Lithium Bull February 6, 2017

As keynote speaker at Canadian broker Cormark Securities Lithium and Battery conference last month, former Tesla executive, Dr. David Deak, channeled his former boss Elon Musk's EV-angelizing with a persuasive **THINK BIG** about global lithium supply needs. I can see why Joe Lowry commented that Dr. Deak makes Mr. Lithium look like a pessimist.

Forget Deutsche and Goldman's now consensus 535,000 LCE forecast in 2025, or Morningstar's more bullish 800,000 by that period. Dr. Deak suggests lithium demand will increase TWENTY TIMES in 15 years. And will require $60B of investment capital and about 60 to 100 new lithium mines to be built, starting now.

The presentation, now posted on Lithium Americas website, bestows positive comments about lithium process plants producing lithium hydroxide directly, avoiding the intermediate process of lithium carbonate. Likewise, the importance of green energy sources like hydro-electric power, strong infrastructure and appealing sovereign risk - **THINK NEMASKA**. And Socialist Quebec subsidizing a very prominent North American jurisdiction for lithium.

Dr. Deak's optimistic that *"clay deposits are going to be unlocked, with low-cost low-footprint processes,"* which should create value for Lithium Nevada, but also **THINK BACANORA.**

Finally, on hardrock, "*they are essential to the industry's growth and will be profitable for the foreseeable future."* **THINK ALTURA.**

http://lithiumamericas.com/wp-content/uploads/2017/01/Presentation-DDeak-Cormark.pdf

One down. Six to go?

Last month I suggested 7 projects could get fully funded this year:

Emerging Lithium Developers/Producers	Mkt Cap (USD)	2017 Financing Need (USD)	2/6/16 Price	YTD	Location	Type
Galaxy – Sal da Vida	$799	$375	$0.60	13%	Argentina	Brine
Pilbara Minerals	$469	$140	$0.52	3%	Australia	Hard Rock
Nemaska	$343	$400	$1.47	19%	Quebec	Hard Rock
Lithium Americas*	$322	$250	$1.02	28%	Argentina	Brine
Altura Mining	$156	$115	$0.18	29%	Australia	Hard Rock
Bacanora	$106	$300	$1.29	28%	Mexico	Clay
North American Lithium	NA	??	NA	NA	Quebec	Hard Rock
Total Emerging		$1,580				
*Pro-forma for Ganfeng/Bangchak equity						

Some quality ink has been spilled analyzing the creative and not overly dilutive Lithium Americas financing -- more so on social media than any sell-side analyst commentary:

Paul Ensor:

http://seekingalpha.com/article/4039060-fully-funded-lithium-americas-re-rate-near-term-producer

Joe Lowry:

https://www.linkedin.com/pulse/lithium-next-chapter-joe-lowry?trk=prof-post

Lithium Americas compared to Nemaska and Galaxy

One way I've come to think about Lithium Americas' new profile is: "Lithium United Nations" or "Lithium Emerging Markets".

Project in Argentina. Partners listed on stock exchanges in Santiago, Shanghai and Bangkok. Lithium Nevada is interesting, but vague. In a few months time, after the market digests Lithium Americas' imminent, revised DFS; once Ganfeng and Bangchak's equity checks are in the bank; and the Minera Exar JV has its Final Investment Decision and ribbon-cutting start-of-construction ceremony, I suspect investors will start to ask "what's next?"

Nemaska, in contrast, I see having more developed market branding. Project in Canada. Government directed Investissement Quebec a large shareholder and cheap debt provider. London and New York Stock Exchange-listed partners - Johnson Matthey, FMC. I suspect these factors provide lower risk premium/better cost of capital, which could explain why Nemaska trades at a premium valuation. Following Dr. Deak's prognostication, Nemaska's "Proprietary Technology" going straight to Lithium Hydroxide could trump lingering "never been done before" sentiment, especially upon Nemaska achieving important milestone processing successfully Johnson Matthey material at its Phase One plant.

