



Monday Morning, ASX Open, October 2, 2017

### Us & Them

Please indulge me for the first few pages. And hopefully make it to through to page 15, which includes a small analysis on how I look at early brine developers in Argentina.

Everyone has their favorite rock band and for some reason I can't precisely recall, sometime in 1980's Long Island, NY as 1973-released **The Dark Side of the Moon** was spending its 500<sup>th</sup> week (nearly 14 years!) on Billboard's charts, something about Pink Floyd penetrated deep into my psyche. The very first "The Wall" tour took place in 1980-81 – when I was a too young 12/13 and had a father who preferred Lawrence Welk. The first Wall tour played only 31 shows in a few locations. Earl's Court, London was one. Nassau Coliseum, 30 minutes from my home, another. The band broke up soon after their following album, The Final Cut in 1982.

So I was thrilled September 12 with lithium stocks raging to celebrate my wife's 39<sup>th</sup> birthday for the 8<sup>th</sup> time romantically with my older cousin to see 74-year-old Roger Waters, in Brooklyn's Barclays Arena. And share the experience as well with my nearly 13-year old son. Who, incidentally, has some musical talent himself and has been composing his own electronic music (EDM).



Jamie Klein, aka Sitting Duck, on Soundcloud:

Click here: <https://soundcloud.com/user-197774569/tracks>



### 52-week High

Two very long sets over three hours focused on Pink Floyd's prime 1970 – 1979 years, from Meddle, through Dark Side of the Moon, Wish You Were Here, the Wall, and an absolutely spectacular sequence of Animals. It was awesome, dude! And another History Repeat/Déjà vu moment – in 2010 Roger toured The Wall, which I saw five times at Madison Square Garden, Vancouver's Rogers Stadium, London's O2 Arena, an arena in Budapest and, finally, at Yankees Stadium.

Roger will be in Toronto this Monday and Tuesday. On October 28 – my birthday – he will again be in Vancouver. See you there my Canadian friends! And maybe in Oz in February!

Roger, and his entourage, is, as he has always been, ahead of his time in creating a spectacular audio-visual experience with explicit and sardonic political undertones. Roger also is the second most narcissistic performer I've observed in my life. Donald Trump, who features prominently and entertainingly (no matter your political persuasion – at least if you have any sense of humor) is, of course, the first.

I should say that I am aware of and will not comment on Roger's point of view and activities as it pertains to a certain issue in the Middle East, for which many of those I invited to the concert politely declined. All I can say is that I cannot resist what may be my last Roger Waters concert. But that I also cannot RESIST, Roger, as you implore us to do.

### Pink Floyd Lithium Narratives

Various lithium narratives came to mine, some framed in the context of the concert's **Us & Them** theme.

#### Example One: China & Non-China

Emerging Producers ORE, GXY, KDR, NMX and BCN are currently without Chinese shareholders/off-take partners. MIN, NMT, PLS, AJM, LAC are in the China camp, along with ALB at Greenbushes. How will the lithium world evolve in this context if Potash Corp sells their 32% SQM stake to a Chinese strategic?

The emergence of **Great Wall Motor Company** – rumored interest in Fiat Chrysler, then dipping their toe with a small investment in Pilbara – fits my belief that China sees in EVs an opportunity to achieve global leadership they could never obtain with ICEs. And they are ahead of their Western peers in recognizing the importance of sourcing the materials fueling an insanely fast market disruption for which China is a leading part. That China changed their requirement that Western auto makers no longer must form JVs for access to Chinese market, shows some maturity and savvy - this change is now more likely to speed knowledge transfer inside the country.

A prominent resource private equity partner recently who shared feedback from a meeting with Ivan Glasenberg and his team which reflected Glencore's view that China really means it this time – they are determined to clean up pollution. This was not to say they cared all that much about climate change nor that they cared very much about how they behave obtaining minerals in places like Africa. Which is why I do believe it is plausible, but with only about a 33% probability, that the Chinese takeover thesis of AVZ



may play out. Recall – their partner **Huayou** is a leading DRC buyer of child labor cobalt. But I see far more Sustainable narratives elsewhere, with much better risk/reward profiles.

**Example Two:** The **London Lithium Institutional Investor Oligopoly**, courtesy of Henry Sanderson at the Financial Times:

### Us (Lithium Long)

SEPTEMBER 15, 2017 by **Henry Sanderson**

BlackRock has emerged as a big backer of lithium start-ups, as the world's largest asset manager bets on the widespread adoption of [electric vehicles](#).

