

## Lomiko Metals Inc. (TSXV: LMR / OTC: LMRMF)

### Nouveau Monde's Permit to Bring Focus on Graphite Juniors in Quebec

**BUY**

**Current Price: C\$0.14**

**Fair Value: C\$0.27**

**Risk: 5**

**Sector / Industry: Junior Resource**

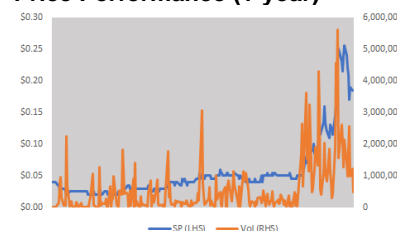
[Click here for more research on the company and to share your views](#)

#### Investment Highlights

- Lomiko Metals Inc. ("company", "Lomiko", "LMR") is completing metallurgical tests to evaluate the potential for using La Loutre's graphite (Quebec) in batteries.
- The company is planning to complete a Preliminary Economic Assessment ("PEA") this fall.
- **Nouveau Monde's (TSXV: NOU) Matawinie graphite project in Quebec recently received a mine permit.** Once in operations, this will be the largest graphite mine in North America. We believe this will bring more focus on graphite juniors in the province. LMR's La Loutre is 200 km southwest of Matawinie, and 53 km south of the operating Imerys carbon and graphite mine.
- Flake graphite prices were up 6% in January 2021, on rising demand for electric vehicle batteries. We estimate the demand for natural graphite for batteries to increase at least 5x this decade.
- **Based on drilling since the previous resource study in 2016, we expect a 75% increase in resource estimate. On an Enterprise Value to Resource basis, LMR is trading at \$18/t versus the comparables' average of \$36/t.**

**Sid Rajeev, B.Tech CFA, MBA**  
Head of Research

#### Price Performance (1-year)



	YTD	12m
Ret.	155%	250%
TSXV	7%	81%

#### Company Data

52 Week Range	\$0.02 - \$0.28
Shares O/S	174,894,857
Market Cap.	\$24M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.3x

#### Key Financial Data (FYE - July 31)

(C \$)	2020	2021 (3M)
Cash	\$18,962	\$597,136
Working Capital	-\$397,525	-\$100,901
Mineral Assets	\$3,562,506	\$3,562,506
Total Assets	3,812,404	4,394,457
Net Income (Loss)	-\$1,186,004	-\$408,270
EPS	-\$0.01	-\$0.00

\* Current cash position: \$1.8M.

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

## Key Developments Since our Previous Report in February 2020

### *Increased interest to 100%*

In February 2021, the company increased its ownership in La Loutre from 80% to 100% for \$1.125M in cash. This move was expected, and therefore, did not have any material impact on our valuation.

### *Strengthens board*

The company added two new board members. Brief biographies, as provided by the company, follow:

**Mike Petrina - Director, Project Manager:** Mr. Petrina is a Mining Engineer with over 30 years of expertise in operations, engineering and project development, skilled at advancing open pit and underground projects whilst working responsibly with local stakeholders, First Nations communities and investors to maximize project value. Experienced in managing large workforces or small technical teams. Mr. Petrina has years of executive experience with Adanac Molybdenum, Hawthorne Gold, MAG Silver and Probe Minerals. Mr. Petrina's extensive experience with advanced-stage projects in the Pre-economic Assessment (PEA) Stage will be helpful as Lomiko proceeds with the La Loutre Project.

**Gregg Jensen — Director:** Mr. Jensen has over 25 years of experience in Finance and Business management spanning several industries from technology, mining, engineering, to professional services. Mr. Jensen is currently Managing Director of Mavericus Ventures Corp. a private merchant bank investing in early stage private and public companies, he has also served on several public and private boards and has held several executive roles. Mr. Jensen has led several companies through multiple capital raises, several M&A and joint venture transactions as well as turning around struggling companies.

