



To: MJG Capital Limited Partners
From: Matt Geiger
Date: August 3, 2017
Subject: 2017 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 30, 2017.

6 Month Performance:

MJG Capital Fund, LP (net of all fees and expenses)	10.54 %
S&P 500	8.25 %
S&P/TSX Venture Composite Index	0.57 %

1 Year Performance:

MJG Capital Fund, LP (net of all fees and expenses)	28.34 %
S&P 500	15.48 %
S&P/TSX Venture Composite Index	4.97 %

3 Year Performance:

MJG Capital Fund, LP (net of all fees and expenses)	(5.45) %
S&P 500	23.66 %
S&P/TSX Venture Composite Index	(25.42) %

Performance Since Inception (9/1/11):

MJG Capital Fund, LP (net of all fees and expenses)	(63.75) %
S&P 500	98.81 %
S&P/TSX Venture Composite Index	(57.66) %

Note: All returns for MJG Capital partners are estimated and subject to the completion of an audit at a future date. The returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

Introduction & Partnership Update

This is the MJG Capital Fund, LP's twelfth semi-annual letter. The Partnership was formed sixty-four months ago and the results are detailed on the previous page. The S&P 500 represents "the alternative investment of choice", while the TSX Venture (also known as the "TSXV") is the closest proxy to the universe of resource equities that the Partnership selects from.

It's been a frustrating first half to the year. The good news is that we outperformed both the S&P and the TSXV. We continued to add new limited partners and participated in roughly a dozen high-quality private placements.

However, everything in this life is relative. And considering the fact that we were up over 50% YTD in mid March, the performance numbers on the previous page don't hold the same luster. But this is simply life when you're investing in small caps in the world's most volatile industry.

There are a few silver linings to the weakness we've seen over these past 4-5 months:

1. Share prices have largely consolidated (versus an outright collapse), and it seems exceedingly unlikely that we'll test the lows seen in late 2015.
2. From a private placement perspective, deal terms have grown noticeably more attractive in the past few months. For the time being, full warrants with a minimum of 2 years to expiry are back in vogue.
3. Just in the past 10 trading days, there are signs that this period of weakness has come to a close. For those investors still positioned in the space, we are looking at what may be a very lucrative second half to the year.

We are now roughly 19 months into this bull market, which began in January 2016. Whether this uptrend lasts for three years or six years is anybody's guess, but I will say with some confidence that the remainder of 2017 and the whole 2018 will be a truly golden period for both the Partnership and likeminded investors.

In this letter's *Market Musings*, I provide some thoughts on why natural resources are primed to outperform the vast majority of asset classes in a rising interest rate environment. (I was planning on also discussing the EV Revolution and its impact on the demand for "battery metals" such as lithium, cobalt, nickel, manganese, copper, etc. Unfortunately I've run short on time and will instead include this piece in the next letter.)

In the *Overview of Partnership Holdings*, I provide information on how the Partnership is allocating our capital by (1) commodity, (2) jurisdiction, and (3) operational phase. At current, we have twenty-five positions in the portfolio.

I conclude by presenting our most recent *Featured Investment* (Ardea Resources) as well as updates on holdings featured in past letters (Excelsior Mining, TFS Corporation, Nevsun Resources, and Lithium Americas).

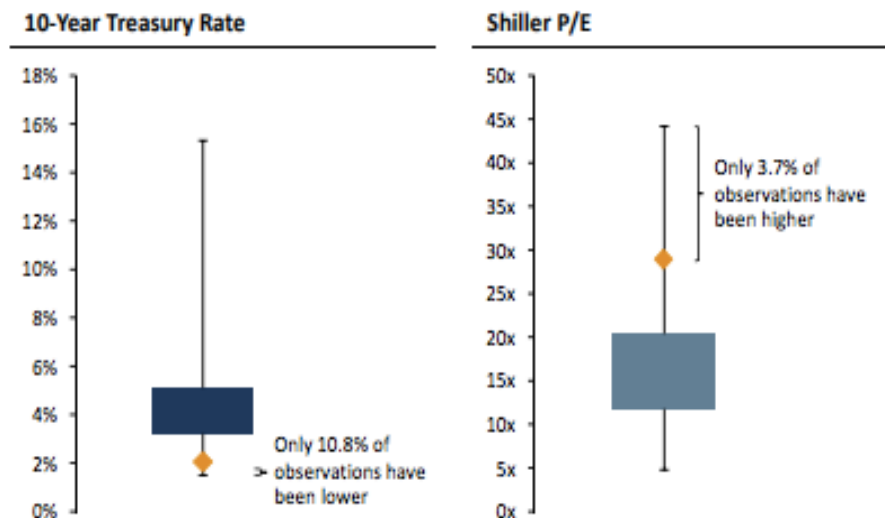
Market Musings

Natural Resources Provide Safe Haven As Interest Rates Rise

In the years since the Global Financial Crisis, it is no secret that central banks have aggressively pushed interest rates down to unprecedented levels. In a few well-publicized cases, we've even seen banks set negative nominal interest rates in a bid to spur economic growth.

Supporters argue that low rates prevented the global economy from entering a prolonged recession, and they may be right. However, low interest rates (and the associated quantitative easing) have also introduced distortions into the financial markets and driven up the prices of most asset classes to exceptionally high levels.

Exhibit 1: Bond Yields and the Shiller P/E



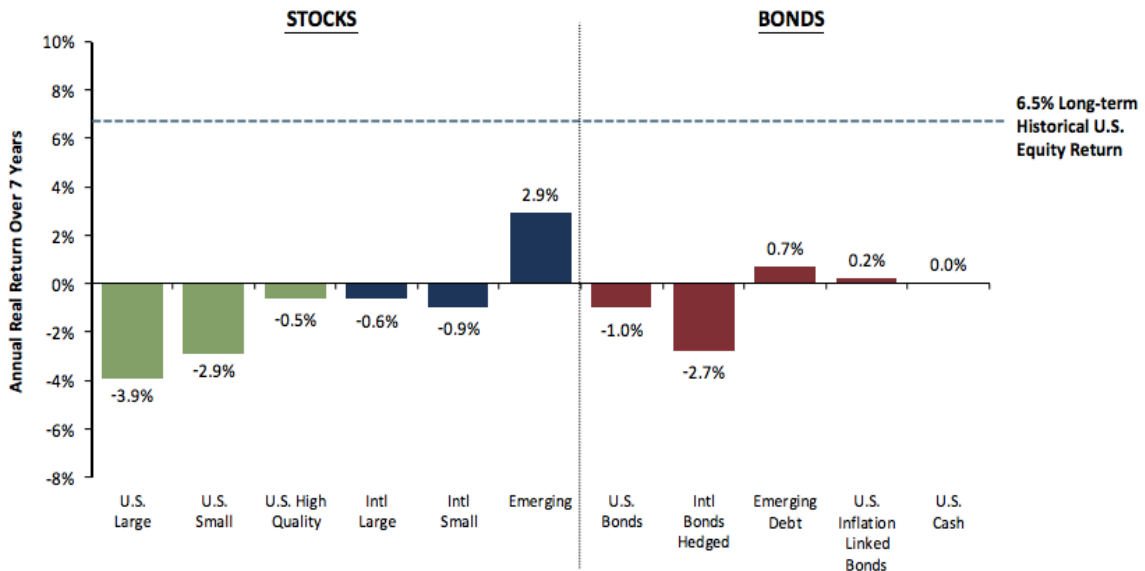
As of February 2017

Source: Robert Shiller dataset from 1871 to February 2017

The above graph from GMO illustrates the extreme times we are living through. Since 1871, US interest rates have only been lower 10.8% of the time. The S&P 500 meanwhile has only been this expensive 3.7% of the time over the same period.

Inflated valuations extend well beyond the stock market to government bonds, corporate debt, real estate, and even crypto currencies. I'm not saying that these asset classes are in store for an imminent crash, but I do believe strongly that they do not offer an attractive risk-reward profile in a rising rate environment.