The BlackRock World Mining Trust, which has more than £800m in assets and is co-managed by Evy Hambro, has become the largest shareholder in a handful of small mining companies aiming to produce lithium for use in batteries.

While Mr Hambro's fund holds shares in [Albemarle](#), whose shares have risen 46 per cent this year, **the junior lithium development companies are trading at "material discount" to the established producers**, he said.

### Them (Lithium Wrong)

Neil Gregson, who manages \$2bn in natural resources equities at JPMorgan Asset Management, said many new projects would struggle to come into production. Incumbent producers would also ramp up supply in response to higher prices, he said.

The scramble for lithium had echoes of the rare earth boom of 2010, Mr Gregson said, when fears that China would cut supplies triggered a rapid rise in prices, before collapsing two years later. A similar boom boosted uranium prices in 2007, leading miners to reopen dormant mines.

"It's obviously a theme that's going to run for some time, but, like uranium and rare earths, they eventually do get overhyped and nine out of 10 projects never see the light of day," Mr Gregson said.

**Sidebar:** it's nice to see that even prominent institutional fund managers like BlackRock talk their book, if not on Twitter, to a much louder megaphone of one of the most globally influential financial newspapers.

**Sidebar 2: THIS IS NOT A REPLAY OF URANIUM AND RARE EARTHS WHICH HAD VERY DIFFERENT AND SPURIOUS DEMAND/SUPPLY UNDERPINNINGS – LITHIUM, COBALT SULPHATE AND NICKEL SULPHATE ARE MUCH MORE LONG-TERM SUSTAINABLE DUE TO EV DEMAND SHOCK CAUSED BY CHEAPER BATTERIES, GOVERNMENT POLICY AND BETTER USER EXPERIENCE.** And, yes, 9 of 10 lithium stories won't make it long-term, but 10-12 will, and if you look closely there are about 30 that truly have a chance, so study and start to allocate more dollars as you are missing an easy trade!



### Wish You Were Here

I thought about an old friend and fantastic human being and athlete, Ed Flood, who passed away prematurely few years back. Ed founded Western Lithium on the Nevada Lithium asset and would have been proud to see the value creation for what is now LAC. Stay tuned – Clay will have its Day.

Click Here: <https://www.youtube.com/watch?v=HR7rFXn4-zk>

### Brain Damage

**AVZ**

*War on Terror*

<https://www.voanews.com/a/congo-kabila-paints-violence-kasai-as-war-on-terror/4041591.html>

*Non-Democratic Republic of Congo*

<https://www.yahoo.com/news/kabila-un-pledges-dr-congo-elections-still-no-144443995.html>

*2,500km from port.*

*\$300M roads needed; \$45M power plant needed; \$1,000+ spodumene price needed?*

Click Here: [https://www.youtube.com/watch?v=V\\_1h9hl7JfE](https://www.youtube.com/watch?v=V_1h9hl7JfE)

### Dogs

**North American Lithium?**

*“You have to be trusted, by the people that you lie to, so that when they turn their back on you, you will get the chance to put the knife in!”*

Click Here: <https://www.youtube.com/watch?v=ux1usdNyRJw>

### The Great Gig (afactory?!) in the Sky

*NOTE: fantastic rendition by the Australian Pink Floyd – **3M views!***

Click Here: <https://www.youtube.com/watch?v=sxo00JkbaMY>



### Twitter Follies

#### The Happiest Days of Our Lives

*When we grew up and went to school, there were certain teachers who would hurt the children in anyway they could...  
By pouring their derision about anything we did, exposing every weakness, however carefully hidden by the kid...*