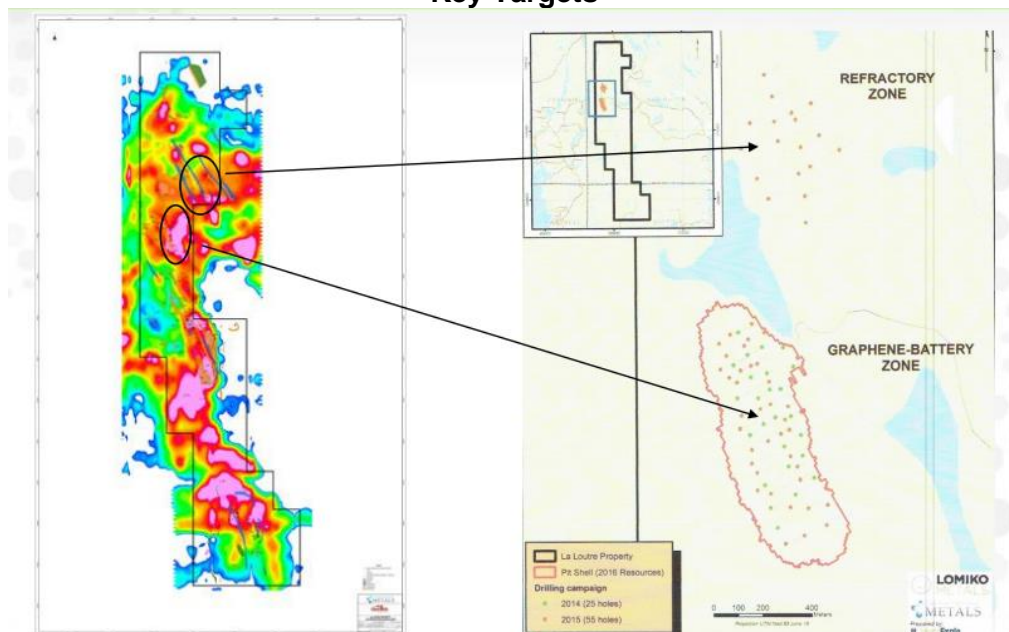
### *Near-Term Plans*

SGS Canada is conducting metallurgical tests, with results expected shortly. The company's near-term plans are listed below:

- Complete metallurgy and graphite characterization to confirm potential for use in batteries this month.
- A PEA by fall.
- The company has engaged a U.S. based broker-dealer to raise up to \$40M for acquisitions. Management has yet to disclose their targets, but we expect their focus to be within EV metals in North America.

LMR has yet to complete a maiden resource estimate on the EV zone (previously named Refractory), which is one of the three known zones on the property. The other two zones, the Graphene-Battery zones, have resource estimates, calculated in 2016.

**Key Targets**



**2016 Resource Estimate on the Graphene-Battery Zones**

Indicated Resource				
Zone	Cut-off Cg (%)	Tonnage (metric tonne)	Grade Cg (%)	Graphite (metric tonne)
All Zones	> 3.0	4,137,300	6.50	268,800
	> 2.5	6,927,500	4.95	342,900
	> 2.0	15,181,200	3.49	529,200
	> 1.5	<b>18,438,700</b>	<b>3.19</b>	<b>588,400</b>
	> 1.0	19,005,400	3.13	595,700
	> 0.8	19,137,500	3.12	596,900
	> 0.6	19,279,600	3.09	595,300
> 0.5	19,381,900	3.09	598,400	
Inferred Resource				
Zone	Cut-off Cg (%)	Tonnage (metric tonne)	Grade Cg (%)	Graphite (metric tonne)
All Zones	> 3.0	6,181,000	6.11	377,600
	> 2.5	9,699,200	4.86	471,800
	> 2.0	15,332,000	3.92	600,300
	> 1.5	<b>16,675,100</b>	<b>3.75</b>	<b>624,900</b>
	> 1.0	16,927,300	3.71	628,000
	> 0.8	17,120,500	3.68	629,700
	> 0.6	17,306,700	3.63	628,100
> 0.5	17,400,900	3.63	631,600	

Source: Company

18.4 Mt at 3.19% indicated, and 16.7 Mt at 3.75% inferred, with a cut-off grade of 1.5%

Based on drilling on the EV zone in 2019 (21 holes / 2,985 m), which intercepted high-grades (over 10% Cg) over long intervals, we believe the company's resource estimate has expanded by both grade and tonnage. The EV zone has a potential strike length of 900 m, with a width of 200 m, vs the Graphene-Battery zones' 700 m strike and 300 m width. **We are expecting a 75% increase in the 2016 resource estimate.**

200 km from NOU

Nouveau Monde Graphite was recently provided a mine permit. They are preparing to commence full scale commercial operations at their Matawinie graphite project. A 2018 feasibility study had returned an AT-NPV8% of

