (Li ₂ O %) | Tonnes (Mt) | Grade (Li ₂ O %) | Tonnes (Mt) | Grade (Li ₂ O %) |
| Colina | Measured | 0.50 | 0.43 | 1.34 | - | - | 100% | 100% |
| | Indicated | 0.50 | 29.74 | 1.37 | 2.08 | 1.21 | 1,330% | 13% |
| | Inferred | 0.50 | 15.02 | 1.22 | 11.17 | 1.21 | 35% | 1% |
| Total | | | 45.19 | 1.32 | 13.25 | 1.21 | 241% | 9% |

(Source: Company reports)

Delivered robust preliminary economic assessment (PEA) results for the Colina Lithium project

On 28 Sep'2023, the company announced a technical and financial study ("Preliminary Economic Assessment" or the "PEA") on its 100% owned Colina Lithium Project ("Colina Project") located in Minas Gerais, Brazil. The Preliminary Economic Assessment ("PEA") for the Colina Lithium Project ("Colina Project") demonstrated a low-capital, two-phased operation that delivers high-quality SC5.5, and a 3% Li₂O ("SC3") spodumene tails concentrate product. Key highlights-

- The PEA has adopted a phased development strategy and outlined a combined Phase 1 and Phase 2 average annual production run-rates of 405,000tpa of SC5.5 and 123,000tpa of SC3 respectively over the 11-year operating mine life.
- The study has outlined robust project economics, with a combined Phase 1 and 2 after-tax NPV_{8%} of A\$3.6 billion (US\$2.5 billion @ 0.70 AUD: USD) and IRR of 132% based on a weighted average LOM spodumene concentrate price of US\$1,699/t (A\$2,427) CIF SC5.5 and US\$927/t (A\$1,324) CIF SC3.
- The PEA has adopted a phased development strategy to deliver a sustainable ramp-up, with Phase 1 capital expenditure of US\$253 million to deliver the first production in 2026 and Phase 2 capital expenditure of US\$55 million will be fully funded by Phase 1 production which will increase average LOM production to 525,000 tpa of SC5.5 and 159,000 tpa of SC3. The two-stage expansion plan for the Colina Project has the potential to establish the Company as the second-largest spodumene concentrate producer in Brazil and among the lowest-cost spodumene concentrate producers globally.
- All-in Sustaining Cost (CIF China) ("AISC") for the project is estimated to be US\$536/t spodumene (SC5.5 and SC3) including operating costs, sustaining capital, royalties, and shipping. The cash cost for the Colina Project is considered very low compared to other global spodumene concentrate lithium operations due to (i) High-grade, coarse-grained spodumene used in the mine feed; (ii) the DMS plant producing a high-quality concentrate grading 5.5% Li₂O at 67.2% stage recovery, and spirals to produce 3% Li₂O from DMS tailings at 11.1% recovery; (iii) Low overall processing costs of DMS and a low level of impurities compared to other operations; and (iv) Low-cost environment in Brazil including electricity and labor costs.
- The PEA is based on the Colina mineral resource estimate of 45.2Mt at 1.32% Li₂O (including 0.43Mt @ 1.34% Li₂O Measured + 29.7Mt @ 1.37% Li₂O Indicated + 15.0Mt @ 1.22% Li₂O Inferred). The Company continues to expand the MRE through a resource drilling program with eleven drill rigs currently on-site supporting the Definitive Feasibility Study ("DFS") due for completion in mid-2024. The results of the PEA and expected MRE expansion will serve as the foundation for the definitive feasibility study ("DFS") which is expected to be completed in mid-2024. A Phase 3 extension and expansion to production will be evaluated in the DFS.

Table 2: Summary of outputs and assumptions for the Colina Project.

| Item | Unit | Total |
|---|-------------------|-------|
| Economic Analysis | | |
| Post-Tax NPVs | A\$B | 3.6 |
| Post-Tax IRR | % | 132 |
| Payback Period | Months | 7 |
| Concentrate price (CIF) SC5.5 (weighted average) | US\$/t SC5.5 real | 1,699 |
| Concentrate price (CIF) SC3 (weighted average) | US\$/t SC3 real | 927 |
| Exchange rate | AUD:USD | 0.70 |
| Corporate tax rate (incorporating the Sudene tax incentive) | % | 15.25 |
| Revenues, Cash Flow and Capex | | |
| Average annual revenue | US\$m | 802 |
| Average annual after-tax free cash flow | US\$m | 383 |
| Phase 1 capital expenditure (initial capital including pre-strip) | US\$m | 253 |

^a Weighted average fully diluted grade over LOM

(Source: Company reports)

Raised A\$35.0 million through an institutional placement to expand its exploration program at the Salinas Lithium Project in Brazil