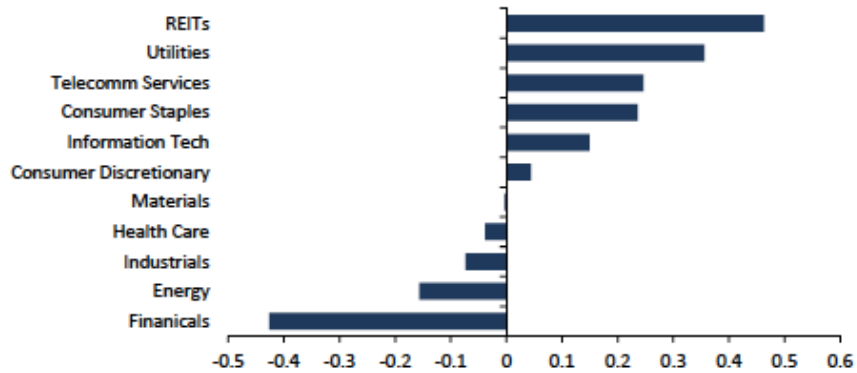
As seen in their most recent forecast, GMO also has very low expectations for the major asset classes over the next 7 years.



Interest rates can't stay low forever and some (such as EB Tucker from Casey Research) have made compelling arguments that we shifted into a "rising rate" environment in early 2016. As the investing public slowly catches on to this significant shift, we're likely to see some turbulence - as the darlings of the low rate era are discarded and investors begin looking for winners in a rising rate environment.

Natural resources will be a major beneficiary for a few reasons. For starters, it is worth looking at which sectors are most sensitive to bond prices. As can be seen in the below chart, the REIT, utility, telecom, consumer, and technology sectors have the highest beta to bonds. Unsurprisingly, it is these very sectors that have seen their valuations expand aggressively in the rate cutting aftermath of the Global Financial Crisis.

Exhibit 2: Sector Betas to Bonds

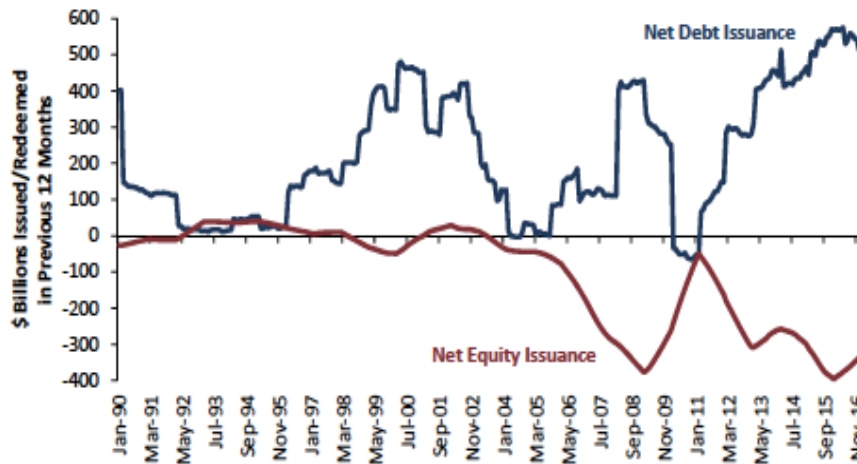


Source: MSCI, Worldscope, Compustat, GMO

In contrast, both basic materials and energy have a negative beta to bonds. While this has hurt the performance of both of these sectors over the past 8-9 years, this negative beta turns to a tailwind in a rising rate environment.

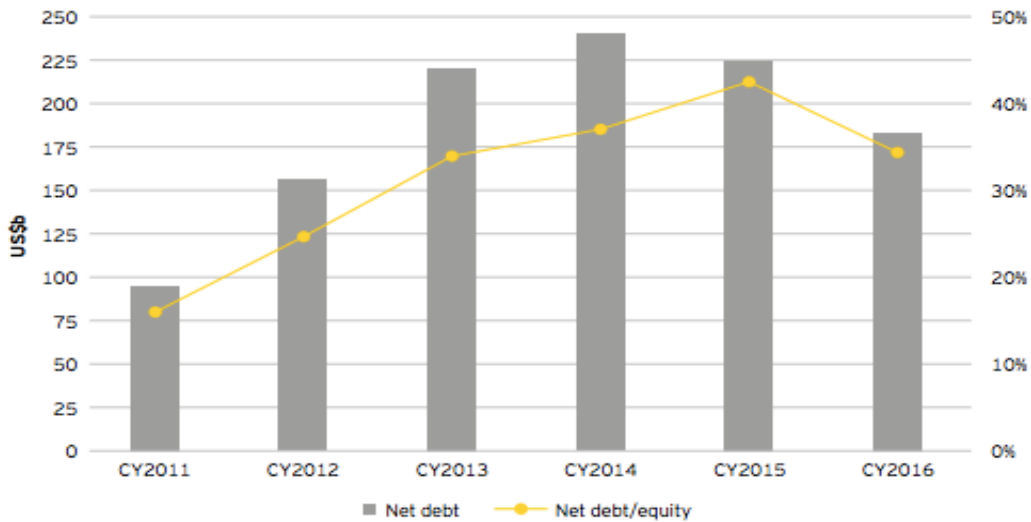
A second phenomenon we've seen in this low rate environment has been the favoring of debt over equity. Faced with low growth prospects and friendly bond markets, companies have taken advantage of lower interest rates to raise large amounts of debt. As seen in the below graph, the debt binge has become particularly pronounced in the years since 2011.

Exhibit 5: Russell 3000 (ex-Financials) Debt and Equity Issuance



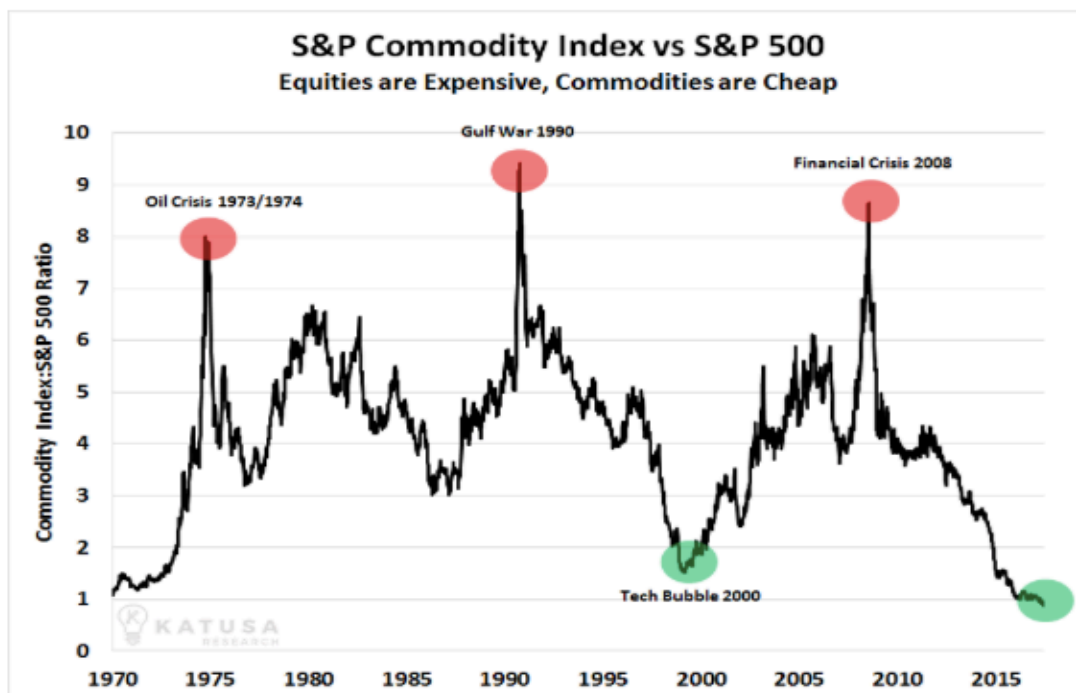
The mining sector has been a rare exception. Due to the realities of the horrific bear resource market of 2011-2015, we've actually seen three years of deleveraging – as companies have raised equity, eschewed debt, monetized non-core assets, and improved efficiency out of necessity. The below graphic from Ernst & Young illustrates this point.

Net debt and gearing



While this deleveraging process has been a painful experience for those involved, it will insulate mining companies from the problems soon to be faced by over-levered sectors in the face of rising interest rates and economic uncertainty. Investors are tolerant of large debt loads at the moment but this complacency can turn on a dime. All it takes is a global downturn, credit crisis, or a black swan event. The mining sector will fare better than most next time we next see a flight to safety.

Finally and perhaps most importantly, from a relative valuation standpoint, natural resources haven't been this cheap relative to the rest of the stock market in decades. The below chart pulled together by Katusa Research speaks volumes.