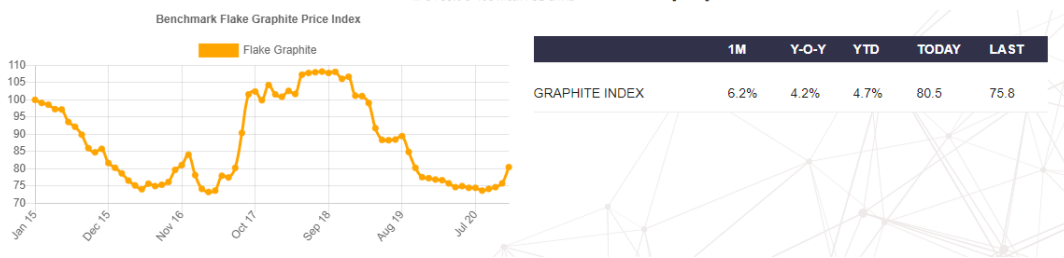
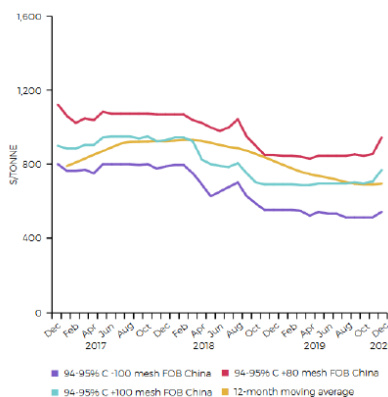
US\$575M, with an AT-IRR of 32%, based on a 25-year operation. The project has an initial CAPEX of US\$211M, and an OPEX of US\$382/t. Once in operations, this will be the largest graphite mine in North America. As mentioned earlier, we believe this development will bring more focus on graphite juniors in Quebec.

### Outlook on Graphite

The following charts show flake graphite pricing at different mesh levels. Flake graphite prices were up 6% in January 2021, on rising demand for electric vehicle batteries.

Flake graphite prices up 6% MoM in January 2021

Flake Graphite Prices (January 2021)

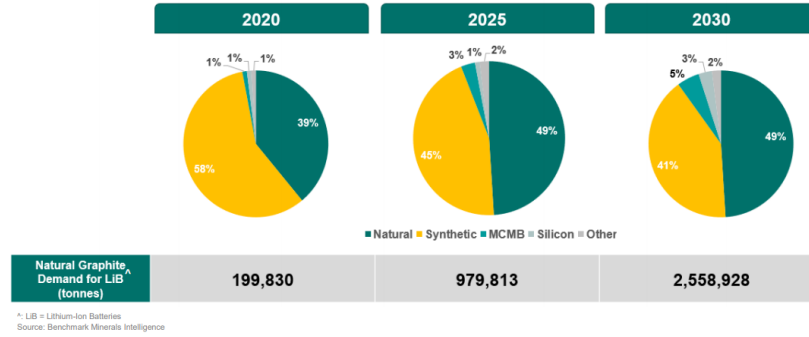


Source: Benchmark Intelligence

Demand for flake graphite in batteries to increase at least 5x by 2030

Based on a consensus global electric vehicle sales forecast of 25-30M by 2030, and an average use of 50 kg graphite per vehicle, we estimate graphite demand will increase by 1 Mt tonnes per year over the next decade. This compares to the current demand for graphite from batteries of only 0.2 million tonnes. Benchmark Intelligence’s estimates are more optimistic, as they expect natural graphite demand for batteries to increase 10x to 2.6 Mt by 2030.

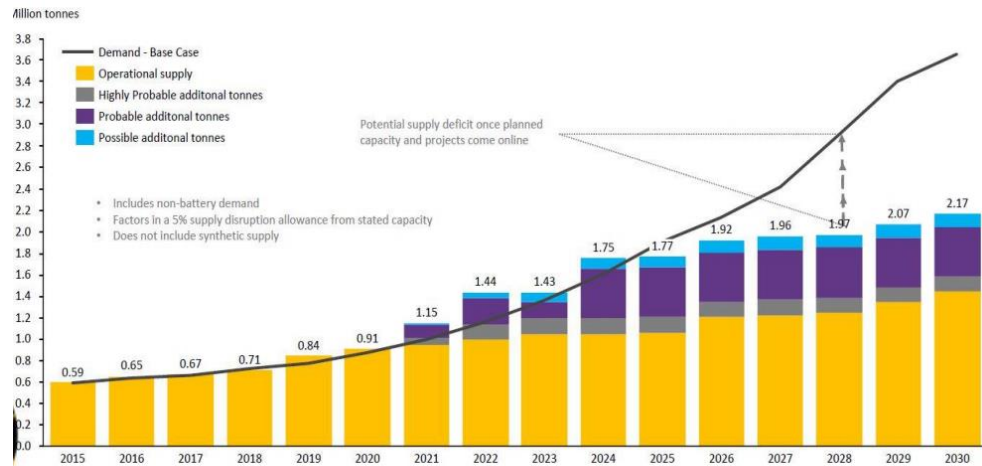
### Demand for Natural Graphite



Source: Syrah

The market is expected to be in a supply deficit starting 2025.

