

03 May 2024

## Seeking Strategic Partners

### NEED TO KNOW

- **100% interest in key lithium projects Split Rocks and Waratah Well reverts to ZNC after EVM JV expires**
- **Process underway to attract new strategic investors and advance lithium projects**
- **Gold assets in focus with potential near-term value realisation**

**Strategic refresh underway:** Following formal expiry of the EV Metals (EVM) JV in January 2024, full ownership of key lithium assets under development has reverted to Zenith (ZNC), giving it the clarity and control to move ahead with the next phase of its strategy. Amid a soft market for lithium generally, ZNC has wasted no time in initiating a process to engage with new potential strategic investors able to bring funding and expertise to the table.

**Gold exposure gaining focus:** While ZNC's central focus is on lithium, significant gold price increases in recent months have justified further emphasis on ZNC's Hayes Hill project in WA, where drilling is planned to test gold targets starting in mid-May.

**Quarterly report:** ZNC ended the March quarter with \$1.12m cash, down a bit from \$1.31m in the prior quarter. Flows included \$648k in opex (including \$198k of exploration) offset by investment inflows of \$457k. ZNC is likely to contain expenditure until it secures a new strategic partner. We believe this is a likely outcome given the quality of ZNC's lithium exploration projects.

### Investment Thesis

**Exploration drives ZNC; highly prospective portfolio:** ZNC has exposure to highly prospective lithium and gold exploration projects in the Tier-1 jurisdiction of Western Australia.

**Exposure to highly lucrative lithium-ion battery and electric vehicle (EV) value chain; M&A 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 has been significant and interest in exploration potential remains high.

**Keeping it simple; strategic partners sought:** ZNC has an extensive asset portfolio. The company plans to join with potential strategic partners interested in gaining exposure to highly prospective lithium assets. ZNC's 25% ownership in the Earraheedy Base Metals JV remains strategically important and presents it with monetisation options.

### Valuation A\$0.42/share (previous A\$0.54)

Our ZNC valuation is A\$0.42; we value the lithium assets on EV/Resource and Earraheedy on a risked DCF. We have lowered our valuation of ZNC's assets due to the lower multiples being paid for lithium resources, hence reducing our EV/Resource valuations for Split Rocks and Waratah Well. However, we see significant value and potential appeal to a strategic partner in these assets.

### Risks

Key risks: delay in or lack of strategic partner engagement; lack of future exploration success and continued cash burn.

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557. This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Zenith Minerals (ZNC.AX)

### Equity Research Australia

#### Materials

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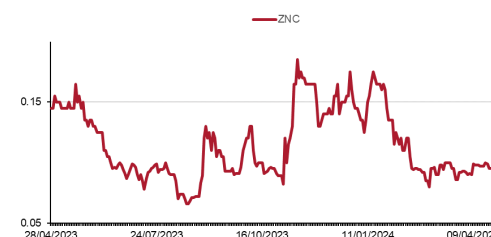
Zenith Minerals is an exploration company focused on discovery and advancement of battery metals resource projects, primarily lithium deposits. The company also has gold and base metals deposits with strong exploration potential. [www.zenithminerals.com.au](http://www.zenithminerals.com.au)

Valuation	<b>A\$0.42</b> (from A\$0.54)
Current price	<b>A\$0.08</b>
Market cap	<b>A\$29m</b>
Cash on hand	<b>A\$1.1m</b> (31 March 2024)

### Upcoming Catalysts / Next News

Period	
May 2024	Drilling: Hayes Hill gold target
May 2024	Drilling: Hayes Hill nickel target
Ongoing	Strategic partner for lithium assets

### Share Price (A\$)



Source: FactSet, MST Access.

Figure 1: Financial summary, ZNC (June year-end)

