

12 October 2023

Split Rocks Adds Maiden Lithium Resource at Rio

NEED TO KNOW

- Maiden Resource at key Rio deposit at Split Rocks
 - 11.9mt @ 0.72% Li₂O
 - Remains open Northeast, South & at depth
 - Infill/extension drilling up to 50 more holes
- Drilling plan for >30 other lithium targets at Split Rocks

Significant milestone achieved at cornerstone Split Rocks project: Zenith (ZNC) has defined a maiden Mineral Resource at the company's flagship lithium project Split Rocks, of 11.9mt grading 0.72% Li₂O. The estimation confirms the prospectivity of the Split Rocks area.

Focused ongoing program of exploration: The Mineral Resource at Rio paves the way for the next phase of exploration at Split Rocks, including a further program of drilling at Rio with permitting secured for a further 50 holes. This program will look to expand the resource as well as enhance the geological understanding of Rio, provide confidence in its overall potential as well as useful data to inform the ongoing exploration across Split Rocks where another 30+ lithium targets are currently defined. Split Rocks remains key to the future of the company over the medium term.

EVM JV Update: Uncertainty remains around the status of the EVM JV. However, full ownership of the project is likely to revert to ZNC in early January 2024. Upon formalisation of this outcome, an update will be provided regarding the plans to advance the assets' development. We flag this milestone as a significant upcoming de-risking catalyst.

Sector exploration success being rewarded: Recent significant lithium drilling success at Azure Minerals and Delta Lithium has seen a substantial uplift in share prices demonstrating the desire of the market for exploration success.

Investment Thesis

Keeping it simple: ZNC has an extensive portfolio of assets. ZNC will focus on the lithium portfolio, with targeted drilling campaigns leading to definition of resources and rapid monetisation of these assets. ZNC's 25% ownership in the Earraheedy Base Metals JV remains strategically important and presents options for ZNC.

Exploration drives ZNC; highly prospective portfolio: ZNC has exposure to highly prospective lithium exploration projects in the Tier 1 jurisdiction of WA.

Exposure to highly lucrative lithium-ion battery and electric vehicle value chain; M&A hots up in the sector: The structural EV growth story places ZNC in an ideal position to take advantage of this high-growth market. M&A activity in greenfield lithium projects remains buoyant, most recently with a bid for Lioat Resources by Albemarle and by SQM for Azure.

Valuation A\$0.60/share (previous A\$0.62)

Our valuation for ZNC is A\$0.60. The lithium assets are valued on a methodology of EV/ Resource. Our Earraheedy valuation is based on a risked DCF. We see the continued success of drilling at the lithium assets and the further development of the Earraheedy project as the key driver of both share price performance and valuation upside.

Risks

Key risks are lack of future exploration success, continued cash burn, commodity price weakness and any ongoing issues with the EV Metals JV.

Equities Research Australia

Mining & Metals

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Zenith Minerals Ltd (ASX: ZNC) is an exploration company focused on discovery and advancement of battery metals resource projects, primarily lithium deposits. The company also has gold and base metals deposits with strong exploration potential.

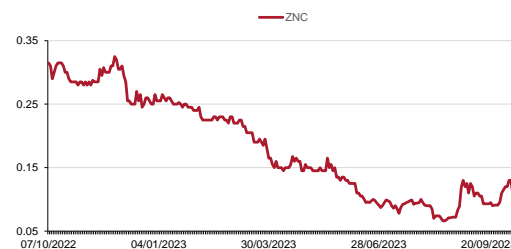
Valuation	A\$0.60 (prev A\$0.62)
Current price	A\$0.10
Market cap	A\$35m
Cash on hand	A\$2.2m (30 June 2023)

Upcoming Catalysts and Newsflow

Period

Jan 24	Resolution of EV Metals JV
Ongoing	Exploration: lithium, gold and base metals

Share Price (A\$)



Source: FactSet.