Investors can expect this historic disconnect to shrink over the coming decade. In the meantime however, this relative value will provide natural resource investors protection in the face of shifting market conditions. Remember that that the equity market's immediate response to Brexit and the 2016 US election was to strongly favor value over growth. Mining is one of the few sectors left that still offers any semblance of value.

Neil Constable and Rick Friedman from GMO have reached the same conclusion:

"We believe more unloved groups such as US financials, basic materials, and higher quality value names are well-positioned to outperform on a relative basis if monetary conditions continue to tighten."

While it is still unclear just how quickly the Federal Reserve and other central banks will raise interest rates, natural resource investors can be rest assured that they are on the right side of the trend.

Overview of Partnership Holdings

Below is a breakdown of the Partnership's holdings as of August 2, 2017.

The Partnership is exposed to different commodities, different jurisdictions, and different stages of the development cycle.

Over the next six months, we will focus specifically on adding more weight to our uranium and ag mineral positions.

Allocation By Commodity	
<i>Food & Water</i>	
Agricultural Gypsum	3%
Agriculture*	2%
<i>Forestry</i>	
Sandalwood*	2%
<i>Energy Metals</i>	
Copper	12%
Uranium	6%
Scandium	3%
Manganese	3%
Cobalt	2%
Nickel	2%
Lithium	2%
<i>Industrial Metals</i>	
Zinc	20%
<i>Precious Metals</i>	
Gold	21%
Silver	17%
<i>Cash (USD)</i>	5%

* Signifies minimal correlation to the mining sector

Allocation By Country	
United States	26%
Mexico	20%
Australia	19%
Canada	18%
Chile	4%
Brazil	4%
Argentina	4%
Russia	4%
Eritrea	3%
Peru	2%
Ecuador	2%
Ivory Coast	2%
Ireland	2%
Cash (USD)	5%

Allocation By Operational Phase	
Exploration	31%
Development	53%
Production	11%
Cash (USD)	5%

Featured Investment

Ardea Resources (ASX: ARL)

Ardea Resources is the most recently added position to the MJG portfolio and our only cobalt investment. With a fully diluted Enterprise Value of ~A\$65m, Ardea provides more leverage to the price of cobalt than any other public vehicle globally. Additionally, ARL offers significant relative value when compared to its nickel-laterite peers such as Robert Friedland's Clean Teq.

The Partnership has established a position in ARL over the past 4 weeks, with an average cost basis of A\$0.70 per share. As of August 2nd, Ardea shares were trading at A\$0.865.

In this *Featured Investment* piece, I start by providing commentary on the three overarching categories that cobalt investments fall into. Depending on one's geopolitical risk tolerance, opinion on the appropriate long-term price of cobalt, and comfort with optionality, each of these three categories may be suitable for different investors.

Next I present my investment thesis for Ardea Resources, starting with the company's recent formation, a look at the management team, and details on the company's share structure.

We then review two of Ardea's assets: the flagship KNP nickel-laterite project and the secondary Lewis Ponds VMS project.

Next, we discuss how Ardea Resources offers tremendous leverage to the Co price as well as relative value when compared to peers.

We conclude with Ardea's expected catalysts over the coming months, so readers can keep tabs on the company's progress alongside me.

3 Ways To Play Cobalt

Cobalt assets fall into three main categories. Investors new to the space must determine which of these best fits their investment profile:

1. DRC-based assets with exceptional economics
2. Past producing mines in safe jurisdictions
3. Optionality plays in safe jurisdictions

Every discussion about cobalt must start with the Democratic Republic of Congo, or DRC. Stunningly, this impoverished and politically unstable country accounts for as much as 65% of global supply. This simply comes down to grade – the rich sediment hosted copper-cobalt deposits found in the DRC are unrivaled anywhere else in the world. Despite the tremendous difficulties (and associated costs) of operating a mine in the Congo, these DRC based projects offer by far the most attractive economics of cobalt assets globally.

The downside of this first category, however, is the geopolitical risk that accompanies any investment in the Congo. While the situation has improved somewhat over the past decade, mining in the DRC has been synonymous with expropriations, bribery, and corruption ever since then-President Joseph Mobutu began using the state mining company (Gécamines) as a personal piggybank in the mid 1960's.

Most recently, there is global worry that political instability might be right around the corner thanks to current president Joseph Kabila and his reluctance to step down after 16 years in power. Kabila, who has the lowest approval rating of any African leader, was constitutionally mandated to step down last December at the end of his second term. Instead, he resisted up until the last minute – before cutting a deal with an influential body of Roman Catholic bishops for a transitional government followed by elections at the end of 2017.

In recent months, Kabila has shown signs of renegeing on his promise. This has the potential to throw the country into chaos and violence in the very near future. Some investors may be willing to take the risk, but until the Kabila situation is sorted out, we are steering clear of the Democratic Republic of Congo.

For those unwilling to touch the DRC, there are two other ways to gain exposure to cobalt assets. The first is to invest in past producing mines in historic cobalt districts – with the Cobalt, Ontario mining camp being a prime example. This mining camp was largely devoid of activity for decades but this has changed dramatically over the past 18 months where we've seen more than a dozen companies stake claims in the area. This pattern has repeated at other historic cobalt districts in Canada and Australia.

There are pros and cons to investing in past producing mines. On the plus side, these mines can be brought online much more quickly and cheaply than a typical greenfield project. Additionally, these historic projects are often very high grade and are likely economic at cobalt's current price around US\$30.

There are some distinct negatives as well. Due to the staking rush we've seen, these districts are currently fragmented amongst many companies – making it difficult and dilutive to build a cobalt resource of critical mass. Even ignoring the fragmentation, these historic mines are small in size and provide limited leverage if the cobalt price continues to climb.

The final category of cobalt investments encompasses the “optionality” plays, which take the form of large nickel-laterite deposits. By definition, optionality investments are NOT economic at the prevailing metal price. This is a clear negative, as these projects will remain largely worthless as long as the cobalt price is at or below US\$30. Additionally, given that optionality deposits are typically large and low-grade, capex requirements are substantial and construction timelines are rarely short.

It’s not all bad however. For those confident that cobalt prices have room to run to US\$50 or more, the returns seen on these optionality plays will dwarf the returns from DRC-based assets or past producing cobalt mines. This is simply how optionality works – in a rising metal price environment, the valuation increases seen at large, low-grade assets trump the valuation gains seen at higher-quality projects.

Ardea Resources falls into this third category due to the immense size (and relatively low grade) of its KNP Project. While I typically eschew optionality investments and focus on projects economic at spot metal prices, I’m willing to make this specific bet due to my conviction that cobalt prices will continue to rise violently over the coming 2-3 years as the investment community slowly grasps the profound implications of the EV revolution.

Company Background

Ardea Resources is in fact a spin-off of ASX-listed Heron Resources Limited. Ardea only began trading in February 2017 after raising A\$5.2m in an initial public offering. The company is headquartered in Perth, which is the closest major city to the KNP Project.

Ardea’s management team is headed by Managing Director Matthew Painter. Painter is a geologist with over 20 years of experience. Past employers include SRK Consulting and AngloGold Ashanti. Painter holds no other positions and has been focused exclusively on Ardea since November 2016.

Also of note is Non-Executive Chairman Katina Law, who joined the Ardea team on the same day as Painter. She has held senior positions at Newmont Mining Corporation’s head office in Denver and was recently CEO of Tanzania-focused East Africa Resources Limited.

The team is rounded out by mining industry veteran Ian Buchhorn, who serves as a Non-Executive Director. Buchhorn is also a director of Heron Resources Limited – providing continuity from Heron’s stewardship of the assets to Ardea’s.

Between the Ardea board and associates, the company’s insider ownership is just under 15%. This gives me sufficient confidence that Painter & co will make decisions that are in the best interest of all shareholders.

Ardea has just over 67m shares on issue. However, one knock I've heard against the company is that there is a decently sized warrant overhang.

More specifically, there are 12.3m IPO options exercisable at A\$0.25 and 26.4m Loyalty Options exercisable at A\$0.77. (These "Loyalty Options" were granted to shareholders with a listed address in either Australia or New Zealand as of May 22, 2017. Those who qualified received 1 free Loyalty Option for every 3 Shares held.)