ZENITH MINERALS LIMITED							ZNC.AX					
<b>MARKET DATA</b>							<b>12-Month Relative Performance vs S&amp;P/ASX Metals &amp; Mining</b>					
Share Price	A\$/sh	0.08										
52 week high/low	A\$/sh	0.19- 0.07										
Valuation	A\$/sh	0.42										
Market Cap (A\$m)	A\$m	29										
Net Cash / (Debt) (A\$m)	A\$m	1										
Enterprise Value (A\$m)	A\$m	28										
Shares on Issue	m	352										
Options/Performance shares	m	15										
Other Equity	m	35										
Potential Diluted Shares on Issue	m	402										
<b>INVESTMENT FUNDAMENTALS</b>							<b>Profit &amp; Loss (A\$m)</b>					
Reported NPAT	A\$m	FY22A	FY23A	FY24E	FY25E	FY26E	FY22A	FY23A	FY24E	FY25E	FY26E	
Underlying NPAT	A\$m	1	(9)	1	0	(2)	Revenue	4	2	3	3	-
EPS Reported (undiluted)	¢ps	0.4¢	(2.6¢)	0.2¢	0.1¢	(0.5¢)	Expenses	(2)	(11)	(2)	(2)	(2)
EPS Underlying (undiluted)	¢ps	0.4¢	(2.6¢)	0.2¢	0.1¢	(0.5¢)	EBITDA	1	(9)	0	0	(2)
Underlying EPS Growth	%	63.6%	n/m	n/m	n/m	n/m	D&A	(0)	(0)	(0)	(0)	(0)
P/E Reported (undiluted)	x	n/m	n/m	54.6	62.6	(15.0)	EBIT	1	(9)	0	0	(2)
P/E Underlying (undiluted)	x	n/m	n/m	54.6	62.6	(15.0)	Interest	0	0	0	0	0
Operating Cash Flow / Share	A¢	(0.26)	(0.43)	0.45	0.44	(0.23)	Profit Before Tax	1	(10)	0	0	(2)
Price / Operating Cash Flow	x	(32.1)	(19.0)	18.3	18.8	(34.9)	Tax	-	-	-	-	-
Free Cash Flow / Share	A¢	(1.65)	(1.68)	(1.82)	0.14	(0.54)	Underlying NPAT	1	(9)	1	0	(2)
Price / Free Cash Flow	x	n/m	n/m	(0.0)	0.6	(0.2)	Exceptionals	-	-	-	-	-
Free Cash Flow Yield	%	n/m	n/m	n/m	1.7%	n/m	Reported Profit	1	(9)	1	0	(2)
Book Value / Share	A\$	0.08	0.05	0.08	0.10	0.09	<b>Balance Sheet (A\$m)</b>					
Price / Book	x	1.07	1.57	1.05	0.84	0.87	FY22A	FY23A	FY24E	FY25E	FY26E	
NTA / Share	A\$	0.08	0.05	0.08	0.10	0.09	Cash	8	2	3	8	6
Price / NTA	x	1.07	1.57	1.05	0.84	0.87	Receivables	0	0	0	0	0
Year End Shares	m	345	352	352	352	352	Inventory	-	-	-	0	-
Market Cap (spot)	A\$m	28	29	29	29	29	PP&E	0	0	8	9	10
Net Cash / (Debt)	A\$m	8	2	3	8	6	Other	19	17	17	17	17
Enterprise Value	A\$m	20	27	26	21	22	Assets	27	19	28	35	34
EV / EBITDA	x	19.1x	n/m	62.0x	70.0x	n/m	Creditors	0	1	0	0	0
Net Debt / Enterprise Value	(0.3)	(0.1)	(0.1)	(0.1)	(0.3)	(0.2)	Debt	-	-	-	-	-
Dividend per share	A¢	0	0	0	0	0	Leases	-	-	-	-	-
							Provisions	0	0	0	0	0
							Other	-	-	-	-	-
							Liabilities	0	1	0	0	0
							Net Assets	27	18	28	34	33
							<b>Cashflow (A\$m)</b>					
							FY22A	FY23A	FY24E	FY25E	FY26E	
							Cash From Operations	(1)	(2)	1	1	(1)
							Interest	0	0	0	0	0
							Tax	-	-	-	-	-
							Net Cash From Operations	(1)	(2)	2	2	(1)
							Capex	(0)	(0)	-	-	-
							Exploration	(5)	(5)	(8)	(1)	(1)
							Investments	(0)	0	-	-	-
							Free Cash Flow	(6)	(6)	(6)	0	(2)
							Equity	12	0	7	5	-
							Borrowings	-	-	-	-	-
							Dividend	-	-	-	-	-
							Net Increase / (Decrease) in Cash	6	(6)	1	5	(2)

Source: MST estimates, ZNC.

# 100% Interest Re-established in Key Lithium Projects as EVM JV Expires

## Clearing the decks for next leg of growth

As anticipated under the terms of the EV Metals (EVM) JV, the full 100% interest in key Western Australia (WA)–based lithium development projects Split Rocks and Waratah Well has now formally reverted to ZNC with the expiry of the prior agreement in January 2024. EVM failed to comply with the terms of the agreement which required delivery of a feasibility study with a minimum mineral resource of 35Mt grading 1.2% Li<sub>2</sub>O by 10 January 2024.