FINANCIAL SUMMARY:ZENITH MINERALS - 30 JUNE YEAR END

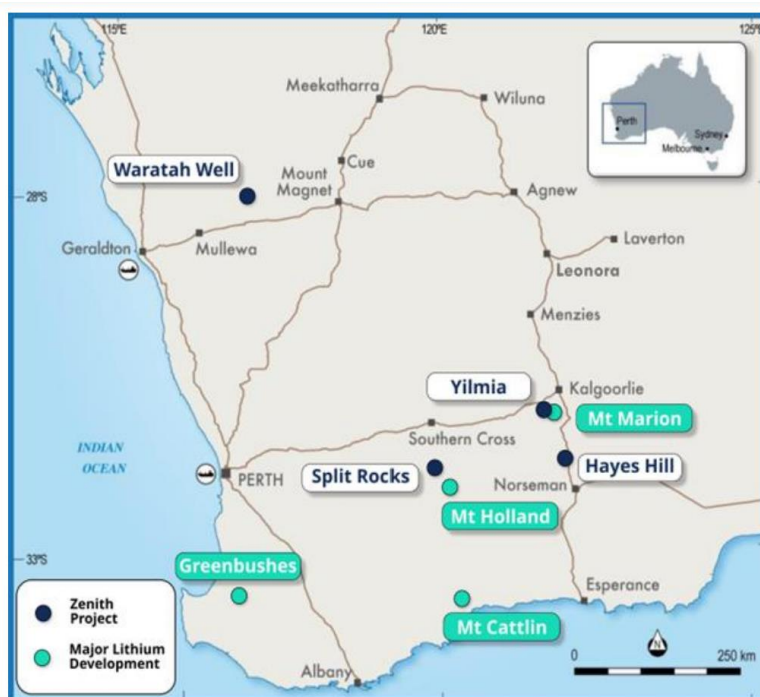
ZENITH MINERALS LIMITED						ZNC.AX
MARKET DATA						
Share Price	A\$/sh					0.10
52 week high/low	A\$/sh					0.32- 0.07
Valuation	A\$/sh					0.60
Market Cap (A\$m)	A\$m					35
Net Cash / (Debt) (A\$m)	A\$m					2
Enterprise Value (A\$m)	A\$m					33
Shares on Issue	m					352
Options/Performance shares	m					14
Other Equity	m					0
Potential Diluted Shares on Issue	m					366
INVESTMENT FUNDAMENTALS						
		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Reported NPAT	A\$m	1	(9)	1	0	66
Underlying NPAT	A\$m	1	(9)	1	0	66
EPS Reported (undiluted)	¢ps	0.4¢	(2.6¢)	0.2¢	0.1¢	18.8¢
EPS Underlying (undiluted)	¢ps	0.4¢	(2.6¢)	0.2¢	0.1¢	18.8¢
Underlying EPS Growth	%	63.6%	-694.6%	-105.7%	-12.9%	14270.6%
P/E Reported (undiluted)	x	n/m	n/m	66.6	76.4	0.5
P/E Underlying (undiluted)	x	n/m	n/m	66.6	76.4	0.5
Operating Cash Flow / Share	A¢	(0.26)	(0.43)	0.45	0.44	19.10
Price / Operating Cash Flow	x	(39.1)	(23.1)	22.4	23.0	0.5
Free Cash Flow / Share	A¢	(1.65)	(1.68)	0.16	(49.53)	18.80
Price / Free Cash Flow	x	n/m	n/m	0.6	(0.0)	0.0
Free Cash Flow Yield	%	n/m	n/m	1.6%	n/m	188.0%
Book Value / Share	A\$	0.08	0.05	0.06	0.06	0.28
Price / Book	x	1.30	1.91	1.71	1.59	0.36
NTA / Share	A\$	0.08	0.05	0.06	0.06	0.28
Price / NTA	x	1.30	1.91	1.71	1.59	0.36
Year End Shares	m	345	352	352	352	352
Market Cap (spot)	A\$m	34	35	35	35	35
Net Cash / (Debt)	A\$m	8	2	3	(172)	(105)
Enterprise Value	A\$m	27	33	32	207	141
EV / EBITDA	x	22.7x	n/m	73.9x	83.4x	0.3x
Net Debt / Enterprise Value		(0.2)	(0.1)	(0.1)	5.2	3.2
12-Month Relative Performance vs S&P/ASX Metals & Mining						
Profit & Loss (A\$m)						
		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Sales		4	2	3	3	151
Expenses		(2)	(11)	(2)	(2)	(52)
EBITDA		1	(9)	0	0	100
D&A		(0)	(0)	(0)	(0)	-
EBIT		1	(9)	0	0	100
Interest		0	0	0	0	(5)
Tax		-	-	-	-	(28)
Underlying NPAT		1	(9)	1	0	66
Exceptionals		-	-	-	-	-
Reported Profit		1	(9)	1	0	66
Balance Sheet (A\$m)						
		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Cash		8	2	3	78	145
Receivables		0	0	0	0	12
Inventory		-	-	-	0	8
PP&E		0	0	1	177	178
Other		19	17	17	17	17
Assets		27	19	21	273	360
Creditors		0	1	0	0	12
Debt		-	-	-	250	250
Leases		-	-	-	-	-
Provisions		0	0	0	0	0
Other		-	-	-	-	-
Liabilities		0	1	0	250	263
Net Assets		27	18	21	22	97
Cashflow (A\$m)						
		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Cash From Operations		(1)	(2)	1	1	101
Interest		0	0	0	0	(5)
Tax		-	-	-	-	(28)
Net Cash From Operations		(1)	(2)	2	2	67
Capex		(0)	(0)	-	(175)	-
Exploration		(5)	(5)	(1)	(1)	(1)
Investments		(0)	0	-	-	-
Free Cash Flow		(6)	(6)	1	(175)	66
Equity		12	0	-	-	-
Borrowings		-	-	-	250	-
Dividend		-	-	-	-	-
Net Increase / (Decrease) in Cash		6	(6)	1	75	66
Source: MST Estimates; ZNC						

Maiden Lithium Resource Confirmed at Rio, Split Rocks

Split Rocks Lithium: Vast Potential Confirmed

Split Rocks is ZNC's most advanced and prospective lithium project, covering an expansive 660km² and proximal to the Mt Holland project (SQM and Wesfarmers – in construction), about halfway between Kalgoorlie and Perth at Southern Cross.