Why doesn't this warrant overhang concern me? There are a few reasons:

1. The IPO options must be held in escrow until February 2020, which means that they will not cause any downward pressure on the ARL share price for at least 30 months.
2. The Loyalty Options are only exercisable for one year after the issue date. This means that by June 2018, all 26m of these options will either be exercised or expired.
3. At 77 cents, the Loyalty Options aren't cheap. If all 26m end up being exercised, this would bring A\$17m into the company's till. This is a substantial sum of money that should be enough to bring the KNP Project to feasibility.
4. Most importantly, even assuming that all IPO and Loyalty options are exercised tomorrow, the company would have a fully-diluted Enterprise Value of just over A\$65m. This is still very cheap – for some context, KNP alone has seen over A\$60m in historical expenditures.

Ardea currently has A\$2.5m in the treasury. Assuming that no Loyalty Options are exercised, the company will have to raise money within the next 6-9 months. However, as mentioned above, there remains the distinct possibility that the company could advance the KNP Project to feasibility without coming back to market. This assumes that the ARL share price strength continues and that shareholders begin exercising their options in the coming months.

KNP

Ardea's flagship project is the Kalgoorlie Nickel Project (KNP), located in Western Australia. Despite its relative obscurity, the KNP has the distinction of being the developed world's largest cobalt project.

In total, the KNP has 805 Mt grading 0.05% Co and 0.7% Ni. This results in 386,000 tonnes contained cobalt and 5,600,000 tonnes contained nickel.

However Ardea management is focusing on the sections of the deposit with the highest cobalt to nickel ratio, which the company refers to as the "KNP Cobalt Zone". This Cobalt Zone should be viewed as a subset of the overall deposit.

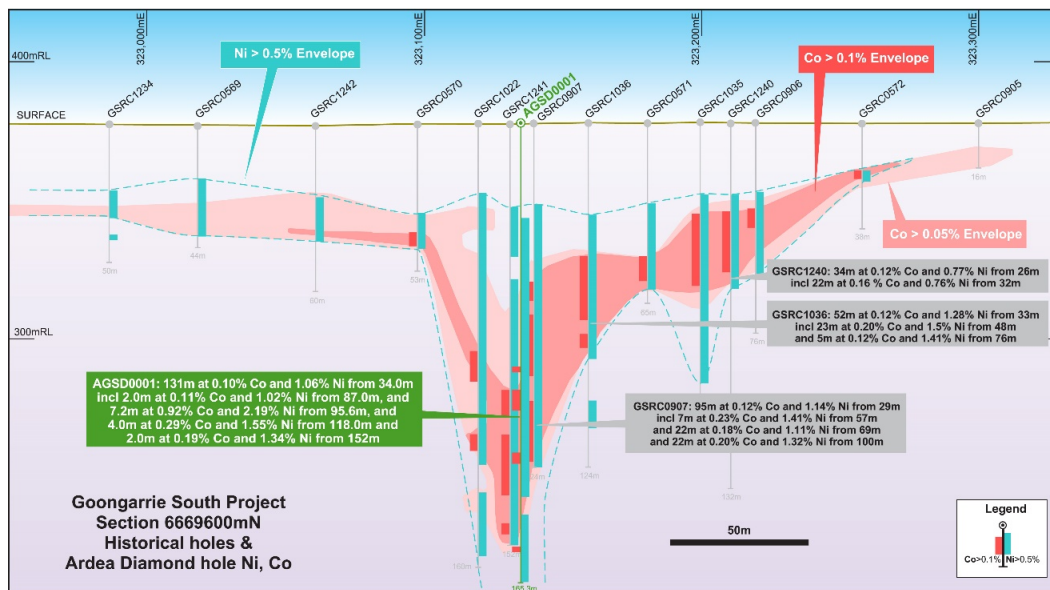
The KNP Cobalt Zone is currently 49.7m tonnes grading 0.12% Co and 0.86% nickel. Note that the Co grade in the Cobalt Zone is 140% greater than the overall deposit. Additionally the cobalt to nickel ratio is 1:7 in the Cobalt Zone, versus 1:14 for KNP as a whole.

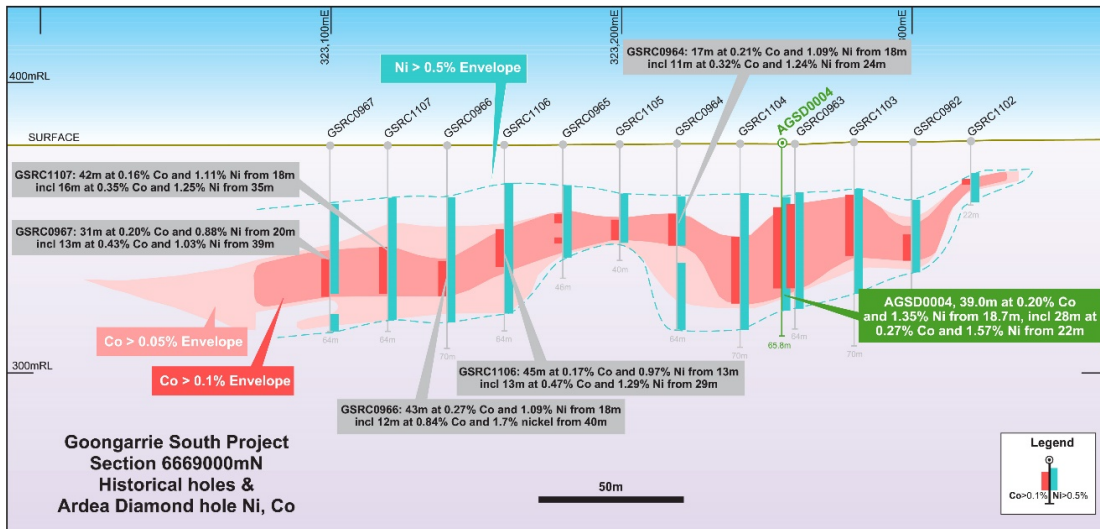
Rank	Company	Size (Mt)	Co (%)	Co metal (kt)	Project	Mineralisation style	Source
1	Ardea Resources	805	0.05	386.4	KNP, WA (including KNP Cobalt Zone)	Lateritic Ni-Co	
2	Glencore	533	0.07	364.2	Murrin Murrin, WA	Lateritic Ni-Co	Glencore 2016 Annual Report
3	CleanTeq	109	0.10	114	Syerston, NSW	Lateritic Ni-Co-Sc	Syerston Project Geology and Resource (www.cleanteq.com)
4	Ardea Resources	65.7	0.13	83.3	KNP Cobalt Zone, WA	Lateritic Ni-Co	
5	GME Resources	81	0.06	52	NiWest, WA	Lateritic Ni-Co	NiWest Nickel-Cobalt Project Resource, 21/02/2017

As seen in the above chart provided by Ardea management, the KNP is the largest cobalt deposit in Australia – with more than 230% more contained cobalt than the next closest development project (Glencore’s Murrin Murrin Mine has been in production since 1999). The KNP Cobalt Zone alone is larger than all but two projects.

The KNP, which is now 100%-owned by Ardea, has seen extensive work over the past decade from both Vale Inco and Heron Resources. Historical expenditures total US\$50m, including over 400k meters of drilling and plenty of detailed metallurgical work. In addition, the KNP has an active granted mining lease and “all required infrastructure” according to management.

The KNP mineralization sits within 120m of the surface, with an average depth of 30-40m. This makes the project amenable to open-pit mining with a low strip ratio. With the mineralization hosted by iron-rich clays, mining will be free-digging, requiring no blasting, and is therefore low cost. Below I’ve included a couple cross-sections from Goongarrie South, which is one of three sections of the overall KNP deposit that form the Cobalt Zone. (Black Range and Kalpini are the other two.)





In early July, the company released results from four holes drilled at Goongarrie South. The assays can be seen below. Notably, hole AGSD0001 ended in mineralization. While these holes were drilled primarily to provide material for metallurgical testing, the results demonstrate the thick intervals of high-grade mineralization found within the KNP Cobalt Zone.