@globallithium

Click Here: <https://www.youtube.com/watch?v=bPXk6VqIa6U>

#### Another Brick in the Wall Part 2



@ML\_Superninja

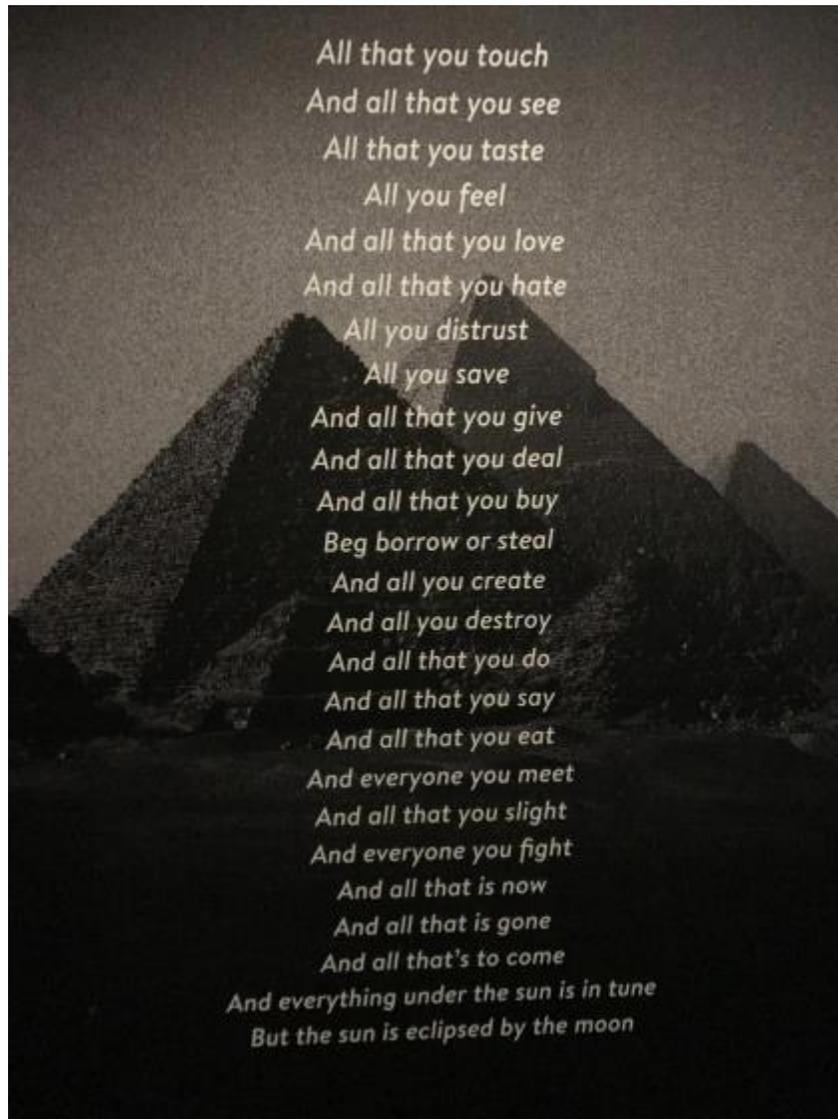
*We don't need no education  
We don't need know thought control  
No dark sarcasm, in the classroom  
Hey, teacher, leave us kids alone!*



## Eclipse

I missed the real one a few weeks back. But was happy to see and hear this one:

Click Here: <https://www.youtube.com/watch?v=40VWLkB8WNs>



And, for the Encores, now that we're all Comfortably Numb...