Figure 1: Split Rocks Project Location



Source: ZNC.

After a completed program of drilling in FY23 which included 100 wide-spaced holes (200m x 100m) ZNC engaged an independent consultant (CSA Global) to assess the data collected to date. The results of this work have confirmed a **maiden lithium mineral resource totalling 11.9mt grading 0.72% Li₂O**.

Figure 2: Rio Lithium Deposit (Split Rocks) Mineral Resource

Zone	Million Tonnes	Li ₂ O %	Cs ppm	Nb ppm	Sn ppm	Ta ppm	Domain
Upper	8.45	0.76	426	77	157	62	31
Middle	3.48	0.62	387	71	364	49	32
Total	11.9	0.72	415	75	217	59	-

Source: ZNC.

The significance of this achievement is notable in that Rio is the first lithium target to be tested by ZNC within Split Rocks, ZNC's flagship project where a further >30 targets remain untested by any drilling to date. As such ZNC's core strategic edge in greenfields project generation is evident, and with exploration success and project development driving increased valuations and M&A interest across the sector in recent months, we believe ZNC is well placed to realise value over time with a continued deployment of targeted exploration focused on WA lithium.

Mineralisation & Metallurgy

The type of lithium pegmatite mineralisation identified at Rio consists primarily of eucryptite, noting lesser quantities of spodumene, petalite, and lepidolite. ZNC expects that based on positive sighter flotation testwork and bench scale calcination-leach tests, there are conventional processing solutions to achieve viable lithium production from eucryptite. Testwork on samples has returned a rougher concentrate grade of 4.0% (benchmark spodumene concentrate is 6%) based on recovery rates of over 90%. Notably ZNC has observed that reagents required were similar to typical “first pass” spodumene float tests providing potential to process the eucryptite mineralisation in conjunction with spodumene within the same process plant regime.

Figure 3: Eucryptite Mineral Specimen

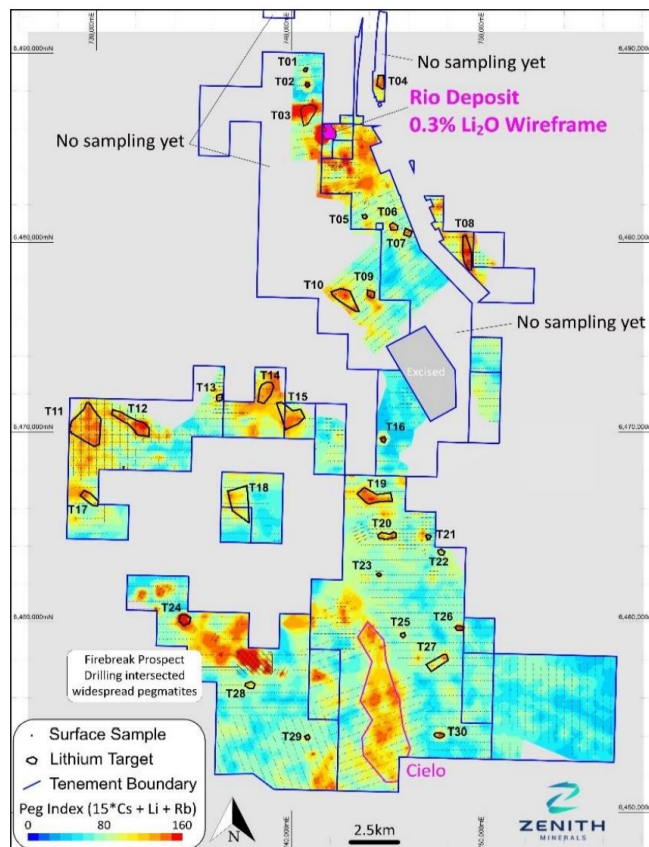


Source: mindat.org

Next Phase of Exploration Now in Focus

With the maiden mineral resource at Rio now complete, ZNC's focus turns executing the next phase of exploration at Rio as well as broadening the exploration program at Split Rocks to drill test the broad array of identified lithium targets from prior early phase exploration works. We believe significant opportunity exists for additional lithium discoveries at Split Rocks over time as the exploration strategy unfolds. A map showing the >30 targets defined across the tenements to date is outlined below.

Figure 4: Split Rocks Lithium Targets



Source: ZNC.

The spacing of the prior drill program at Rio remains relatively wide at approximately 200m x 100m and mineralisation remains open to the north, south, east and at depth. The next program of drilling at Rio has already obtained the required permits, with an additional 50 RC and diamond holes planned. While the timing of the formal commencement of this program is unclear, we anticipate that it is likely to gain traction once the EVM JV expires and full ownership of the tenements reverts to ZNC, which is expected to occur in early January 2024.