During Sep23Q, the Company raised A\$35.0 million through an institutional placement to expand and accelerate its exploration program at the Salinas Lithium Project in Brazil. The Placement will provide the Company with a significant capital injection to expand and accelerate its exploration program at the Salinas Lithium Project in Brazil, with an expanded drill program planned for 2024, in addition to funding geotech and hydrogeology works to support the Definitive Feasibility Study expected to be announced in H1 2024 (“DFS”). Funds raised by the Placement will be applied towards fast-tracking the Salinas Lithium Project, including:

- An expanded exploration drilling program through 2024;
- Completing additional Geotech and hydrogeology works to support the DFS;
- Providing additional funding to facilitate the Company’s expanded land acquisition budget; and
- Supporting the Company’s working capital requirements

A significant 41% increase in MRE at Colina to underpin the Definitive Feasibility Study in 2024

On 6th Dec’2023, the company announced a significant 41% increase for the Colina Deposit Mineral Resource Estimate (“MRE”) to 63.5Mt @ 1.3% Li₂O including a maiden inferred resource estimate of approximately 6.8Mt @ 0.9% Li₂O at Fog’s Block, placing it amongst one of the largest scale Tier-One undeveloped lithium resources globally. The Colina MRE now stands at 63.5Mt @ 1.3% Li₂O above a cut-off of 0.5% Li₂O (including 1.7Mt @ 1.5% Li₂O Measured + 39.3Mt @ 1.4% Li₂O Indicated + approximately 22.5Mt @ 1.2% Li₂O Inferred) and Global MRE (Colina and Fog’s Block) of 70.3Mt @ 1.27% of Li₂O. The substantial increase of the MRE will have a significant positive effect on the economics within the Definitive Feasibility Study (“DFS”) due for completion in mid-2024. The initial Preliminary Economic Assessment (“PEA”) mining plan allowed for a Phase 1 production commencing in 2026 with Phase 2 average production of 525,000 tpa SC5.5 and 159,000 tpa SC3 commencing 2029. The increase of MRE will now include a phase 3 extension and expansion to production which will be evaluated in the DFS.

Table 1: Updated MRE for the Colina Lithium Deposit (reported above a 0.50% Li₂O cut-off grade).

| Deposit | Resource Category | Tonnes (Mt) | Grade (Li ₂ O %) | Li ₂ O (Kt) | Contained LCE (Kt) |
|---------|----------------------|-------------|-----------------------------|------------------------|--------------------|
| Colina | Measured | 1.73 | 1.47 | 25.8 | 62.8 |
| | Indicated | 39.29 | 1.36 | 534.0 | 1,320.6 |
| | Measured + Indicated | 41.02 | 1.36 | 559.4 | 1,383.4 |
| | Inferred | 22.47 | 1.21 | 271.8 | 672.1 |
| Total | | 63.49 | 1.31 | 831.2 | 2,055.6 |

(Source: Company reports)

During Dec 23Q, the Company announced a significant 41% increase in MRE for the Colina Deposit at its 100% owned Salinas Lithium Project. An impressive ~45m (cumulative) of visually estimated coarse-grained spodumene mineralization was also identified in SADD2231 at the Planalto Prospect, displaying similar mineralization characteristics to the high-grade Colina Deposit. An offtake partnering process also commenced following numerous inbound offtake inquiries, off the back of a robust PEA. The company closed the quarter with a strong cash balance of \$51.8 million following the \$35 million institutional placement.

ACE's Recommendation:

Latin Resources Limited ("LRS" or the "Company") is an Australian-based mineral exploration company, with projects in South America and Australia, developing mineral projects in commodities towards Net Zero emissions. The Company is focused on its flagship Salinas Lithium Project located in the pro-mining district of Minas Gerais, Brazil. On 20 June 2023, the company announced a substantial 241% increase in MRE for its 100% owned Salinas Lithium Project to a total of 45.2Mt @ 1.34% Li₂O, reported above a cut-off of 0.5% Li₂O. On 28 Sep'2023, the company announced a Preliminary Economic Assessment (PEA) on its 100% owned Colina Lithium Project. The PEA has outlined robust project economics, with a combined Phase 1 and 2 after-tax NPV_{8%} of A\$3.6 billion (US\$2.5 billion @ 0.70 AUD: USD) and IRR of 132% based on a weighted average LOM spodumene concentrate price of US\$1,699/t (A\$2,427) CIF SC5.5 and US\$927/t (A\$1,324) CIF SC3. On 6th Dec'2023, the company announced a significant 41% increase for the Colina Deposit Mineral Resource Estimate ("MRE") to 63.5Mt @ 1.3% Li₂O including a maiden inferred resource estimate of approximately 6.8Mt @ 0.9% Li₂O at Fog's Block, placing it amongst one of the largest scale Tier-One undeveloped lithium resources globally. The substantial increase in MRE is expected to have a significant positive effect on the economics within the DFS due for completion in mid-2024. We believe that the forthcoming DFS in 2024 is the key near-term catalyst for growth. The stock closed the day above its 20-day EMA at A\$0.200/share today and presents an attractive investment case. So, we would like to recommend a **SPECULATIVE BUY** rating on the stock.

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