- AGSD0001 131.0 m at 0.10 % cobalt and 1.06 % nickel from 34.0 m[†],**
including 2.0 m at 0.11 % cobalt and 1.02 % nickel from 87.0 m[†],
and 7.2 m at 0.92 % cobalt and 2.19 % nickel from 95.6 m[†],
and 4.0 m at 0.29 % cobalt and 1.55 % nickel from 118.0 m[†]
and 2.0 m at 0.19 % cobalt and 1.34 % nickel from 152.0 m[†]
- AGSD0002 54.0 m at 0.11 % cobalt and 1.52 % nickel from 10.0 m[†],**
including 38.7 m at 0.13 % cobalt and 1.52 % nickel from 18.0 m[†]
- AGSD0003 49.3 m at 0.11 % cobalt and 1.31 % nickel from 16.6 m[†],**
including 21.0 m at 0.13 % cobalt and 1.49 % nickel from 24.0 m[†],
and 10.0 m at 0.10 % cobalt and 1.19 % nickel from 50.0 m[†]
- AGSD0004 39.0 m at 0.20 % cobalt and 1.35 % nickel from 18.7 m[†],**
including 28.0 m at 0.27 % cobalt and 1.57 % nickel from 22 m[†]

If the KNP were to begin producing tomorrow, Ardea management estimates that revenue would be split 50-50 between cobalt and nickel at current metal prices. This of course is subject to change, particularly if the cobalt price continues its relative outperformance of nickel over the coming years.

Management estimates that the initial capex at the KNP will lie anywhere between A\$300m – A\$700m. There are two variables to be considered. The first is scale – the company still needs to determine the optimal annual production figures. Secondly,

the company needs to determine whether to go with HPAL or atmospheric acid leach in the flow sheet. In past metallurgical work at the KNP, HPAL resulted in better recoveries than atmospheric acid leach (99% Ni / 90% Co versus 90% Ni / 80% Co). However, it is significantly less expensive from a capex perspective to go with atmospheric acid leach. We will have a much better idea of the company's thinking when the KNP Prefeasibility Study is released in Q1 2018.

It is also worth mentioning the potential for both scandium byproduct revenue and chryoprase production at the KNP. Scandium seems to be associated with the nickel-cobalt mineralization in the project's Cobalt Zone. This obscure metal is poised to receive exponentially more attention in the coming years - as aluminum end users begin to recognize the wide-ranging benefits of "doping" their products with trace amounts of scandium. Robert Friedland's Clean TeQ is seriously considering producing a scandium byproduct at its more advanced Syerston nickel-cobalt project. While I doubt we'll see much attention paid to scandium in the KNP's upcoming Prefeasibility Study, this will certainly be an area of interest for Ardea's management in the coming years.

Additionally, a gemstone called chryoprase is found at the KNP. Commonly referred to as 'Australian jade', chryoprase is a green semi-precious gemstone that, like opal, is located within cracks and crevices in weathered near-surface rocks. Profitable chryoprase mining has been undertaken by small-scale tribute miners on the KNP mining licenses for many years. The chryoprase seen below comes from the KNP.



Although a different mineral to true jade, the distinction is not usually made in China. China-sourced supply of jade is for all intents and purposes exhausted. Supplies from India and Burma/Myanmar have been largely cut-off. Due to the strong cultural importance of jade in Chinese culture, there is presently very strong demand from Chinese jewelers to source jade and similar gemstones.

Since Ardea management does not have experience marketing gemstones to China, Ardea is seeking a suitable partner with knowledge of the downstream jewelry industry with which to further pursue opportunities for the large-scale mining of chrysoprase. The company plans to provide an update on this front by the end of the year.

Ardea has been busy at work at the KNP since going public in February 2017. In addition to the Goongarrie South drilling referenced above, the company also drilled 27 RC holes totaling 2000m at Black Range and 29 RC holes totaling 1500m at Kalpini. (Remember that Goongarrie South and Black Range are subsets of the KNP Cobalt Zone, which itself is a subset of the overall KNP. Kalpini is a 30km long, 75Mt deposit that is part of the KNP, portions of which are being assessed for inclusion into the KNP Cobalt Zone.)

In late June, Ardea announced an updated resource at the KNP Cobalt Zone. The aforementioned drilling was not included, as the focus of this updated resource was to look at the historical work through a “cobalt-first” lens. This is the first time that cobalt cut-offs have been applied at the KNP – all previous modeling work used nickel cut-offs.

The next steps at the KNP are pretty simple – complete hydro-metallurgical testing on the Goongarrie South drill core and then incorporate the results into the upcoming PFS. We can expect to see an update on the metallurgical work within the next 60 days, while the PFS results should be announced in early 2018. Assuming the PFS numbers are satisfactory, the company will then move into Feasibility work – with the goal of completing a Feasibility Study in 2019.

Lewis Ponds

While Ardea’s clear focus is the KNP, management also sees potential at the company’s lesser-known Lewis Ponds project in New South Wales, Australia. Lewis Ponds is a VMS deposit that has a minimum of three lenses of zinc-gold mineralization. Past owners include TriAusMin Limited and Regis Resources, and it appears that at least A\$5m has been spent at the project. Ardea inherited a historic resource of 6.6 Mt at 1.5 g/t gold and 2.4 % zinc, estimated at a 3% ZnEq cut-off grade.

The previous operators at Lewis Ponds focused on a narrow high-grade underground mining model. However, due to the favorable strip ratios and consistent shallow high-grade occurrences, Ardea management is looking into the feasibility of an open-pit bulk mining scenario. Management believes that anything above a 1% ZnEq cut off may prove to be economic.

As stated in a February 10th press release, the initial Lewis Ponds Exploration Target is estimated at 15–25 Mt at 2.2–3.7 % ZnEq (1.2–2.0 g/t AuEq). The company has since drilled four diamond holes, and the results confirm that this Exploration

Target is within the realm of possibility. Intercepts from the four holes can be seen below.

- Intercepts from hole ALD0001 are:
 - **51.37m at 2.45 % Zn equiv.¹ or 1.48 g/t Au equiv.²** (1.28 % Zn, 0.18 g/t Au, 22.0 g/t Ag, 0.51 % Pb, and 0.11 % Cu) from 41.6m
 - **20.91m at 2.74 % Zn equiv. or 1.63 g/t Au equiv.** (1.39 % Zn, 0.17 g/t Au, 32.7 g/t Ag, 0.56 % Pb, and 0.10 % Cu) from 110.76m
- Intercept from hole ALD0002 is:
 - **16.40m at 8.53 % Zn equiv. or 5.07 g/t Au equiv.** (4.73 % Zn, 0.86 g/t Au, 75.9 g/t Ag, 1.44 % Pb, and 0.19 % Cu) from 43.60m
- Intercept from hole ALD0003 Stringer Zone:
 - **60.88m at 3.00 % Zn equiv.¹ or 1.80 g/t Au equiv.²** (1.54 % Zn, 0.33 g/t Au, 26.7 g/t Ag, 0.54 % Pb, and 0.10 % Cu) from 100.35m, associated with sphalerite-pyrite stringers
- Intercept from hole ALD0004 Alteration Zone:
 - **5.90m at 1.62 % Zn equiv. or 0.97 g/t Au equiv.** (0.82 % Zn, 0.08 g/t Au, 21.1 g/t Ag, 0.39 % Pb, and 0.04 % Cu) from 92.06 m, associated with intense chlorite-sericite alteration

Ultimately the fate of Lewis Ponds will hinge on the metallurgy. Managing Director Matthew Painter indicated to me that the magic number is 80% recoveries. The company is in the midst of metallurgical testing and flowsheet design work. Results are expected before the end of the year. If positive, the company would then commence a Prefeasibility Study to be released in 2018.

Valuation

At the current ARL share price of A\$0.865, the company has a fully-diluted enterprise value of ~A\$65m.

Until Ardea releases the KNP Prefeasibility Study in early 2018, it is difficult to put a fair value on ARL shares. However, there are a few ways to put the company's current valuation into perspective.

The first is to consider the value of the historical work at both the KNP and Lewis Ponds, and then compare this to the company's enterprise value. Considering that KNP has seen ~A\$60m in past work while Lewis Pond has seen at least A\$5m, the historical expenditures between the two projects is roughly equal to the company's current enterprise value.


What does this tell me? Keeping in mind that using historical expenditures as a valuation yardstick is far from an exact science, in my experience assets that are valued at or below historical expenditures are generally a bargain. (This assumes a competent management team and sufficient working capital behind the asset, and Ardea qualifies in both respects.)

At the very least, ARL has very little speculative premium baked into the current valuation. This is despite the fact that the cobalt space is hot right now, and there are more than a few juniors trading at \$10-20m valuations with projects that have seen historical exploration work of well less than \$5m. Investors seeking cobalt exposure through ARL shares can be assured that they are paying a reasonable price.