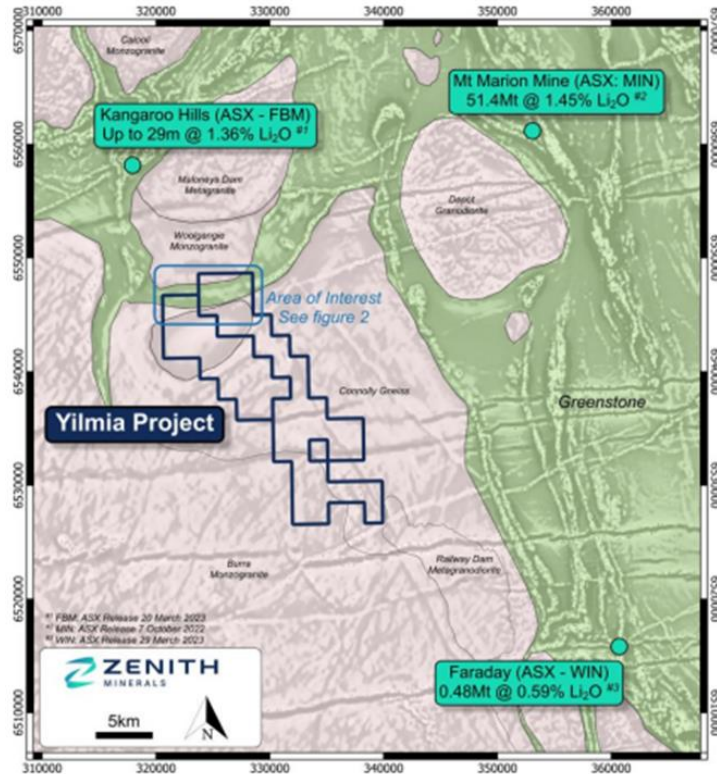
Next steps at Split Rocks

Drilling at the Rio Pegmatite is now planned to test along strike in the northeast and at depth, with a significant additional focus on drill testing regional geochemical anomalies, such as the new Cielo lithium target that has come about from the extensive auger and soil sampling programs that commenced in 2022. The ongoing program of works at Split Rocks is dependent upon clarification of the current JV agreement with EVM.

Drilling Commences at Yilmia

Drilling has commenced at the Yilmia Lithium Project located south of Coolgardie – Western Australia. The project is located near several greenstone host lithium discoveries / projects including Kangaroo Hills lithium pegmatite discovery by Future Battery Metals and the Mount Marion lithium mine.

Figure 5: Yilmia Project Location -



Source: ZNC.

The project was added to the Company's lithium portfolio in May this year and initial drill holes confirm the presence of pegmatites, up to 20m thick, within the greenstone rock package. Geophysical data and historic soil geochemistry, targeting nickel, indicates prospective greenstone sequence likely extends, under cover, over an 8km long target zone. Prior to Zenith, no previous drill testing has been performed on the project.

There is no rock outcrop within the target zone, so drill testing is required. An initial program of approximately 3000 to 6000m of aircore drilling on 800m spaced lines is underway to test the 8km long lithium target zone.

EVM JV: ZNC considering its future – upside exists for termination

What were the original terms of the JV?

As per the original JV agreement between ZNC and EVM, EVM can earn a 60% interest in the lithium rights on two lithium projects, Split Rocks and Waratah Well, with ZNC retaining a 40% project share. Under the agreement, ZNC is fully funded by EVM through to a bankable feasibility study (BFS) on any project development, which must be completed by January 2024. The feasibility study must have a Mineral Resource of a minimum of 35Mt @ 1.2% Li₂O and be capable of producing 330,000 tonnes of spodumene concentrate with a grade of not less than 6%Li₂O for a minimum of a 10-year period.

What's the current status of the partnership?

ZNC has incurred \$1.4m in expenses on behalf of the JV assets which should have been paid for by EVM. The outstanding funds have been fully impaired in the accounts of ZNC, which is now taking formal action to recover the debt.

As far as Zenith is aware the feasibility study has not yet commenced. Zenith does not believe that EVM will be able to complete the feasibility study within the earn-in period and is preparing to reassume full control of a 100% interest in the Split Rocks and Waratah Well lithium projects in early January 2024.

What happens next?

If EVM fails to deliver a BFS on the Split Rocks and Waratah Well lithium projects by January 2024, 100% of the assets revert back to ZNC as well as all drilling, geological, geophysical, metallurgical and relevant financial data.

We consider the possibility of EVM meeting its obligations to be very low and expect the assets to revert to ZNC in January 2024.

Upon full control of these projects being regained, Zenith intends to update the market on its plans to advance these assets towards development.

This will result in ZNC obtaining 2 years of technical data for 'free' as well as 100% of the assets, a positive result for ZNC. We estimate approximately \$7m has been spent on drilling for the projects.

Strategy Going Forward: Focus on Lithium, Optimise Precious/Base Metals, Monetise Options

Focus on lithium and battery materials

ZNC is rationalising projects to focus its portfolio. The company's key priority is to explore and develop its lithium assets – the Split Rocks and Waratah Well projects are the most advanced. Other battery materials options include the newly acquired Yilmia project in WA, and an option over the Hayes Hill Lithium–Nickel Project in the Norseman region of WA.

Quality base & precious metals remain in portfolio, provide optionality

100% ownership of Split Rocks Gold

Following the sale of Develin Creek, ZNC's 2 remaining base and precious metals projects are Split Rocks Gold (WA) and Red Mountain (Qld).