As Galaxy's share price bounced around 60 cents last month, Canaccord's Reg Spencer upgraded his target from 60 cents to 80 cents on January 22. 10 days later – today, Feburary 6 -- Galaxy announced a trading halt for a capital raise in connection with their announcement of a development team for their Sal da Vida project in Argentina.

Much is not yet clear – how much are they raising, what is the development timeline -- but this apparent "go-it-alone" strategy will bear significant market scrutiny, given the delays and technical issues Orocobre has endured. I know and have high regard for Vijay Mehta, advisor on Galaxy's technical team, but of critical importance will be the competencies of the local boots on the ground. CVs look good on paper. I look forward to learning more about them.

Galaxy's new presentation targets first production in 2H 2019, but as it also mentions a new demo plant as part of its development plan, I suspect production is more likely to slip to 2020. This may not matter much - Galaxy is in the fortunate position of having very strong cash flows to look forward to from Mt Cattlin, so a slight delay to ensure this is developed correctly is no bad thing. It could also buy time prospectively for Albermarle or another strategic suitor to come back to the Galaxy table and bite the bullet on what surely is a high asking price.

Canaccord's January 22 report provides a sum-of-the parts valuation for Galaxy as follows.

Valuation		A$m	A$/share
Mt Cattlin	NPV10%	765.3	0.40
Sal de Vida	Estimate	655.4	0.34
Exploration & Other	Estimate	100.0	0.05
Corporate		(42.7)	(0.02)
Cash	Estimate	22.3	0.01
Debt		(47.9)	(0.02)
ITM options		11.0	0.01
TOTAL NAV		1,463.6	0.76
Target Price			**0.80**
P/NAV			0.78x

Mt Cattlin, a spodumene producer, is valued at AUD 765M which compares to Canaccord's 2017 EBITDA forecast of AUD 132. This equates to 6X EBITDA for the current 12-month period which is not unreasonable. Miners that only produce commoditized, lower value spodumene, should trade at a discount to the 12-14X multiples received from integrated LCE producers.

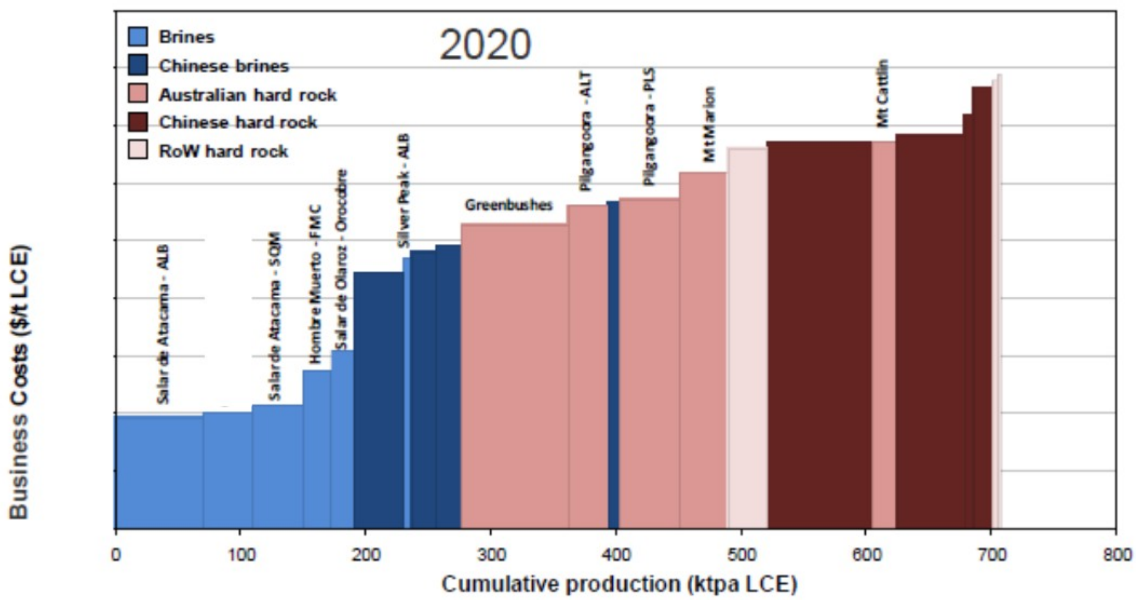
Canaccord's valuation for Sal da Vida at AUD 655 also seems not unreasonable, about 50% of the AUD 1.4B NPV10% reflected in Sal da Vida's revised DFS published last summer.