Importantly, ZNC has underscored that approximately \$1m in refunds is owed by EVM, and that it will continue with a process which aims to have these funds repaid.

## Discussions with potential strategic partners ongoing – encouraging interest

ZNC has now begun a process of discussions with other potential strategic partners interested in gaining exposure to lithium assets. While currently subdued lithium prices are a headwind to any potential deal, however ZNC has indicated that despite this there has been encouraging levels of interest by "potential investors and partners" so far in the process. In March, ZNC appointed Azure Capital to assist with the ongoing strategic review of the company's lithium assets.

## ZNC's Lithium Portfolio – A Refresher

### Split Rocks – target-rich environment

ZNC has completed an extensive reassessment of existing and new geochemical data and has significantly expanded the number of targets for drill testing from 30 to 83.

The new targets all lie outside of ZNC's Rio Lithium Mineral Resource Estimate (11.9Mt @ 0.72% Li<sub>2</sub>O), and therefore represent a strong opportunity to add to the existing resource.

### Key highlights of the drill target expansion

**Geochemical sampling has covered most of project – more planned:** During 2022 and 2023, a total of 10,652 geochemical samples were collected across the Split Rocks project area, comprised of both auger and soil samples. Geochemical sampling has now covered approximately 80% of the project area with additional sampling planned.

**83 lithium targets identified (up from 30 previously):** New surface sample assays, a review of existing soil geochemical data and assessment of historical and ZNC drill data have resulted in a total of 83 lithium targets being defined within ZNC's large tenement holding at Split Rocks, a significant increase from the 30 targets previously reported in August 2023.

Targets include the very large (>9km x 2km), untested Cielo Lithium Target.

The review reassessed the surface geochemical lithium anomaly threshold at 46ppm Li (or 100ppm Li<sub>2</sub>O). This threshold was based on:

- the surface geochemical signature surrounding the company's Rio lithium deposit
- the soil anomaly covering the Mt Holland lithium deposit
- announcements by other industry participants which included information on soil anomalies that, upon drill testing, have successfully intersected significant lithium-rich, caesium, tantalum (LCT) pegmatites.

**Six additional targets require drill follow-up:** ZNC's drill database has defined an additional six targets requiring drill follow-up that contain historic, near-surface, weathered pegmatite drill intersections up to 50m thick. These are classified as LCT pegmatites, based on their geochemical character, further enhancing the highly prospective nature of the Split Rock project leases.