Retaining the Split Rocks gold project is a rational strategic move due to the synergies available with the Split Rocks lithium project.

Red Mountain Gold – encouraging drilling results

Red Mountain is an early-stage gold opportunity where recent drilling results include 118m @ 0.54g/t Au on an intrusive related gold system breccia pipe. ZNC is currently assessing options for this project.

Earaheedy base metals project – maiden resource provides options

ZNC has a 25% stake in the Earraheedy zinc–lead–silver project in WA. ZNC's JV partner at Earraheedy, Rumble Resources (RTR), has an initial mineral resource estimate (MRE) of 94mt @ 3.1% Zn+Pb and 4.1g/t Ag. Earraheedy is seen as by RTR as 'one of the largest zinc sulphide discoveries globally in the last decade'.

ZNC's share is free carried up until the completion of a bankable feasibility study. Earraheedy provides several options for ZNC including a potential sale of the asset.

Portfolio simplification means simpler strategy

In summary, ZNC's strategy is simple:

- focus on its 100%-owned lithium and base and precious-metals assets, completing a systematic program of exploration across the portfolio.
- convert exploration success into resources and reserves and monetise by developing those resources or sell the assets.
- be open to M&A opportunities as downstream producers look more closely at owning resources.
- remove partially owned assets from the portfolio via sale or allowing ZNC's rights to the asset to lapse.
- retain ownership of the 25% Earraheedy Base Metals JV, as ZNC's share is free carried up until the completion of a bankable feasibility study. Earraheedy provides several options for ZNC including a potential sale of the asset.

Valuation: Risked Sum of the Parts

Valuation of A\$0.60/share (previous A\$0.62)

Our base-case valuation for ZNC is A\$0.60/share. Figure 6 summarises each of the components of our sum-of-the-parts-based valuation. Our valuation has decreased marginally due to our EV/Resource calculation for Split Rocks being based on the Maiden Resource of 85.7kt of contained lithium versus our previous estimate of 100kt of contained lithium.

Figure 6: ZNC valuation summary

NPV OF PROJECTS	A\$M	EQUITY VALUE A\$/SHARE FULLY DILUTED	Previous Valuation	Valuation Methodology
Lithium Projects	127	0.35	0.37	Comparable Companies
Earaheedy Zinc/Lead Project	75	0.20	0.20	Risked Project NPV
Other Gold & Base Metals	20	0.08	0.08	MST Estimate
Investments in Listed Companies	4	0.02	0.02	Listed Value
ENTERPRISE NPV	225	0.65	0.67	
Add: Cash	2	0.03	0.03	At 30 June 2023
EQUITY VALUE PRE SG&A	227	0.68	0.70	
SG&A	(30)	(0.08)	(0.08)	NPV of Corporate Costs
EQUITY VALUE	197	0.60	0.62	

Source: Company data, MST estimates.

Overview: elements of our ZNC sum-of-the-parts valuation

The following projects form the basis of our valuation of ZNC, discussed in more detail throughout this section.

Early-stage lithium projects, including:

- Split Rocks
- Waratah Well.

At this stage, we have ascribed no value to Hayes Hill as it is a very early-stage project. We will review the valuation of this asset as drilling results are released.

Gold and base metals projects, including:

- Earraheedy zinc-lead project: the most advanced project in the portfolio, with a currently defined mineral resource estimate of 94Mt @ 3.1% Zn+Pb and 4.1g/t Ag
- Early-stage gold and base metals exploration projects, including:
 - Split Rocks (gold)
 - Red Mountain (gold).

Listed investments: various shareholdings with a total value last disclosed at A\$4m.

Valuation of early-stage lithium projects Split Rocks and Waratah Well Lithium resource compared with EV/Resource of peers

Finding an alternative to DCF for early-stage projects

Discounted cash flow (DCF) analysis is generally accepted as the most suitable valuation methodology for mining projects in operation or with a reasonably predictable operating framework, such as that defined in a feasibility study. Another valuation method for projects that have a defined resource is to look at the EV/Resource being paid and compare to a market multiple to ascertain if the underlying resource of the company is being valued in line with market multiples.

Earlier-stage mining projects, such as those which make up most of ZNC's current suite of assets, require alternative valuation methodologies to be used, given the inputs required to formulate a reasonable DCF are yet to be defined and we do not have a resource on which to base a market multiple. Some alternative methods include:

- comparable companies: infers a valuation based on the market capitalisation of comparable listed companies. Note that this is the method that we use for ZNC's lithium projects as we compare the underlying value of exploration tenements.
- comparable transactions: the value of similar properties which have been exchanged, commonly referencing value per unit of contained metal or ground area.
- joint venture terms: the value implied by terms agreed under a JV to acquire an interest in an asset.
- appraised value (or past exploration expenditure): the total of prior expenditure incurred on an exploration tenement.
- prospectivity enhancement multiplier: an applied multiple of past exploration expenditure incurred depending on an assessment of whether the expenditure has added value and the stage of development to which the project has advanced.
- geoscience (Kilburn) method: a technical assessment of exploration property value based on factors such as the location relative to other known mineralisation, drilling intercepts available, exploration targets defined and geological patterns.