Click Here: <https://www.youtube.com/watch?v=wUHCYQEdJLA&t=57s>



...Let's talk about Money: Mr. Market Seeing Lots of Green

Click here: <https://www.youtube.com/watch?v=t4PILntvoqc&t=29s>

| Pricing as at end of trading day, Sept 30, 2017            |          |                  |                                      |       |      |      |
|--|----------|------------------|--------------------------------------|-------|------|------|
| Big 5 Producers  | Exchange | Mkt Cap (M USD)  | Share Price                          | YTD   | 1m   | 3m   |
| Albemarle  | NYSE     | \$ 15,060        | \$ 136                               | 58%   | 19%  | 30%  |
| SQM  | NYSE     | \$ 14,100        | \$ 56                                | 94%   | 18%  | 68%  |
| FMC  | NYSE     | \$ 11,980        | \$ 89                                | 58%   | 6%   | 22%  |
| Tianqi Lithium Industries                                  | SHE      | \$ 10,129        | \$ 70                                | 117%  | 3%   | 29%  |
| Ganfeng  | SHE      | \$ 9,222         | \$ 87                                | 223%  | 18%  | 89%  |
| <b>Big 5 Producers Investable Market Cap</b>               |          | <b>\$ 36,354</b> | (adjusted for ALB, SQM, FMC lithium) |       |      |      |
| Emerging Producers   |          |                  |                                      |       |      |      |
| Mineral Resources  | ASX      | \$ 2,440         | \$ 16.3                              | 34%   | 9%   | 50%  |
| Galaxy   | ASX      | \$ 840           | \$ 2.60                              | -1%   | 47%  | 57%  |
| Pilbara Minerals   | ASX      | \$ 792           | \$ 0.64                              | 27%   | 76%  | 67%  |
| Orocobre   | ASX      | \$ 754           | \$ 4.47                              | -1%   | 32%  | 29%  |
| Altura Mining  | ASX      | \$ 304           | \$ 0.24                              | 74%   | 42%  | 88%  |
| Kidman Resources   | ASX      | \$ 271           | \$ 0.98                              | 65%   | 39%  | 60%  |
| Neometals  | ASX      | \$ 124           | \$ 0.29                              | -15%  | 4%   | 6%   |
| Lithium Americas   | TSX      | \$ 589           | \$ 1.66                              | 108%  | 44%  | 89%  |
| Nemaska  | TSX      | \$ 429           | \$ 1.41                              | 14%   | 17%  | 40%  |
| Bacanora   | AIM      | \$ 139           | \$ 1.30                              | 29%   | -3%  | 5%   |
| <b>Emerging Producers Investable Market Cap</b>            |          | <b>\$ 4,973</b>  | (adjusted for MIN's lithium biz)     |       |      |      |
| Development & Exploration                                  |          |                  |                                      |       |      |      |
| Global Geosciences   | ASX      | \$ 213           | \$ 0.23                              | 248%  | 5%   | 59%  |
| Argosy Minerals  | ASX      | \$ 198           | \$ 0.31                              | 1092% | 103% | 299% |
| AVZ Minerals   | ASX      | \$ 138           | \$ 0.10                              | 614%  | -23% | 186% |
| Tawana Resources   | ASX      | \$ 85            | \$ 0.24                              | 109%  | 12%  | 23%  |
| Birimian Ltd   | ASX      | \$ 65            | \$ 0.42                              | 26%   | 84%  | 84%  |
| Piedmont Lithium   | ASX      | \$ 58            | \$ 0.16                              | 121%  | 62%  | 99%  |
| Lithium Power International                                | ASX      | \$ 44            | \$ 0.38                              | 32%   | 7%   | 19%  |
| Lithium Australia  | ASX      | \$ 30            | \$ 0.13                              | -10%  | 8%   | 76%  |
| Alliance Minerals Asset Ltd                                | SGX      | \$ 108           | \$ 0.30                              | 230%  | 20%  | -6%  |
| Critical Elements  | TSX-V    | \$ 198           | \$ 1.64                              | 222%  | -2%  | 48%  |
| Wealth Minerals  | TSX-V    | \$ 132           | \$ 1.79                              | 29%   | 1%   | 13%  |
| Lithium X  | TSX-V    | \$ 128           | \$ 1.86                              | -17%  | -6%  | -5%  |
| LSC Lithium  | TSX-V    | \$ 115           | \$ 1.12                              | -14%  | -6%  | -10% |
| NeoLithium   | TSX-V    | \$ 104           | \$ 1.43                              | 34%   | 48%  | 24%  |
| Standard Lithium   | TSX-V    | \$ 76            | \$ 1.55                              | 182%  | 48%  | 46%  |
| Advantage Lithium  | TSX-V    | \$ 65            | \$ 0.59                              | -39%  | 44%  | 55%  |
| Millennial Lithium   | TSX-V    | \$ 50            | \$ 1.40                              | -1%   | 7%   | -11% |
| Pure Energy  | TSX-V    | \$ 47            | \$ 0.48                              | -16%  | -11% | -6%  |
| Frontier Lithium   | TSX-V    | \$ 43            | \$ 0.40                              | 52%   | 20%  | 10%  |
| Avalon Advanced Materials                                  | TSX-V    | \$ 27            | \$ 0.15                              | 0%    | 12%  | 4%   |
| European Metals Holdings                                   | AIM      | \$ 47            | \$ 0.79                              | 29%   | 3%   | -8%  |
| <b>Development &amp; Exploration Investable Market Cap</b> |          | <b>\$ 1,970</b>  |                                      |       |      |      |
| <b>Total Investable Market Cap</b>                         |          | <b>\$ 43,297</b> |                                      |       |      |      |



### September (End Q3) Highlights

In the month of September, Total Investable Market Cap across the lithium sector rose \$4.2B or 11% to \$43B from \$39B. \$2.6B came from the **Big 5**, while the **Emerging Producers rose \$1.2B**. On a percentage basis, these **Emerging Producers outperformed the Big 5 by 20%: 31% vs. 11%**.