Yet, consider, this valuation for Sal da Vida is higher than Lithium Americas' total enterprise value, pro-forma for Ganfeng and Bangchak financings. Does that make sense? Nearly identical project economics, but Lithium Americas is closer to production and fully de-risked with operating, funding and marketing partners, and trades at a lower market valuation.

Altura Minerals

Since last month, I've had some time to get to know this hardrock Australian name, after an analyst I respect suggested it looked like a good pair trade relative to Pilbara.

At AUD 210M, Altura trades at about half the market value of Pilbara, yet is already permitted, expects to be in production sooner (2017) and is lower on the cost curve than Pilbara, as well as Galaxy's Mt Cattlin and NeoMetals Mt. Marion according to consultancy CRU.



Source: CRU, September 2016

Altura also finally received cash in the bank from their Chinese partners – an important signal, given China's capital controls and an aborted deal by a different Chinese company for Birmian's Mali lithium project.

As with Lithium America's Ganfeng, Altura has real Chinese operators and money behind it. Binding Offtake Agreement with Lionergy and MOU & AUD 41.6M equity investment with J&R Optimum Energy, a leading Chinese battery producer.

PROMINENT NEW LITHIUM JUNIORS

Following in Galaxy and Lithium Americas footsteps, an Argentina lithium rush is underway on the TSX-V, many backed by Vancouver and other elsewhere-domiciled resource royalty. More on that, in moment. But first, a word about North Carolina.

<u>WCP Resources (ASX:WCP) – The Piedmont Lithium Project</u>

North Carolina, home to FMC and Albemarle and cutting edge lithium processing technology, was also the primary source of lithium mining in the United States from the 1960 to early 1990s. The region, some 40km outside Charlotte, could soon Make America Great Again for hard rock lithium mining as WCP Resources continues its drilling and advances the Piedmont Lithium Project to PEA later this year.

Backed by Perth, Australia-based Apollo Group, who's Chairman Ian Middlemas and team has founded, built and created enormous shareholder value for resource plays in the uranium, gold, copper and coal sector, WCP hopes to outline a resource of similar economic grade to Quebec's Nemaska or Pilbara/Altura's Pilgangoora, Galaxy's Mt. Cattlin or Neometals Mt Marion.

WCP's capex should benefit greatly from the infrastructure and warm weather, compared to Quebec (no need to winterize, build camps, power lines, roads etc), while its opex should share Quebec's energy cost advantage with low cost nuclear, coal and natural gas providing North Carolina with one of the lowest cost per kwh of energy.

Cost of energy is a critical to both hard rock mining and processing – Australia's energy costs are some 5 times higher than Quebec's, a principal reason they ship lower value spodumene to Chinese converters.

More to come on WCP in coming weeks.

TSX-listed Argentine lithium rush

The TSX has had some bi-polar disorder when it comes to lithium the last few years. Since Elon Musk announced the Gigafactory and its location in Nevada in early 2014, lithium correlated names like Western Lithium/Lithium Americas saw their stocks soar in 1H 2014, 1H 2015 and 1H 2016 periods of substantial newsflow and financing, only to languish by Q4.

We are again in the 1H of the year, with substantial newsflow and financing…

Last year's lithium rush was sedated in part in favor of a cannibas high in the 2H. But during this period, some additional newcomers put together some interesting land packages and deals and the TSX-V now have five promotion machines vying for investor attention as the next Lithium Americas or Galaxy:

- Millennial Lithium
- Neolithium
- Lithium X
- Advantage Lithium
- Lithium S Corp

The sponsor/promoters of each of these are quite impressive – all have created immense shareholder value over the years, and lost a bunch too, but on balance it would be wrong to bet against them, in the same way many believe it is wrong to bet against Elon Musk.