Maiden Resource at Split Rocks - EV/Resource a good metric given stage of projects

The announcement of a maiden resource at Split Rocks is a strong start to a potentially large lithium precinct at Split Rocks. This has given us a basis on which to value Split Rocks on an EV/ Resource basis. Given the successful drilling campaigns to date at Waratah Well, we believe that it is at now at a stage where we can also look at potential valuations of the asset when a maiden resource is released.

In our view, the two companies that provide the best comparison for ZNC are Essential Metals (ESS) and Delta Lithium (DLI) (formerly Red Dirt Metals), two ASX-listed companies that have delivered a maiden resource for their respective projects in the highly prospective southwest Australian lithium corridor.

Tianqi Lithium Energy Australia (TLEA) lodged a cash bid to acquire a 100% equity interest in ESS in January 2023, valuing the equity at \$136m (\$0.50/share, a c.40% premium). In April, ESS shareholders rejected the bid. Subsequently, Develop Global and ESS entered a scheme of arrangement, whereby Develop offered 1 new Develop share for every 6.18 Essential shares held; this implies a fully diluted equity value for ESS of ~A\$152.6m (A\$0.56/share) using the 30 June 2023 Develop share price. Absent a superior proposal, ESS's Board unanimously recommends the scheme, and ESS's largest shareholder, Mineral Resources, has also agreed to vote its 19.55% shareholding in ESS in favour of it. Subsequent share price movements of Develop have seen ESS's share price decrease to A\$0.47 per share or A\$110m.

Greenfield lithium projects are becoming increasingly attractive for midstream and downstream EV and LiB market participants. Vertical integration is being viewed as a strategy to negate cost inflation due to supply-side pressures. For example, Tesla has consistently reiterated that it will explore M&A opportunities upstream in the lithium space to reduce exposure to the potential supply crunch.

ESS and DLI have a project tenure of 400km² and 170km² in the lithium corridor, respectively, compared to ZNC which has a tenure of 660km².

Figure 7: ASX-listed lithium-focused explorers

General Information		Project Information	Resource (Indicated + Inferred)			Discount applied*	
Company	EV (A\$m)	Project	Resource Mt	Li2O% %	Li2O kt	%	EV/Contained Li2O x
Essential Metals	126	Pioneer Dome Project - WA	11.2	1.2%	135.5	0%	930.5
Delta Lithium	329	Mt Ida - Lithium -WA	14.6	1.2%	175.2	50%	938.1
						Avg	934.3

Note: We have applied a 50% discount to the EV/Resource calculation for Delta Lithium. The reasoning behind this is that DLI has had significant drilling success at the Yinnetharra Lithium Project, which has driven significant share price appreciation. Yinnetharra does not have a resource calculated as yet, so we have discounted the EV/Resource to reflect this. We consider that Mt Ida represents approximately 50% of the value of DLI.

Source: MST.

Our previous valuation had assumed a Split Rocks maiden resource of 100kt of contained Li₂O. The actual maiden resource is 85.7kt, which we consider to be a strong start to a very prospective region. We had also assumed Waratah Well with a 50kt contained Li₂O resource, which we maintain. Based on the average EV/Resource for DLI and ESS, we attain the following valuations, which total A\$126.1m for ZNC's advanced lithium assets:

- Split Rocks: A\$80.0m
- Waratah Well: A\$46.7m.

Consolidation Heats Up in the Sector

There have been several major consolidation attempts in the Australian lithium space. Liontown Resources rejecting the advances of US-based Albemarle 3 times in 5 months before on the 4th September 2023, allowing Albemarle to conduct a limited period of exclusive due diligence. Should Albemarle make a binding proposal at \$3.00 per share, the intention of the Liontown Board is to unanimously recommend shareholders vote in favour of the proposal.

Meanwhile, Creasy/SQM-backed explorer Azure Minerals (ASX:AZS) knocked back an offer of \$2.31 per share (currently trading at A\$2.53 per share) from SQM for its 60% holding of the Andover lithium project.

SQM (one of the world's biggest lithium miners) and Albemarle (one of the biggest diversified lithium companies) have clearly demonstrated their appetite for acquisitions in the lithium space in Australia.

Lithium Sector Update: Drilling Success Turbo-Charges Share Prices

Recent drilling success in the lithium sector in Australia has turbo-charged share price performance and demonstrates the potential of ZNC's lithium portfolio. We look at Azure Minerals (AZS) and Delta Lithium (DLI) as case studies of some recent drilling success stories.

Azure Minerals: Andover Project in WA delivers outstanding results

Drilling results: During 2023, AZS has had outstanding lithium exploration results at its Andover project in the Pilbara region of WA. The strong results have seen AZS set an exploration target of 100–240Mt @ 1.0%–1.5% Li₂O.

Market reaction: The market has reacted very strongly to the exploration results, with the stock appreciating 350% since the first major exploration success was announced in June 2023.

Delta Lithium: Yinnetharra Project exploration success drives share price performance

DLI is advancing the Mt Ida Lithium Project towards production while conducting an aggressive exploration program at the highly prospective Yinnetharra Lithium Project.