A second way to put Ardea's valuation into perspective is a direct comparison between the KNP and Clean Teq's Syerston Project. In the graphic below, you can see the similarities between the two Australia-based cobalt projects.

Comparing peers – CleanTeQ and Ardea
Same style of deposit

	Syerston	KNP
Commodities	Co, Ni, Sc	Co, Ni
Ownership	CleanTeQ 100%	Ardea 100 %
Location	NSW	WA
Drilling	>1300 holes	> 9000 holes
Deposit style	Laterite	Laterite
Substrate bedrock	Ultramafic rocks	Ultramafic rocks
Depth	5 to 40 m	0 to 120 m (30-40 m average)
Proposed products	Cobalt + nickel sulphate, scandium oxide	Cobalt + nickel sulphate, chrysoprase?, platinoids?
Contained cobalt	114,000 t	386,000 t (60,000 t in Cobalt Zone)



At Clean Teq's current share price, Syerston has an Implied Project Value of roughly ~A\$400m on a fully-diluted basis. This compares to a ~A\$65m Implied Project Value for the KNP. (For the sake of argument, we'll ignore Lewis Ponds and assume that Ardea's valuation is due solely to the KNP.)

Syerston certainly deserves a higher valuation for the following reasons: (1) the Robert Friedland premium, (2) the project's 18-month head start, and (3) the fact that Syerston has publicly known project economics. There is a good argument to be made that Clean Teq shares themselves are well undervalued.

That said, the current delta between the implied valuations is too extreme – the KNP should not be trading at an 85% discount to its closest peer. What is a fair discount?

Weighing Clean Teq's advantages against the fact that the KNP has seen more historical work and contains significantly more cobalt, a discount anywhere between 50-70% seems more realistic. This suggests an ARL share price anywhere between A\$1.38-A\$2.14 (assuming that the company can stave off dilution for the foreseeable future through the exercise of IPO and Loyalty Options).

A final way to put Ardea's current valuation into context is to look at the expected value of a best-case scenario. (We'll ignore Lewis Ponds again and assume that Ardea's valuation is due solely to the KNP.)

Here the best-case scenario is that we see US\$50 cobalt or higher within the next two years. This would lead to some absolutely jaw dropping economics at the KNP – think after-tax NPV of A\$1.5b and likely much higher.

Until we can look at the cobalt price sensitivity analysis in the upcoming Prefeasibility Study, we won't know this exact number. However, when one considers that Clean Teq is projecting an A\$1.1b after-tax NPV at Syerston using US\$12 cobalt, this A\$1.5b number isn't an unreasonable expectation.

So what are the chances that we see US\$50 cobalt prices in 2018 or 2019? While cobalt bulls will tell you that this is a near certainty due to the accelerating EV revolution, we'll assume that there's a 25% likelihood of this coming to fruition.

Multiplying the best-case outcome of A\$1.5b by this 25% chance of success gives us an expected value of A\$375m.

This number itself must then be discounted by 50% to account for the future equity dilution we'll see if/when Ardea raises construction financing at the KNP. This results in an expected value of ~A\$190m.

Assuming that the company can avoid equity dilution until the construction financing is raised, this suggests that ~A\$2.00 is an appropriate share price for Ardea given the tremendous upside presented by further increases in the cobalt price.

As stated earlier, the chief risk for optionality plays such as Ardea is that the metal price doesn't cooperate. Given the amount of past development work the KNP has seen as well as the impressive metallurgical results, there aren't many company specific factors that

concern me aside from excessive equity dilution. However, if the cobalt price reverses course and heads back towards US\$10, investors in Ardea should understand that they are at risk of losing their entire investment.

Upcoming Catalysts

In conclusion, I've provided below the catalysts that ARL shareholders can expect over the coming months and years:

- Metallurgical update @ KNP **by end Q3 2017**
- Metallurgical update @ Lewis Ponds **by end 2017**
- Update on chyroprase potential @ KNP **by end 2017**
- Prefeasibility Study released @ KNP **by end Q1 2018**
- Prefeasibility Study released @ Lewis Ponds **by end 2018**
- Feasibility Study released @ KNP **by end 2019**

The most important of these is of course the KNP Prefeasibility Study expected in Q1 2018. This will be the first time that the project economics of the KNP have been assessed through a "cobalt-first" lens.

In addition, the pending metallurgical update at Lewis Ponds will indicate to Ardea management whether the VMS project warrants additional expenditures.

Ardea's share price is beginning to show signs of life. Given the company's progress at the KNP and the continued strength of the cobalt price, we may not be below A\$1 for much longer. Prospective investors are advised to get involved soon (particularly given the 20% pullback we've seen in Ardea shares over the past 3 trading days), and then assess the investment once the KNP Prefeasibility Study is published in early 2018.

Past Featured Investments

Over the course of previous letters, I've shared featured investment write-ups for eleven different companies. These write-ups provide current and prospective investors a glimpse into our portfolio, and also give insight into the methodology I use to identify undervalued securities.

We remain shareholders in four of these companies, and I've provided updates on each of them below. I also include the *average cost per share* and *exit price* of the past featured investments that we no longer own.

Viscount Mining Corp (TSXV: VML) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2017**

Partnership Average Cost per Share: **C\$0.33**

Exit Price: **C\$0.29**

Golden Arrow Resources (TSXV: GRG) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2016**

Partnership Average Cost per Share: **C\$0.24**

Exit Price: **C\$0.76**

Excelsior Mining (TSXV: MIN)

Featured In: **July 2016**

Partnership Average Cost per Share: **C\$0.24**

Current Market Price (August 2, 2017): **C\$1.06**

We've been shareholders of Excelsior Mining for over three years at this point. While the share price has moved significantly since the metals market bottomed in January 2016, the company's Gunnison Project still remains my favorite copper development play in North America.

At this juncture, the story is pretty simple. The company is valued at a measly 20% of the NPV outlined in a December 2016 Feasibility Study. This is despite the stellar projected economics (40% post-tax IRR, 2.8 year payback, \$50m initial capex versus \$800m after-tax NPV, etc) and the fact that first production is expected in 2018.

Post-Tax Sensitivity Analysis*										
	Acid Plant					Non-Acid Plant				
Cu Price	\$3.25	\$3.00	\$2.75	\$2.50	\$2.25	\$3.25	\$3.00	\$2.75	\$2.50	\$2.25
IRR	51%	45%	40%	35%	29%	51%	46%	41%	35%	28%
NPV*	\$1,086	\$947	\$807	\$664	\$522	\$972	\$831	\$691	\$548	\$405

*million \$ at 7.5% discount rate

In my experience, a project of this caliber with near-term production potential would be valued at least at 50% of NPV and possibly quite a bit higher.

This indicates to me that the market doesn't believe that Excelsior will reach production in 2018. There are two reasons investors may be skeptical: (1) the company has yet to receive the necessary permits to break ground on construction and (2) the market is unfamiliar with the company's proposed ISR operation.

Fortunately, on the permitting front at least, the company has an opportunity to silence its critics over the next couple months. Just recently there have been the following positive permitting developments:

1. On June 14th, the company announced that "the Arizona Department of Environmental Quality ("ADEQ") has issued a draft operating permit, the Aquifer Protection Permit ("APP"), for the Gunnison Copper Project". This commenced a 30-day process that allowed the public to comment on the proposed APP permit.
2. Less than two weeks later, the company issued a press release stating "the Arizona Department of Environmental Quality ("ADEQ") has issued an amended Aquifer Protection Permit ("APP") for the Company's Johnson Camp Mine ("JCM")."

Management has consistently said for the past year that they hope to have all permits in hands by the end of Q3 2017, so that construction can begin before year-end. While the job is not yet done, these two developments indicate that the company is well on its way to meeting this self-imposed permitting deadline.

Ultimately there are two more significant permitting milestones. First, the company must receive an APP from the Arizona Department of Environmental Quality for the actual Gunnison well field (notice that the APP mentioned above applies only to the company's Johnson Camp Mine). This hopefully will occur within the next 60 days. Then it's up to Scott Pruitt's EPA to issue an Underground Injection Control ("UIC") Permit. Once received, the company can then begin construction.