### Supply-Demand Forecasts for Natural Flake



Source: Benchmark Intelligence

Long-term price forecast of US\$1,300/t

New demand can be filled by synthetic graphite and flake graphite. Comparing the cost to convert flake graphite to end products used in batteries (also known as spherical graphite), and manufacturing synthetic graphite, we believe flake graphite will be preferred as long as natural graphite prices are below US\$3k per tonne. **This implies that prices have to more than double from current levels for battery manufacturers to prefer synthetic products.**

## Financials

### Financial Position

(in C\$)	2020	2021 (3M)
Cash	\$18,962	\$597,136
Working Capital	-\$397,525	-\$100,901
Current Ratio	0.12	0.86
LT Debt / Assets	-	-
Monthly Burn Rate (G&A)	-\$54,705	-\$51,923
Cash Spent on Properties	-\$32,514	\$0
Cash from Financing Activities	\$511,110	\$452,394

*Data Source: Financial Statements*

*Current cash position of \$1.8M*

Since the end of Q1 (October 2020), the company raised over \$2M through flow-through and non flow-through financings.

### Stock Options and Warrants

*In-the-options and warrants can bring in up to \$6.5M*

The company currently has 8.55M options (weighted average exercise price of \$0.05 per share), and 74.01M warrants (weighted average exercise price of \$0.08 per share) outstanding. All the options and warrants are in the money, implying a potential to raise up to \$6.50M.

### Valuation

The following table shows LMR and comparable junior resource companies focused on graphite projects. Note that none of the projects are directly comparable as there are significant variations in the characteristics (flake size, distribution, grade, etc.) of each project.

LMR is trading at \$18/t vs the comparables average of \$36 (\$7.5 at the time of our previous report in February 2020)

Note that we are expecting a 75% increase in LMR's resource estimate

Based on \$36/t, we arrived at a valuation of \$0.27 per share vs our previous estimate of \$0.21 in a note published last month

	Company	Location	Stage	Enterprise Value (\$,mm)	In-Situ Graphite		Grade	% Large Flake (+80 mesh)	EV / Resource*
					M&I (Mt)	Inferred (Mt)			
1	ZEN Graphene Solutions	Ontario	PEA	\$278	0.97	0.45	3.6%	n/a	\$233.5
2	Nouveau Monde Mining	Quebec	FS	\$705	5.08	1.29	4.1%	35%	\$123.1
3	Leading Edge Materials	Sweden	Production-Ready	\$44	0.82	0.16	9.3%	40%	\$48.7
4	Westwater Resources, Inc.	Alabama, U.S.	PEA	\$134	1.88	2.03	2.5%	29%	\$46.3
5	Focus Graphite	Quebec	Feasibility	\$84	1.77	0.37	14.9%	34%	\$43.0
6	South Star	Brazil	PFS	\$16	0.34	0.18	2.3%	63%	\$37.0
7	SRG Mining	Republic of Guinea	FS	\$66	1.88	0.16	4.1%	57.00%	\$33.7
8	Magnis Energy	Tanzania	Feasibility	\$232	6.48	2.86	5.4%	55%	\$29.3
9	NextSource Materials Inc.	Madagascar	Feasibility	\$193	6.29	2.37	6.3%	46%	\$25.8
10	Graphite One	Alaska	PEA	\$110	0.85	7.34	8.0%	59% - 94%	\$24.3
11	Northern Graphite	Ontario	Feasibility	\$33	1.21	0.40	1.7%	77%	\$23.4
12	Lomiko Metals	Quebec	Resource	\$28	0.59	0.62	3.5%		\$17.7
13	Syrax Resources	Mozambique	Production	\$583	28.71	100.00	11.0%	20%	\$7.4
14	Mason Graphite	Quebec	Feasibility	\$74	11.29	3.04	5.0%	29%	\$5.8
<b>Average (excl. outliers)</b>					<b>3.03</b>	<b>1.64</b>	<b>5.8%</b>	<b>44%</b>	<b>\$35.8</b>

\* Resource = 100% of M&I + 50% of Inferred

Valuation	\$, Millions	Value per Share
La Loutre (based on \$36/t)	\$55.44	\$0.26
WC + Investments	\$1.68	\$0.01
<b>Fair Value</b>	<b>\$57.11</b>	<b>\$0.27</b>

Source: FRC / Various Company Websites and Technical Reports

**We are maintaining our BUY rating, and raising our fair value estimate from \$0.21 to \$0.27 per share. We believe LMR's key catalysts will be results of the ongoing metallurgical tests and the PEA.**

### Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is highly dependent on flake graphite prices.
- Exploration and development risks.
- Access to capital and potential share dilution.
- An economic assessment has yet to be completed on La Loutre.

**We continue to rate LMR's shares a risk 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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