DLI's Mt Ida project has a mineral resource estimate of 14.6Mt @1.2% Li₂O. However, drilling success at the Yinnetharra Lithium Project in 2023 has driven a re-rating of the stock.

DLI has noted that the M1 deposit within Yinnetharra is mineralised from surface, with widths of greater than 50m intercepted over 650m of strike.

Market reaction: Since the Yinnetharra exploration results were announced in April 2023, the stock has appreciated 120%.

Valuation of gold and base metals projects

Earaheedy zinc–lead project (75% Rumble Resources, 25% ZNC): risked project NPV

The Earraheedy zinc–lead project is a significant discovery and has an inferred mineral resource of 94Mt @ 3.1% Zn+Pb and 4.1g/t Ag. While the project remains subject to continuous drilling and advancement, the mineral resource provides further support for our conceptual valuation estimate using DCF analysis. We highlight that our assumptions are based on our high-level estimates with reference to the size of the current mineral resource, and the actual operational parameters under any future feasibility study may turn out to be significantly different to our assumptions. Further, an economically viable project may not emerge from the current exploration target.

In order to populate our DCF analysis, we make the following assumptions:

- conversion of 50mt of the current 94mt mineral resource into an Ore Reserve, with a grade marginally below the current resource grade of 3.1%, implying an allowance for mining dilution noting potential for a higher-grade subset of the resource to be selectively targeted and ongoing prospective exploration upside
- a 10-year mine-life with first production in FY26
- mill throughput rates of 5mtpa
- pre-production capital expenditure of A\$700m
- zinc price of US\$3,500/t
- lead price of US\$2,000/t
- 77/23 zinc/lead production split (in line with mineral resource)
- AISC of A\$1,250/t.

On this basis, we derive an unrisks 100% NPV for the Earraheedy Project of A\$853m, to which we apply a 65% risk discount given the early stage of development.

ZNC's equity stake has an implied valuation on this basis of A\$75m.

The current market EV of RTR is A\$71m. If we assume that 25% of that is attributable to ZNC, the EV of Earraheedy based on the current market price is \$18m. We see substantial value over and above the current market valuation of Earraheedy.

Other gold and base metals exploration projects: high-level MST estimate

We apply a nominal valuation of A\$20m to the remaining gold and base metals projects. We have arrived at this high-level estimate based on a review of the projects and their current prospectivity and potential.

We see strong option value in these assets, particularly the Split Rocks asset in WA.

The district is well recognised for gold deposits, with a gold endowment of 10Moz around the Parker Dome. Management has recognised the potential for large-scale gold deposits. Outstanding results include:

- Dulcie North: 32m @ 9.4 g/t Au, including 9m @ 31.4 g/t Au
- Dulcie Laterite Pit: 2m @ 14.5 g/t Au, 18m @ 2.0 g/t Au, 14m @ 3.5 g/t Au, 3m @ 17.9 g/t Au
- Estrella: 2m @ 9.8 g/t Au
- Dulcie Far North: 5m @ 5.6 g/t Au, including 4m @ 6.8 g/t Au, 4m @ 10.2 g/t Au
- Water Bore: 3m @ 6.6 g/t Au
- Scott's Grey: 8m @ 4.1 g/t Au, 12m @ 1.7 g/t Au.

Valuation of listed investments

The total value of ZNC's investments at 05 September 2023 was A\$4.3m:

- 43.9m shares @ £0.0385 in Bradda Head Holdings Limited (AIM: BHL): A\$3.3m
- 3.88m shares @ A\$0.12 in Rumble Resources Limited (ASX: RTR): A\$0.47m
- 0.5m shares @ A\$0.064 in Nickel-X Limited (ASX: NKL): A\$0.32m
- 1.25m shares @ A\$0.165 in Bindi Metals Limited (ASX: BIM) A\$0.21m
- 7.88m shares @ £0.0016 in Alien Metals Limited (AIM: UFO) A\$0.02m

Positive Catalysts for the Share Price and Valuation

We believe that ZNC has significant potential for further valuation upside and highlight a number of key milestones/catalysts which may deliver valuation upside over the near term.

Successful lithium exploration results

Further Exploration success at Split Rocks and Waratah Well would accelerate the potential to develop the project and provide further optionality, as well as potentially improve the valuation if exploration results support the advancement of an economic feasibility study and / or corporate interest. Further exploration success at the other lithium assets would be positive for the stock as well.

Resolution of the EVM Joint Venture

The EVM JV requires EVM to fund and complete the feasibility studies for Split Rocks and Waratah Well by January 2024 to earn a 60% share in the lithium rights at these sites. If EVM does not complete the feasibility studies in the prescribed time, the assets revert to ZNC, inclusive of all the exploration data to date. The resolution of the EVM JV issues or alternatively the reversion of the assets back to ZNC would be a positive for the stock.

Further exploration results

Exploration success at any of ZNC's gold and base metal projects would be a significant positive for the stock if a viable project begins to take shape.

Early project delivery

The early commencement of projects would provide earlier cash flows and reflect positively on management, which would likely increase the valuation.