I am very confident that both of the above permits will be granted in the upcoming 90 days. If I'm correct, this will catch the market off guard and result in a significant re-rating of MIN shares. Considering that permitting worries are one of the key knocks against the Excelsior story, I wouldn't be surprised to see shares surge up to

40% of NPV (or C\$2.27 per fully diluted share) if/when the company receives its permits.

In order to convince the market that the company deserves to be valued at 100% of NPV, the company then must reach initial production on time and on budget and then scale to nameplate capacity without any serious hiccups. This is indeed a tough ask of CEO Stephen Twyerould and COO Roland Goodgame.

However, if they are able to execute, the reward for MIN investors will be enormous. Assuming \$2.75 copper in 2018 and 20% share dilution due to construction financing, a share price of \$3.67 per fully diluted share is feasible if the company can hit nameplate production in a timely manner.

I encourage investors interested in this story to get involved before final permits are received from ADEQ and the EPA. If these milestones do indeed hit in Q3 2017, a dramatic re-rating is in order for MIN shares.

Almadex Minerals (TSXV: AMZ) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2016**

Partnership Average Cost per Share: **C\$0.16**

Exit Price: **C\$1.62 CAD**

Quintis Ltd (ASX: QIN)

Featured In: **July 2015**

Partnership Average Cost per Share: **AU\$1.16**

Current Market Price (August 2, 2017): **AU\$0.295**

This has been a disastrous year for Quintis, plain and simple. Shares are down 82% YTD and have been halted from trading since May 14th. The company's founder and largest shareholder abruptly quit four months ago. And, particularly after the events of the past month, there are now worries of a debt default.

How did we get here? Put simply, the company betrayed the trust of the market and has paid the price since. The first shoe to drop was a short attack by the US-based hedge fund Glaucus in late Q1. While the report was hyperbolic in many respects, it was timed perfectly to coincide with an ill advised rebranding from "TFS Corporation" to "Quintis Ltd". The company's response was inadequate and the share price dropped from ~A\$1.50 to ~A\$1.10 in the days following the short attack.

Next came the sudden resignation of Managing Director Frank Wilson on March 27th. There were rumors in the weeks after his resignation that Wilson was preparing to

acquire the entire Quintis business alongside a deep-pocketed partner. This however has yet to transpire, and it has since been disclosed that Wilson is in fact in payment default under an A\$11m loan from a wholly owned finance subsidiary of Quintis. Wilson is reportedly refusing to pay the company back.

Then came the news that one of the company's main Chinese customers had yet to purchase any sandalwood in 2017. This was completely contrary to market expectations and, adding insult to injury, was disclosed 3-4 months after it should have been.

Finally, just within the past few weeks, the company revealed that it is facing major liquidity issues due to (1) the potential exercise of a US\$34m put option whereby Quintis is obligated to buy 400 hectares of plantations from Asia Pacific Investments and (2) a bi-annual interest payment of US\$10.9 million that was due to senior secured bondholders on August 1st.

On July 31st, one day before the US\$10.9 was due, Quintis made the following announcement:

"Quintis has until 30 August 2017 to either make this interest payment or receive a waiver to prevent an "event of default" under the indenture governing the Notes... In such event, the principal amount of the Notes could be accelerated. Quintis remains in constructive and ongoing discussions with noteholders with respect to the interest payment in order to resolve the default by 30 August 2017, alongside broader multi-party discussions in relation to potential debt and equity transactions that would have the effect of achieving a recapitalisation of the Company."

This language is worrisome and suggests to me that debt default is now a possibility. While I still firmly believe that the company's 13,000 hectares of sandalwood represent at least \$A500m in value, it is now abundantly clear that the company has been severely mismanaged and taken on excessive debt.

If/when a resolution to the above issues is announced and QIN shares begin trading again, I will evaluate whether to cut our losses or give the company's new management an opportunity to right the ship.

Nevsun Resources (NYSE: NSU)

Featured In: **January 2015**

Partnership Average Cost per Share: **US\$2.64**

Current Market Price (August 2, 2017): **US\$2.65**

Nevsun Resources has been a partnership holding since August 2013. While the company has seriously underperformed its peers since the metals bull market

commenced in early 2016, NSU investors will see their patience rewarded in short order. Between the company's producing Bisha Mine in Eritrea and its world-class Timok Project in Serbia, Nevsun is the most undervalued base metal producer on the market.

Starting with Bisha, the news has been mixed over the past couple of quarters. On a positive note, the company announced in late March results from drilling conducted at Bisha and two satellite deposits (Harena and Asheli). In total, over 30k meters were drilled. This is a big program by any standard, but it was also efficient as the company "increased the Bisha district Inferred resources by over 100% to 31 million tonnes containing 667 million pounds copper, 3.3 billion pounds zinc, 780 thousand ounces gold, and 30 million ounces silver." Assuming geopolitical stability, this indicates that Nevsun shareholders can expect cash flow from Eritrea well after the original Bisha Mine has been depleted.

While it will never be a standalone operation, Harena in particular seems to have the Nevsun management team excited. In early April, a press release was dedicated exclusively to recent drill results from Harena. Some highlights can be seen below, and it is worth noting that these assays were not included in the updated Bisha district resource mentioned above.

- **Intersected 18.4 metres of 1.65% Cu, 4.03% Zn, 0.82g/t Au, 55g/t Ag extending the deposit by 150 metres**
- **Borehole electromagnetic surveys suggest further down plunge extensions likely**
- **Additional new drilling results include:**
 - **57.4 metres of 0.37% Cu, 7.08% Zn, 0.17g/t Au, 9g/t Ag**
 - **44.5 metres of 0.49% Cu, 6.51% Zn, 0.43g/t Au, 29g/t Ag**
 - **40.5 metres of 0.76% Cu, 4.82% Zn, 0.18g/t Au, 18g/t Ag**
 - **84.0 metres of 0.80% Cu, 4.72% Zn, 0.27g/t Au, 15g/t Ag**
- **Preliminary VTEM survey results highlight numerous new untested shallow drill targets**

Positive exploration results aside, the company continues to have concentrate issues as the Bisha Mine transitions to the primary sulphide zone. So far, recoveries have been lower than expected and the company has had trouble producing a saleable copper concentrate. It is safe to say that these metallurgical struggles (in combination with the announced dividend cut) have been the cause of Nevsun's pronounced share price weakness over the previous 6 months.

In mid July, the company reported that Bisha's operating performance is seeing improvement. On the plus side, after three quarters of effort, the company was finally able to produce a saleable copper concentrate and sold 7.7m payable pounds

of copper. The company also announced that copper recoveries had jumped from 34% to 51.6% when compared to the previous quarter.

It is worrying however that zinc recoveries dropped from 66.6% to 62.2% when compared to Q1. The decline seems to be directly related to copper concentrate optimizations. Needless to say, the company needs to find a way to increase copper recoveries WITHOUT negatively impacting the zinc circuit.

The resolution of these processing issues remains the key catalyst at Bisha. It is my expectation that this will be largely resolved within the next 12 months. Management understands the urgency, with CEO Peter Kukielski recently stating:

“We have a strong team of world-class consultants supporting Bisha. Management remains focused on moving toward the original plant design by further enhancing recoveries and concentrate quality as quickly as possible.”

The cash flow generated by Bisha is a key part of the Nevsun story for two reasons: (1) it allows the company to pay shareholders a small dividend and (2) it enables the company to advance Timok with minimal equity dilution.

That said, it cannot be understated that the company’s future lies with the world-class Timok development project. And news out of Timok over past months has been very encouraging.

In late February, the company announced that it would be “redeploying approximately \$120 million over a four-year period from its corporate dividend toward development of the Timok”. While this resulted in some short term pain to the NSU share price as yield hungry investors rushed to the exit, this is undoubtedly the right decision from a long-term value creation standpoint as it allows the company to fast-track development of what is an exceptionally economic project.

Shortly after this strategic decision was announced, the company released some splashy intercepts from infill drilling at Timok’s Upper Zone. As can be seen below, both the grades and widths of these assays are conducive to what will be an extremely low-cost operation.

- New massive and semi-massive sulphide intersections include:
 - 14.58% Cu and 12.9g/t Au over 67.5m, within 6.00% Cu and 3.79g/t Au over 256.3m in TC160130
 - 17.97% Cu and 7.59g/t Au over 46.5m, within 5.93% Cu and 2.20g/t Au over 279.0m in TC160128A
 - 16.94% Cu and 9.44g/t Au over 22.5m, within 5.25% Cu and 4.69g/t Au over 163.5m in TC160133
 - 13.94% Cu and 4.91g/t Au over 20.3m, within 4.96% Cu and 2.01g/t Au over 222.8m in TC160124A

On July 19th, the company released the final batch of assays from the 2017 infill program. These assays confirm the exceptional continuity and high-grade nature of the Upper Zone, and also enable the development of improved geological and geotechnical models to be used in the upcoming Prefeasibility Study.