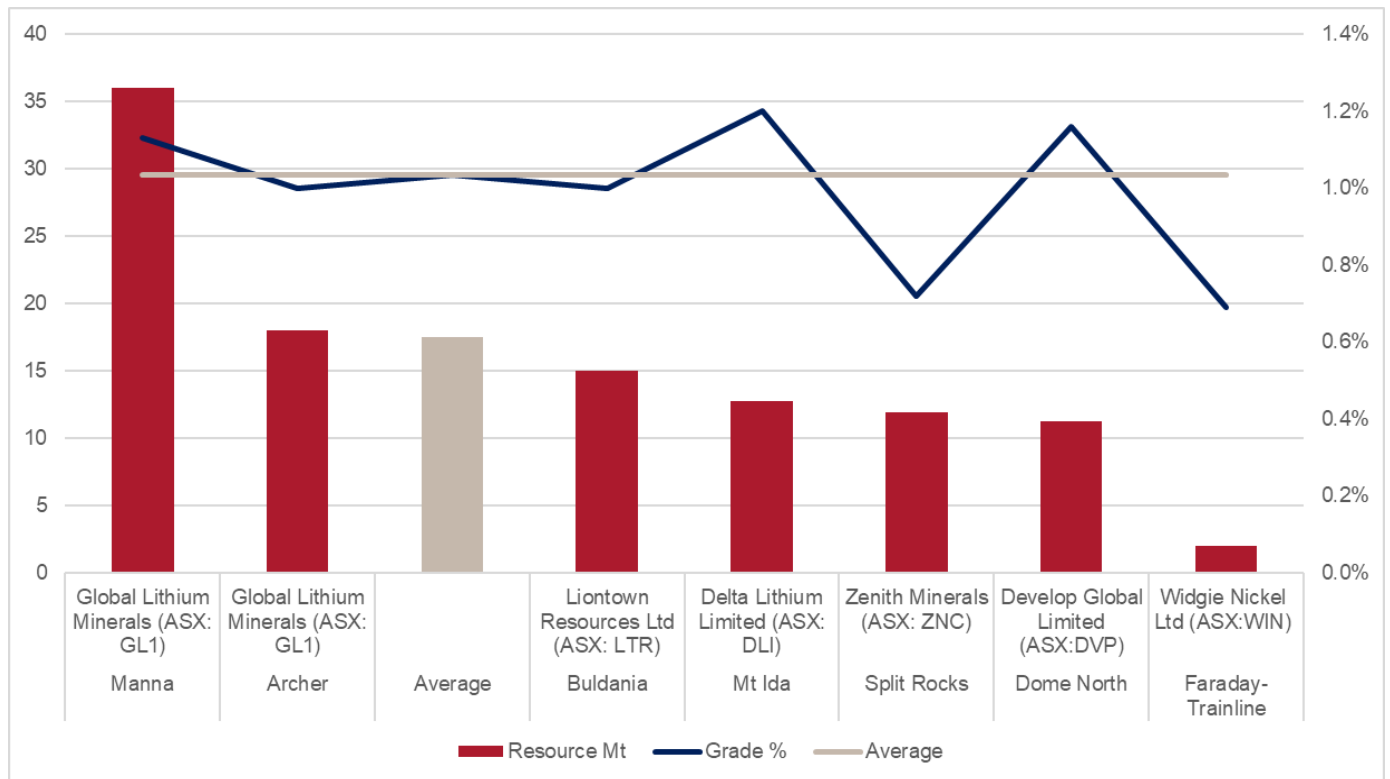
### Potential program

Lithium mineralisation at Rio remains open to the north, south, east and at depth. Permits are now in place to drill a further 318 drill holes (159 RC and 159 diamond drill), while Permits of Work are in place for a further 193 AC drill holes, covering Cielo and 14 additional targets.

## Split Rocks is 1 of only 7 WA lithium projects (ex-mines) with a Mineral Resource

ZNC is favourably positioned as an established WA-focused lithium explorer and currently owns one of only 7 non-operating WA lithium prospects hosting an established JORC Mineral Resource: the cornerstone Split Rocks project. With only 7 JORC lithium Mineral Resources in WA it emphasises the need for additional investment in exploration to bolster the industry's new project pipeline.

Figure 2: WA lithium resources (ex operating mines)



Source: Company reports, MST

## Waratah Well – a rare lithium exploration prospect

Zenith owns one (Waratah Well) of the 14 best lithium exploration prospects in WA, based on the criterion of drill intersections > 10m @ 1.0% Li<sub>2</sub>O. ZNC has indicated that it will also be looking to advance exploration at this high-quality lithium development asset.

Figure 3: Location of ZNC's assets – near major producers



Source: ZNC.

## Bids and defensive deals show sector interest intensifying

The consolidation of the lithium sector took a significant turn upwards in 2023, with several bids and related defensive transactions taking place. ZNC's assets may attract industry participants looking to acquire or consolidate.

The past 18 months have seen a substantial number of consolidation attempts in the Australian lithium space, some of which have been successful. In particular, SQM (the world's second-largest lithium chemicals maker) and Albemarle (one of the world's biggest diversified lithium companies) have clearly demonstrated their appetite for acquisitions in the lithium space.

## 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.

## Gold Assets in Focus

### Prices running hot – a near-term opportunity for ZNC

Gold has become a focal point for the market in 2024, with prices running significantly higher to recent peaks of ~\$2,400/oz.

Figure 4: Gold prices, May 2021–April 2024 (US\$/oz)



Source: Market Index.

This provides some near-term opportunity for ZNC to refocus on the gold exposure within its portfolio while the strategic review of lithium assets remains underway. The gold assets include:

- **Hayes Hill, WA** – Situated between Central Norseman and Higginsville with active gold mining immediately adjacent to the western boundary, Hayes Hill has recently defined 2 new gold targets which are ready for testing after a review of surface sample work. ZNC has an option to acquire 100% of Hayes Hill from Loded Dog Pty Ltd (a private company) via RC drill testing the Green Bananas nickel sulphide prospect by 1 August 2024. Drill site preparation has recently commenced.
- **Dulcie Far North, WA (100% ZNC)** – In July 2023, ZNC announced a maiden inferred mineral resource of 150koz (3.4Mt @ 1.4g/t) at Dulcie Far North. In the recent quarterly report, ZNC noted that it is considering the project for potential divestment. We expect significant interest in this asset given the existing resource, with mineralisation remaining open to the north and down dip.