Friends and family and other accredited investors have begun evaluating and feeding these ducks with respectable quantums of cash, so they are definitively on the radar and worth watching. For example:

- Neolithium raised CAD 25M through an upsized bought deal on January 31.

- Advantage Lithium's deal with Orocobre and CAD 20M financing looks set to go through by end February now that the price of the deal was lowered.

- Lithium S, currently private, is undertaking an RTO and CAD 40M capital raise into Oakham Capital, for which a detailed qualifying transaction filing was posted to Sedar on January 27.

All of these five names have multiple projects, but I believe investors will likely focus on each company's "flagship" project and give little value to the rest – similar to the market giving almost no valuation to Orocobre's Borax unit or Lithium Americas' Nevada Lithium asset (exception to this rule is Galaxy's Mt Cattlin and Sal da Vida).

The table below summarizes these five TSX-V listed Argentine brine plays on the parameters I feel are important:

	Millennial Lithium (ML)	Neo Lithium (NLC)	Lithium X Energy (LIX)	Advantage Lithium (AAL)	Lithium S Corp (LSC)
Flagship Project	Pastos Grandes	Tres Quebradas	Sal de los Angeles	Cauchari	Salar de Pozuelos
Region	Salta	Catamarca	Salta	Jujuy	Salta
Ownership	Option to acquire 100%	Option to acquire 100%	Option to acquire 80%	Option to acquire 75%	Option to acquire 100%
Project Stage	Resource Definition	Grass Roots Exploration	PEA/Feasibility	Grass Roots Exploration	Grass Roots Exploration
Shares Outstanding (Basic)	36,631,000	88,331,000	67,500,000	124,858,502	118,000,000
Shares Outstanding (FD)	43,200,000	104,996,500	73,600,000	140,858,502	134,000,000
Share Price	$1.78	$1.20	$2.26	$0.90	$1.30
Cash	$6,000,000	$35,000,000	$14,500,000	$27,900,000	$40,000,000
Technical Team	Ex Galaxy	Ex Lithium Americas	Ex Rockwood	NA	NA
Vendor/Shareholder/Partner	NA	NA	Aberdeen/ Forbes & Manhattan	Orocobre	Sentient/ Enirgi/ LitheA
Market Cap (Basic Shares, CAD)	$65,203,180	$105,997,200	$152,550,000	$112,372,652	$153,400,000
Comments:		**Post Jan 31 bought Deal**		**Pro-forma for Orocobre/$20M funding**	**Proforma for $40M RTO & LitheA acquisition**

Value Creation and Millennial Lithium

In evaluating any and all these companies, my primary checklist includes:

- Valuation
- Quality of technical team
- Stage of development of flagship project
- Capital Structure
- Level of Project ownership

To create value, I don't believe it is necessary for these companies to spend $80M+ to drill out an enormous resource size as Lithium Americas did at Cauchari (3rd largest brine, 11M tons+ resource) or define a path to 40 or 50K tons/year production. CAD 30-40M should be enough to advance through definitive feasibility study, inclusive of pilot plant, before seeking to fully fund a construction decision for modest initial capex project with strong IRRs and short payback period.

Key questions for each company and their flagship project:

- Will they define a resource of sufficient size, say 1-2M tons?
- Do they have a credible path to produce at 10-15K tons per year?
- What is the timing to outline definitive economics?
- What is a time frame to first production?

I tend to be attracted to substance over style. Millennial Lithium, which sports the lowest valuation of the above group, provides good answers to these questions and ticks many other boxes.

With a technical team lead by Iain Scarr, who prepared Galaxy's original DFS, and with strategic advisor Vijay Mehta, who is also on Galaxy's just announced development team, Millennial's flagship Pastos Grandes project, for which it holds an option for 100%, has good potential. Unlike a number of its peers who are just starting grass roots exploration, Pastos Grandes has had significant work done by Eramine, so is further along the development path with PEA expected by the fall of this year. Millennial also has a clean and uncomplicated capital structure, with the fewest shares outstanding and some of the highest level of insider ownership among its peers.

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