Further Consolidation of the Portfolio

Further consolidation of the portfolio and simplification could be seen as a positive development and a share price catalyst.

Corporate Activity

The lithium sector in WA is proving to be of interest to both domestic and international operators. The ZNC portfolio may be of interest if further drilling success occurs.

Risks

Disappointing lithium exploration results

Any disappointment in further lithium exploration results would undermine the economic viability of the projects and reduce the likelihood of an economic project proceeding into development and construction. This would be a negative development for the valuation, especially as ZNC turns its focus to lithium assets.

Reserves and Resources risk

The testing and appraisal of existing projects may not lead to reserve definition, which would be negative for the stock as it would undermine the potential of developing an economically viable project.

Delays in obtaining required approvals

Any delays to the approvals process would be detrimental to the project timeline and the valuation.

Changes in regulatory framework

Regulatory changes such as royalty rates or changes to permitting requirements may alter the risk profile of the company and would potentially be detrimental to the stock price.

Legal Issues – EVM

We see this risk as minimal given that ZNC has a binding agreement returning the lithium assets to ZNC if EVM fail to deliver on the JV obligations, however if there are any legal implications from the JV it may be detrimental to the stock price.

Appendix 1: Why Lithium Is Important – A Refresher

Critical in EV batteries – demand for decades to come

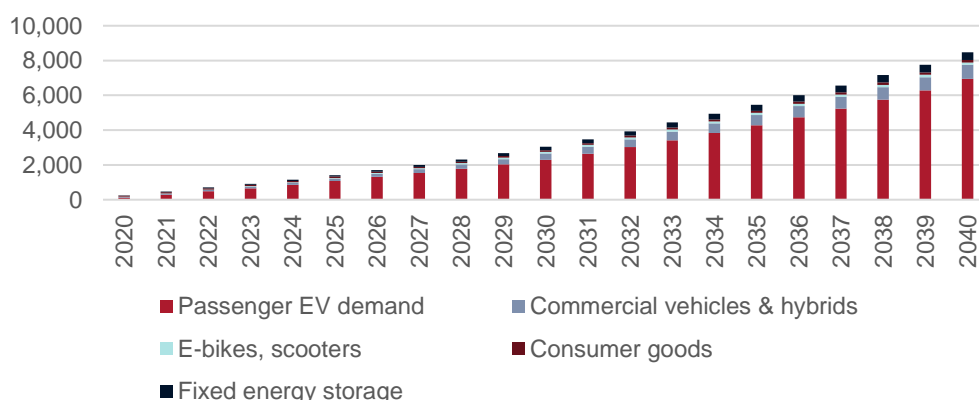
Lithium and its chemical compounds have a wide range of applications: heavy greases, additives for metal production and glasses/ceramics. However, the primary use of lithium more recently and into the future is in lithium-ion batteries for consumer electronics, EVs and energy storage. A typical EV battery might contain the equivalent of ~10kg of pure lithium metal, in the form of chemical compounds such as Li_2CO_3 or LiOH .

Fully electric passenger EVs (also known as battery electric vehicles or BEVs) will be the key driver of lithium-ion battery demand, and therefore lithium, for decades to come.

If we assume global sales of 33.3m vehicles in 2030 and 86.9m vehicles in 2040, this implies a BEV penetration rate of 35% and 75%, respectively, of total passenger vehicle sales. These assumptions imply that the crossover point, when BEVs will become the majority of sales, will occur in ~2034.

Other sources of demand for lithium-ion batteries include commercial vehicles and hybrids, e-bikes, scooters, consumer electronics and tools, and fixed energy storage. Under these assumptions, lithium-ion battery installations would grow at ~23% CAGR to 2030 and ~16% CAGR to 2040. Given current lithium use intensity in batteries (t/GWh), and only very modest growth in industrial applications and other uses, these assumptions suggest lithium demand will grow from ~550kt Lithium Carbonate Equivalent in 2021 to 2,745kt in 2030 (5x) and 7,400kt in 2040 (13.5x).

Figure 8: Assumed global lithium-ion battery installations – demand dominated by EVs (Gwh)



Source: MST Emerging Research.

US government policy adds another dimension

The US Energy Act classifies lithium as a critical mineral, meaning that it plays a significant role with respect to US national security, the economy, renewable energy development and infrastructure.

In early 2022, in response to escalating energy prices, Russia's invasion of Ukraine, and the US goal of achieving a clean power grid by 2035, US President Joe Biden authorised the Defense Production Act. This act supports the production and processing of minerals and materials used for large-capacity batteries, such as lithium, boron, cobalt, graphite, and manganese. The directive aims to secure American production of critical materials to bolster a clean energy economy and reduce reliance on other nations, particularly China, for the minerals and materials to power America's clean energy future.

It should be noted that lithium is also on the European Union's critical minerals list.

With US and European policymakers looking for critical minerals to be supplied by either domestic or 'allied' sources, we see this as a plus for all Australian-based lithium explorers, developers and producers. We believe this policy agenda may lead to potential offtake agreements, funding, project investment or straight-out corporate takeover offers from US or European-based interests (for example, see the recent bid from Albemarle for Lontown).

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