### Drilling planned to test large new gold targets at Hayes Hill

#### Strategic location near active mining area

The Hayes Hill project is situated between the multi-million-ounce gold districts of Central Norseman and Higginsville, with Karora Resources Limited actively mining gold at the Pioneer open pit just outside the western boundary of the project area. Gold ore from that pit is being hauled to Karora's processing plant at Higginsville, via a haul road that cuts through the northwest corner of the Hayes Hill project tenure.

#### Two new gold drill targets have been generated

Surface geochemical sampling by ZNC has outlined new large high-order anomalies, each approximately 2.5km in length, containing both strong gold and associated pathfinder elements. These gold targets are now ready for drill testing with an initial planned program of approximately 2,000m of aircore.

A second gold target lies to the south of the active Karora Pioneer open-pit gold mine, also consisting of both strong gold and associated pathfinder elements. This second area requires additional permitting, including heritage surveying, and is the subject of a future drill program.

**Figure 5: Hayes Hill Project gold targets relative to neighbouring gold mines and deposits**



Source: ZNC.

## Hayes Hill Nickel Target Identified – Drilling Required as Part of Option Agreement

ZNC plans an RC drill test of the Green Bananas nickel sulphide target, a requirement of the option agreement.

A strong discrete ground Electro Magnetic geophysical bedrock conductor has been modelled immediately west of nickel auger anomaly with peak values of 0.43% nickel, 0.44% copper, 0.53% cobalt and 203ppm platinum.

Drill site preparation commenced in mid-April 2024.

## Quarterly Report – Cash Position A\$1.1m

At the end of the March quarter, ZNC had a cash balance of \$1.1m and equity investments worth approximately \$1.65m. During the quarter, the company sold 4.2m Q Mines Ltd ( QML) shares and 3.2M RTR shares, realising approximately \$457k.

EVM owes ZNC approximately \$1m (net) in outstanding refunds. The amount relates to tenement rents and rates, ZNC staffing costs, and other exploration costs incurred by the company under the EVM earn-in agreement during 2022 and 2023. The company has restarted a process to attempt to recover these amounts from EVM. The outstanding monies have been fully impaired in ZNC's accounts.

## Valuation: Risked Sum of the Parts

### Valuation of A\$0.42/share (previous A\$0.54)

Our base-case valuation for ZNC is A\$0.42/share. Figure 6 summarises each of the components of our sum-of-the-parts-based valuation. We value the lithium assets on EV/Resource and Earraheedy on a risked DCF. Our valuation has decreased predominantly due to the lower multiples being paid for lithium stocks as lithium prices continue to be relatively weak amid supply concerns.

**Figure 6: ZNC valuation summary**

NPV OF PROJECTS	A\$M	EQUITY VALUE A\$/SHARE FULLY DILUTED	Previous Valuation	Valuation Methodology
Lithium Projects	76	0.20	0.32	Comparable Companies
Earraheedy Zinc/Lead Project	83	0.21	0.20	Risked Project NPV
Other Gold & Base Metals	20	0.07	0.07	MST Estimate
Investments in Listed Companies	2	0.01	0.02	Listed Value
<b>ENTERPRISE NPV</b>	<b>180</b>	<b>0.48</b>	<b>0.60</b>	
Add: Cash	1	0.01	0.01	At 31 March 2024
<b>EQUITY VALUE PRE SG&amp;A</b>	<b>181</b>	<b>0.49</b>	<b>0.61</b>	
SG&A	(30)	(0.07)	(0.07)	NPV of Corporate Costs
<b>EQUITY VALUE</b>	<b>151</b>	<b>0.42</b>	<b>0.54</b>	

Source: MST.

### 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\$1.5m.



## Valuation of lithium resource for early-stage lithium projects Split Rocks and Waratah Well – comparing 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 some 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 there. This has given us the ability 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 three companies that provide the best comparison for ZNC are Liontown Resources (LTR), Delta Lithium (DLI) (formerly Red Dirt Metals) and Global Lithium (GLI) (see Figure 7). These three ASX-listed companies have delivered a maiden resource for their respective projects in the highly prospective southwest Australian lithium corridor.

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.

Figure 7: ASX-listed lithium-focused explorers

General Information		Project Information	Resource (Indicated + Inferred)			EV/Contained Li2O
Company	EV (A\$m)	Project	Resource Mt	Li2O% %	Li2O kt	X
Liontown	2,961	Kathleen Valley	156	1.4%	2184	1268.6
Liontown		Anna	15	1.0%	150	
Global Lithium	75	Manna	36	1.1%	407	127.8
Global Lithium		Marble Bar	18	1.0%	180	
Delta Lithium	118	Mt Ida and Yinnetharra - Lithium -WA	40	1.1%	426	277.1
						<b>557.9</b>

Source: MST.