- **New massive and semi-massive sulphide intersections include:**
 - 16.94% Cu and 6.97g/t Au over 25.5m, within 4.46% Cu and 2.38g/t Au over 280.0m in TC160146B
 - 15.86% Cu and 7.69g/t Au over 27.0m, within 5.18% Cu and 2.28g/t Au over 274.5m in TC170157
 - 20.57% Cu and 9.17g/t Au over 49.5m, within 6.77% Cu and 3.67g/t Au over 265.5m in TC160147
 - 15.63% Cu and 12.28g/t Au over 19.5m, within 5.37% Cu and 4.94g/t Au over 177.0m in TC160142

Buried in this same news release, there is another significant development. The company seems to believe that there is potential for additional “Upper Zone type deposits” yet to be discovered on the Timok land package. CEO Kukielski commented:

“We are also excited to have exploration for additional Upper Zone type deposits underway. At the Bor operation, just five kilometres away, there were in excess of twenty separate high sulphidation epithermal “upper zone” type deposits, we believe the possibility of finding additional deposits should be high.”

If management’s belief in additional high-grade deposits is vindicated, this has the potential to double the value of what Nevsun has at Timok. First results from this 10k meter exploration program should be announced later this year. If the company comes up dry in the program, it is unlikely to have an effect on the company’s already depressed share price. Success, however, would have a profound impact on the perceived value of Timok.

The next major catalyst at Timok is a Prefeasibility Study, which is expected in September. A PEA released in April 2016 projected a post-tax NPV of US\$1.3b and an IRR of 96% at current metal prices. The upcoming PFS will show similar, if not better, numbers.

Keep in mind that the PFS will only include the 100%-owned Upper Zone, and will not include the project’s much larger Lower Zone. (Upon completion of a feasibility study, Nevsun will own 46% of the Lower Zone and Freeport will own 54%.)

I’ve provided below the milestones that Nevsun shareholders should expect from both Bisha and Timok over the coming years:

Prefeasibility Study announced @ Timok Upper Zone **by end Sept 2017**

Drill results from exploration program around Timok land package **by end 2017**

Decline construction commences @ Timok Upper Zone **by end 2017**

Feasibility level recoveries @ Bisha **by end Q2 2018**

Feasibility Study announced @ Timok Upper Zone **by end 2018**

Maiden Resource announced @ Timok Lower Zone **by end 2018**

Decline reaches ore body @ Timok Upper Zone **by end 2019**

Initial production @ Timok Upper Zone **by end 2021**

Nevsun has no debt and roughly US\$170m in the bank. Considering future cash flow from Bisha, the company may be able to develop and build Timok without any equity dilution (initial capex was projected at US\$213m in last year's PEA). If management is able to execute as they have in the past, we should have a US\$10 stock when Timok commences production within the next 4-5 years.

Tsodilo Resources (TSXV: TSD) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2014**

Partnership Average Cost per Share: **C\$0.86**

Exit Price: **C\$0.71**

Lithium Americas (TSX: LAC)

Featured In: **January 2014**

Partnership Average Cost per Share: **C\$0.24**

Current Market Price (August 2, 2017): **C\$1.02**

We've been Lithium Americas shareholders since mid 2013, with an average cost per share of C\$0.24. The company continues to be undervalued based solely on its joint venture with SQM at the Cauchari-Olaroz Project. Until the company is fairly valued for its 50% stake in the JV, we will remain patient shareholders.

It's been a significant year so far for the company. Management announced a financing agreement with Ganfeng Lithium on January 17th. The deal included a C\$64m private placement at 85 cents – giving Ganfeng ownership of 19.9% of the

company. In addition, Ganfeng agreed to a US\$120m construction financing loan at a reasonable interest rate of between 8-9.5%. In exchange, Ganfeng secured the option to buy up to 70% of LAC's share of Stage 1 production at the Cauchari-Olaroz Project. This deal closed on June 7th.

Also in January, the company signed an agreement with Bangchak Petroleum. This deal entailed a C\$42.5m private placement at 85 cents - giving Bangchak 16.4% of the company. Bangchak also agreed to a US\$80m construction financing loan at similar interest rates to Ganfeng. In exchange, Bangchak has the option to buy up to 15% of LAC's share of Stage 1 production. This deal closed on July 17th.

Upon the closing of these two deals, Lithium Americas has secured more than enough working capital to fund its share of the Stage 1 initial capex at Cauchari-Olaroz.

More recently, Lithium Americas' President of South American Operations Gabriel Rubacha all but confirmed that construction had commenced at the project. After a July 7th meeting in Buenos Aires with Argentinean President Mauricio Macri and the Governor of Jujuy Province Geraldo Morales, Rubacha commented:

"We are receiving full support from the Federal and Provincial governments, and we are very pleased with the progress we are making on the development of the project. There are over 100 people on site today and the Minera Exar organization is growing with the recent recruitment of additional executive level personnel. Minera Exar is proceeding with the development of the project and progressing with the early construction activities following a timeline target of being in production by 2019."

Most importantly, on March 29th, Lithium Americas released the results of the long-awaited Cauchari-Olaroz feasibility study. In short, there were no major surprises. On a 100% equity basis and assuming a long-term lithium carbonate price of US\$12,000, the headline numbers included:

- initial capex of US\$425m versus an NPV of \$803m (after-tax using a 10% discount rate)
- an after-tax IRR of 28.4%
- a payback period of 3.5 years
- average annual EBITDA of US\$233m

There are two important points to keep in mind about the Feasibility Study: (1) Lithium Americas only owns 50% of Cauchari-Olaroz and (2) this only applies to Stage 1 Production of 25k tones per year.

The above numbers suggest that LAC is set to generate US\$233m in annual EBITDA once Stage 2 production of 50k tpa is reached in 2022. Using a conservative 8x multiple (most of the lithium industry is using 15x), this results in a US\$1.8b valuation for Lithium Americas' share of the JV once Stage 2 production is achieved.

Of course, 50k tpa production is still four years away and this forward valuation must be discounted accordingly. Generally I'll use a 50% discount for companies that have begun construction but aren't yet in production.

Applying this discount results in a fair value of ~US\$900m for LAC's share of the project. When converted to Canadian dollars, this figure jumps to C\$1.1b.

This compares to Lithium America's fully diluted market cap of ~C\$445m, which implies that the LAC share price would have to rise roughly 150% (to C\$2.52) before the company is fairly valued for its share of Cauchari-Olaroz's future production.

Please remember that any value creation from Lithium Americas' Nevada-based operations only provide free upside. CTO David Deak has quietly assembled one of the smartest tech teams in the junior lithium space – with recent hires including two engineers from Tesla and a Rockwood/ALB veteran who's past experience includes managing the Silver Peak lithium mine in Nevada. Management assures me that we'll see more news flow out of Nevada later this year and next.

To conclude, I've provided the company's expected milestones over the coming months and years:

First revenue from TOLSA strategic partnership **by end 2017**

Hectatone operation cash flow positive **by end 2017**

PEA announced @ Lithium Nevada Project **by end 2017**

First production @ Delmon Plant in Saudi Arabia **by end Q1 2018**

Production rate of 25k tpa @ Cauchari-Olaroz JV **by end 2019**

Production rate of 50k tpa @ Cauchari-Olaroz JV **by end 2021**

First production @ Lithium Nevada Project **by end 2022**

As a final point, Chairman George Ireland and President John Kanellitsas both purchased 100k LAC shares within the past month. Prospective investors have an opportunity to get involved at similar levels as shares hover around C\$1.

Phoscan Chemical Corp (TSX: FOS) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2013**

Partnership Average Cost per Share: **C\$0.29**

Exit Price: **C\$0.32**

South Boulder Mines (ASX: STB) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2012**

Partnership Average Cost per Share: **AU\$0.48**

Exit Price: **AU\$0.28**

Northern Graphite (TSXV: NGC) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2012**

Partnership Average Cost per Share: **C\$0.97**

Exit Price: **C\$0.80**