Good for BlackRock. **LISTEN UP USA INSTITUTIONS.**

**Pilbara, Lithium Americas, Kidman** and **Altura** were among the strongest gainers.

#### Unicorn Alert!

|        |       |        |
|--------|-------|--------|
| ORE.AX | 4.41  | 928.4M |
| PLS.AX | 0.645 | 1.004B |
| GXY.AX | 2.59  | 1.045B |

*PLS at one point last week surpasses ORE, joins GXY as AUD Unicorn*



When I gave a presentation at 121 conference in NY in early June, the Total Investable Market Cap figure was \$27B, so, the **aggregate lithium universe** I track is **up 60% in four months**.

**SQM** was the stellar Big 5 Performer among those stocks investable outside China, up 68% in the quarter. While China's investors on Shenzhen pushed **Ganfeng** up 89%.

Of note, I moved **Kidman** from Development & Exploration to Emerging Producer status upon signing definitive JV with SQM, with funding commitments that look to make Kidman fully funded for 2019 initial spodumene production.



It is natural when the market's moving to look for quality, but less promoted stories that haven't moved. **Neometals** and **Bacanora** look interesting in this respect.

I view **AGY** much differently than I do for **AVZ**, but recognize that this one ASX-listed Argentine has behaved very differently than its TSX-brethren who on balance have larger and better salar chemistries and more traditional stories. That AGY took in a Chinese investor – with a sizeable AUD 26M check – has certainly been a differentiator. But USD 200 M market cap?

I'm beginning to understand that in addition to Australian punters in ASX stocks, there's likely some Chinese punters in ASX stocks similar to the ones that trade SGX shares with disproportionately high volume. A common thread with the rise of AVZ, AGY was a deal with a Chinese partner who actually wired the funds, even if only \$15-25M.

### AGY one month behind AVZ?



TSX comps for AGY, which are receiving similar China inquiries, are watching.

As a value guy, **Millennial**, **Advantage Lithium**, and **Neolithium** have caught my attention as offering similar reward at lower entry point than still richly valued **LIX** and **LSC**. which have been disappointing, in the red in the 1 mo, 3 mo and YTD periods **Pure Energy** continues also to be red, along with other Clayton Valley, Nevada stories. To bring back the Pink Floyd refrain, PE and other Clayton Valley stories probably qualify as **Dogs**.

Some further comments on brine and **Millennial**, which completed an upsized \$11.5M offering in September, toward the end of this note.



## Company Highlights by Region

### USA

American Girl, North Carolina, USA-based **Piedmont Lithium** rose on land acquisitions and good drill results. PLL also received a Speculative Buy coverage initiation from **Foster Stockbroking**

<http://c.eqcdn.com/4fa4c83f0cb6631acf54d83fd1348724/piedmontlithium/db/339/2308/pdf/09.29.17+PLL+Foster+Stockbroking+Note.pdf>

and a well-written Seeking Alpha analysis from **Paul Ensor**:

<https://seekingalpha.com/article/4109171-imminent-adr-issue-piedmont-lithium-exploring-heart-nc-lithium-country>

**Social Media statistic:** my LinkedIn post of PLL's drill results received more than 1,100 views, second highest ever for me! Glad you are watching.

News that Mercedes is investing \$1B at its Alabama plant, 7-hours drive from North Carolina caught my attention, as did **Simon Moores** of **Benchmark Minerals** announcing he will be meeting with US Senators about batteries and raw materials supplies.

**Global Geosciences** raised \$30M in a deal solely led and underwritten by **Citi** – a very big global brand for a quite small capital raise. Substantial institutional support for GSC – which requires an understanding and appreciation for the boron market that I have not yet obtained - has a very positive read through, in my mind to:

1. USA-based assets like Piedmont Lithium
2. Alternative, lithium-rich clay-based assets like **Bacanora** and LAC's **Lithium Nevada**

Bringing in proven jockey **James Calaway**, ex ORE founder, as Chairman, together with obtaining water rights, have been good for GSC. Same can be said for Bacanora's bringing on last year proven jockey **Mark Hohnen** as Chairman.