Based on the average EV/Resource for Liontown, Global Lithium and Delta Lithium, we attain the following valuations, which total A\$76m for ZNC's advanced lithium assets:

- Split Rocks: A\$47.8m
- Waratah Well: A\$27.9m.

## 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 FY27
- 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\$780m, to which we apply a 60% risk discount given the early stage of development.

ZNC's equity stake has an implied valuation on this basis of A\$78m.

The current market EV of Rumble Resources (RTR) is A\$43m. If we assume that 25% of that is attributable to ZNC, the EV of Earraheedy based on the current market price is \$11m. 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.

We also note the potential of the upcoming drilling campaign at Hayes Hill.

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.

## 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 strategic partner engagement

Following formal expiry of the EVM JV in January 2024, full ownership of key lithium assets under development has reverted to ZNC, providing ZNC with the clarity and control to move ahead with the next phase of the company's strategy. The engagement of a strategic partner would enable ZNC to embark on an aggressive drilling campaign to significantly lift the resources of Split Rocks and Waratah Well. It would also strengthen ZNC's balance sheet.

### Successful lithium exploration results

Further exploration success at Split Rocks in particular, as well as at Waratah Well, would accelerate the potential to develop the projects 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.

### Successful gold drilling results

The upcoming Hayes Hill drilling campaign has the potential to uncover a material gold deposit.

### Corporate activity

The lithium sector in WA is proving to be of interest to both domestic and international operators.

### Further consolidation of the portfolio

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

## Risks

### Failure to or delays to engage strategic partner

The company's strategy is focused on engaging a strategic partner for its lithium assets. Any delay or non-engagement from strategic partners is the key risk for ZNC.

### Continued weakness in lithium prices

The lithium market has been weak for the last 12 months as concerns around supply and China have prevailed. Continued weakness in the lithium price adds risk to ZNC's strategy of engaging strategic partners and lithium exploration.

### 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 the lithium assets.

### 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.

## Appendix 1: Why Lithium Is Still Important – A Refresher

### Critical in EV batteries – demand for decades to come

Despite weakness in the lithium price over the last 12 months, the long-term structural demand remains intact for lithium.

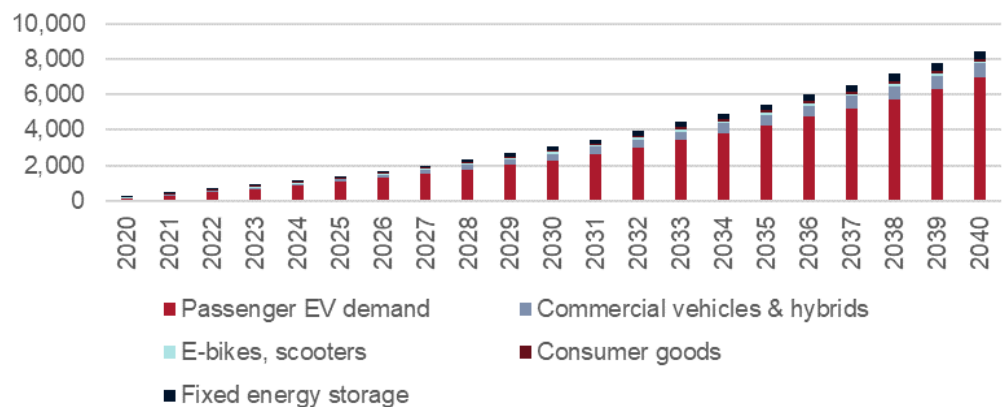
Lithium and its chemical compounds have a wide range of applications: heavy greases, additives for metal production and glasses/ceramics. However, the primary use of lithium more recently and into the future is in lithium-ion batteries for consumer electronics, electric vehicles (EVs) and energy storage. A typical EV battery might contain the equivalent of ~10kg of pure lithium metal, in the form of chemical compounds such as  $\text{Li}_2\text{CO}_3$  or  $\text{LiOH}$ .

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 Liontown).

# Personal disclosures

Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Zenith Minerals (ZNC.AX) | Price A\$0.08 | Valuation A\$0.42;

*Price and valuation as at 03 May 2024 (\* not covered)*

# Additional disclosures

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