### Quebec

**Nemaska's** inclusion in the TSX Small Cap index, along with **LAC**, resulted in some meaningful index funds flows.

The **North American Lithium** situation is opaque, but it appears Burwill is out of the picture (more below) and China's **CATL** is in?! We'll see.

**Critical Elements** released a PFS, which, like all studies of this type, must be read carefully to see if the headline IRRs and NAVs are supported by realistic and not overly aggressive pricing, cost and foreign exchange assumptions. I have not done such work on his name so yet to comment.



## Chile

**Potash Corp** is likely to be forced to sell its 32% SQM stake to get Chinese and Indian approval for its **Agrium** merger. My preference for a syndicated placement for this block to enhance SQM trading liquidity, doesn't seem to be on the cards. Will this stake go to a single, strategic (Chinese) buyer? And will such buyer have any influence on SQM, where it appears POT had none? Will this sale happen before SQM resolves its license issue with CORFO? It would be a pretty big leap of faith by a buyer of such a large block to come in without this resolved.

Whether before or after the POT sale, it seems likely a resolution on SQM/CORFO license will happen relatively soon. **Albemarle** has asked for a substantial increase of its quota, which according to press accounts will easily be granted.

There will be elections in Chile in March, so perhaps a new lithium dynamic. Through its announced Chilean expansion plans SQM is demonstrating that it can quickly and cheaply expand Chilean production. Can ALB? Developments politically in Chile and its impact on the lithium space could be a more prominent story than it has been over the next months into next year.

**Wealth Minerals** on the TSX is one brine exploration play in Chile that sports a relatively high USD 132M valuation considering it is only about to begin drilling.

## Western Australia

I commented earlier this week about **Kidman** via LinkedIn (387 views and 6 likes so far!)

<https://www.linkedin.com/pulse/kidman-resources-new-nickname-howard-klein/>

Who's Next – Bargain - is the punchline

<https://www.youtube.com/watch?v=aS9aefv2cPA>

*"I call that a Bargain, the best I ever had. THE BEST I EVER HAD!"*

**Altura** met its conditions precedent for release of the final USD 77M loan facility and is on schedule for March 2018 commissioning.



The **CHINA'S GREAT WALL BACKS PILBARA'S STAGE 2 EXPANSION** narrative has been well promoted and, thus far by the market, very favorably received as a fantastic deal for Pilbara. It is, after all, the first Chinese AUTO maker, and a blue-chip one, \$18B market cap.

[http://www.pilbaraminerals.com.au/site/PDF/1993\\_0/GreatWallMotorBacksPilgangoor\\_aStage2Expansion](http://www.pilbaraminerals.com.au/site/PDF/1993_0/GreatWallMotorBacksPilgangoor_aStage2Expansion)

At close inspection, though certainly positive for Pilbara, the market reaction might be somewhat disproportionate, as the details of the deal look quite good for Great Wall as well as for General Lithium, Pilbara's first off-take partner who was unable to make good on wiring funds for its investment.

It appears that the impetus for Great Wall was borne of necessity to fill this General Lithium hole. One question is why did General Lithium still retain its full off-take entitlement?

General Lithium had agreed about six months ago to invest AUD 18M at 50 cents, which for much of the summer represented a substantial premium to where PLS was trading. Great Wall agreed to the same 50 cents, at a time it represented a reasonable discount.

The AUD 28M from Great Wall includes an additional AUD 10M in equity dilution at the same price to fund advanced DFS studies for PLS's aggressive stage 2 expansion – a 250% increase from 2 to 5 million tons or 300K to 800K spodumene concentrate. At USD 800M market cap, it is possible Mr. Market has begun to price in some expectation about this PLS expansion which would make it somewhat unique, as it does not appear Mr. Market is providing much value to ORE's expansion plans, for example.

At the same time, given my focus on cash flow, rather than NAV multiples, I believe PLS's current valuation could be perfectly justified with just Stage 1, presuming they will hit 2019 EBITDA of at least USD 70M+. Assuming USD 400/ton margin on 314K spodumene tons, PLS should have at least USD 120M EBITDA by 2019. But that is still at least 18 months away, so I'd be careful to presume perfect execution and timing at this stage. Also, going from 2 m tons to 5 m tons is an ambitious undertaking. Mineral Resources, a great operator, had, as all lithium projects seem to, struggled for 6-9 months to ramp up to its name plate production 400K tons at 6% spec. Walk before running too fast.

More broadly, it is great to see manufacturers down the supply chain backward integrating into lithium supply. **Altura** was first in this regard, with its deal with **J&R Optimum Nano**, a battery maker with definitive plans to build processing facilities. Great Wall is China's largest manufacturer of pickup trucks and SUVs, but does not appear yet to be in the battery business let alone the lithium processing business, so the broader plan here between Great Wall and PLS seems less mature than the deep partnership Altura has developed with J&R as well as **Lionergy** (supplier to **BYD**).

Good to see PLS negotiated pricing tied to carbonate and hydroxide, but the language here is loose, allowing for the eventuality of moving to market pricing, if such pricing develops, without specifying if "market pricing" means carbonate or hydroxide, or spodumene. I have a hunch that a market and market pricing for spodumene is more likely to develop than for carbonate or hydroxide.



I like PLS management, believe Pilgangoora is a robust, long-lived project and find likely their narrative that the pace of conversion capacity expansion in China will be so fast as to absorb the spodumene coming on-stream into 2018/2019 and beyond. I look forward to hearing a PLS update directly during upcoming USA marketing, including **Benchmark Minerals Cathodes** conference in Newport Beach, California.

But following Friday's very sharp re-rating (short covering, Chinese buying?), I believe PLS is getting a bit of "benefit of the doubt/glass half full" premium valuation.

#### **Tawana/Burwill/Alliance Minerals**

##### **Reiterate Red Bull**

Burwill (Burwont?) did a little of both – making final payment to Tawana September 15, but not its equal JV partner Alliance Minerals. Burwill is a near bankrupt, failed iron ore trader with no experience in the lithium business. But they have been touted as an important off-take partner for Tawana - Canaccord raised \$15M the day after the April Burwill off-take announcement.

Burwill announced last week that they are seeking to raise up to USD 20M via a convertible note with a Singapore entity. I've read through this announcement which, like many I read from this Hong Kong listed name as well as its Singapore listed partner Alliance, I find almost impossible to penetrate.

[http://burwill.todayir.com/attachment/2017092612020100002929499\\_en.pdf](http://burwill.todayir.com/attachment/2017092612020100002929499_en.pdf)



I am relatively financially literate but must admit, re-reading the key clause below I feel a bit like I am reading Chinese.

Is this a toxic death spiral convert? Such instruments are not unknown to Burwill board and management. Burwill developed a deep inter-relationship with Kazakh Potash (ASX: KPC) through similar \$20M "investment" in 2014-2016, which were written down 90% by Burwill earlier this year. Also - recall Alliance has some unresolved disputes among shareholders/board members who have been associated with some high flyer/crash and burn equities on the SGX. I sense a Chinese/Southeast Asian fusion meal is cooking, and it doesn't smell too good.

#### **Conversion Price**

The Conversion Price of HK\$0.26 per Conversion Share was arrived at after arm's length negotiations between the Company and the Subscriber taking into account the prospects of the Group, the current situation of Hong Kong stock market and the closing price of the Shares on the Last Trading Day. The Conversion Price represents:

- (i) a discount of approximately 10.34% to the closing price of HK\$0.29 per Share as quoted on the Stock Exchange on 25 September 2017, being the Last Trading Day; and
- (ii) a premium of approximately 4.92% to the average of the closing prices of approximately HK\$0.2478 per Share for the five trading days of the Shares up to and including the Last Trading Day.

The Conversion Price is subject to adjustment for, among others, the following events:

- (i) consolidation or subdivision of Shares;
- (ii) capitalisation of profits or reserves;
- (iii) capital distribution;
- (iv) rights issues of Shares or options over Shares or other securities at a price which is less than the initial Conversion Price and 95% of the then market price of the Shares;
- (v) other issues at a price which is less than the initial Conversion Price and 95% of the then market price of the Shares; and
- (vi) any modification of the rights of conversion or exchange or subscription attaching to securities in (v) above resulting in total effective consideration per Share being less than at a price which is less than the initial Conversion Price and 95% of the then market price of the Shares; and
- (vii) other offers to shareholders of the Company at a price which is less than the initial Conversion Price and 95% of the then market price of the Shares.

If you add up Tawana + Alliance's market cap you get about USD 200M valuation for Bald Hill.

Better risk/reward elsewhere.



## Argentina – Evaluating early stage brines. Case in point: **Millennial Lithium**

Commodity Investing 101: Invest at the low end of the cost curve

The “Lithium Triangle,” namely Argentina and Chile, have operating costs from \$2,000 – 4,000/ton Lithium carbonate equivalent (LCE), the lowest in the world.

Like hot oil & gas geographies (eg, The Bakken, Permian), in the salt lakes in Salta, Jujuy and Catamarca provinces in Argentina, proven natural resource entrepreneurs have attracted significant risk capital in the past 18 months for acquisition and development of promising brine assets with plans to develop new low cost/high margin lithium chemicals.

Emerging Producers Lithium Americas (CAD 725 M market cap) and Orocobre (AUD 941M market cap) show the value creation potential for new entrants capturing some share of the lithium chemical market forecast to grow 5 times from 200,000 to 1,000,000 tons/year over 5-8 years.

### Public Venture Capital

Like technology venture capital, which go through Seed, then Series A, B, C etc rounds of funding, hopefully at escalating valuations as milestones toward Unicorn status are hit, lithium brine developers have and will continue to raise several rounds of funding. Like Capital hungry disrupters such as Tesla, investments in public lithium stocks are broadly available and have daily liquidity, unlike VC, which is typically restricted to select Angels and institutions, who must await IPO or sale.

### Unicorn Math for Lithium Developers

$15,000 \text{ tons/LCE} * \$6\text{K/ton EBITDA Margin} (\$10\text{K} * \text{selling price} - \$4\text{K opex}) = \$90\text{M EBITDA}.$   
11X^ multiple is \$1B.

\*\$10K LCE price is conservative relative to existing \$15K+ pricing and \$12K used in the most recent definitive feasibility studies for Lithium Americas and Galaxy Resources.

^ 11X EBITDA is conservative relative to 15-20X for lithium/specialty chemical comps.

### Capex: Expected Equity Dilution on path to Unicorn Status

A 10-15K ton/LCE project should cost \$200-250M to build.

Assuming conservative 40% debt and 60% equity (which compares to Lithium Americas fully funded 67% debt/33% equity), would require \$150M in equity capital.

For an aspiring lithium brine developer trading at, say, \$50M market value, and assuming, conservatively, that such company had to raise ALL their equity at current market valuations:

$\$150\text{M equity} + \$50\text{M current market cap} = \$200\text{M}$

= 5X uplift to \$1B in 3-4 years.



In evaluating an aspiring South American brine, key questions about their flagship project:

- Will they define a resource of sufficient size, say 1-2M tons?
- Is the resource of sufficiently high grade/low impurities?
- Do they have a credible path to produce at 10-15K tons per year?
- Can they do so in 2-5 years?
- Using proven, conventional technology (ie, evaporation ponds)?

Assuming yes to the above, a further checklist for evaluation should include:

- Entry Valuation (eg, \$50M is better than \$150M)
- Quality of management/technical team (eg, Proven jockey, better than first time)
- Stage of development of flagship project – will it be 2, 3 or 5 years to production?
- Capital Structure/Skin in the game (eg, debt vs. no debt, insider ownership)
- Level of Project ownership (eg, 100% is better than less than 100%)
- Stock performance relative to prior rounds of funding (up rounds better than down rounds)
- Near-term news flow/milestones catalysts

#### Millennial Lithium

- ✓ **New CEO:** Proven jockey **Farhad Abasov** – 3 major successes: 2015: Sold Allana Potash to Israel Chemicals for CAD 170M. Co-founder of Potash One sold in 2010 for CAD 434m to K + S. Key management member of Energy Metals, sold to Uranium One for CAD 1.7B in 2007.
- ✓ **Technical Team:** **Iain Scarr**, who prepared Galaxy's original DFS, plus strategic advisor **Vijay Mehta** – ex-FMC, 40 years brine project management expertise.
- ✓ **Stage of Development:** 100%-owned flagship **Pastos Grandes** has had significant work done by Eramine, so is further along the development path.
- ✓ **Capital Structure/Skin in the Game:** Clean and uncomplicated. Low shares outstanding, stock above \$1. High insider ownership. Founding shareholders have participated in all rounds of financing; also loaned \$2M to the company to purchase land position to grow the acreage of its flagship Pastos Grandes project by 40%+
- ✓ Near-term Milestones/Catalysts:
  - Q4 2017: Maiden Resource
  - Q1: Preliminary Economic Assessment



Disclaimer

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