



# HALLGARTEN & COMPANY

## Initiating Coverage

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Lithium Australia (ASX: LIT)  
Strategy: LONG

Key Metrics	
Price (AUD)	\$0.11
12-Month Target Price (AUD)	\$0.34
Upside to Target	209%
High-low (12 mth)	\$0.035 - \$0.145
Market Cap (AUD mn)	\$15.0
Shares Outstanding (millions)	136.00
Fully diluted shares O/S	206.00

# Lithium Australia

## Global Diversification in Lithium

- + The price of Lithium has bucked the declining trend of most other metals, making this one of the most resilient metals at the current time
- + Bulk testing of material from the Lepidolite Hill deposit in Western Australia confirms processing viability for the company's Lithium mica deposit(s)
- + Strong Lithium fundamentals at the current time are morphing the intentions of European Metal Holdings, LIT's partner on the Czech project towards a Lithium (rather than Tin) focus
- + The addition of a Mexican JV to the mix in recent weeks now extends the company's reach to a third continent
- + Latest deal confirms the company as the 'go-to guys' for Lithium mica processing technology
- ✗ EMH, the partner at Cinovec, is the weakest link as it needs to finance the mine before LIT's share of Lithium-rich tailings starts to flow
- ✗ Financing remains a challenge for all miners, though in the Lithosphere offtakers are being very proactive

### Wide Geographic Diversification

Lithium Australia is pushing ahead steadily with the mini plant trials of the mineralisation from Lepidolite Hill in Western Australia, and has just announced a transaction in Mexico which deals with similar mineralisation. The company was known as Cobre Montana NL until earlier this year.

Its Cinovec project in the Czech Republic is also moving ahead and has its fate aligned with the development of the tin assets there (of which Lithium will be a by-product).

It would be fair to say that our coverage of developments at LIT's lithium deposit in the Czech Republic is almost the inevitable result of a string of recent research pieces on tin, lithium, German resource strategies, as well as a revival of interest in mining at the Frankfurt Stock Exchange. LIT manages to tie all these threads into something of a tidy bow.

### Lepidolite Hill

This project is part of what is known as the Coolgardie Rare Metals Venture, which is 80% held by Lithium Australia with Focus Minerals (FML.ax) holding the residual 20%. Within this area, the main effort thus far has been on a site known as Lepidolite Hill with the focus on areas of pegmatites 15 km south of the long-established mining town of Coolgardie. The deposit is known for large masses of bright purple fine-grained lepidolite. It is also the site of the first documented occurrence of pollucite in Western Australia.

The site was first noted by LeMesurier in 1944, and named as Lepidolite Hill shortly after by K.R. Miles. The original outcrop contained four pods of massive scaly purple lepidolite in contact with white quartz. Later work revealed a north-eastern pegmatite body 213 metres long by 24 to 90 metres wide, dipping north-west. There is also a south-western pegmatite body, forming a south-pointing L-shaped outcrop dipping north-east and north-west. The pegmatites contain an albite-quartz-spessartine border zone, a quartz-albite-microcline-muscovite wall zone, quartz-muscovite and petalite-quartz-microcline-lepidolite intermediate zones, a fine-grained lepidolite-quartz core margin and a quartz core.

Unaltered petalite comprises grey to pearly-white masses, with single crystal fragments averaging 20 x 8 cm, with rare masses up to 60 x 60 x 90 cm.

Western Mining Corporation explored the site in 1964, and mining started under tribute to this company in 1971 for petalite, beryl and lepidolite, until mining ceased in 1973. The site contains a large abandoned pit, 150 metres long, 60 metres wide, and 15 metres deep. Some rehabilitation of the mullock piles has taken place.

Waste dumps from prior mining at Lepidolite Hill comprise around 400,000 tonnes of lepidolite-rich material. Recent proof-of-concept processing by LIT, under the aegis of its alliance with Strategic Metallurgy P/L, has produced battery-grade Lithium carbonate from that material. Certainly, having such large waste dumps at its disposal potentially speeds things up.



### **Other Australian Sites**

Not wanting to limit itself to Lepidolite Hill, LIT also has relationships with:

- Pilbara Minerals – Pilgangoora Lithium and Tantalum project
- Tungsten Mining – Seabrook Rare Metals Venture

The company also owns its own prospect at Ravensthorpe.

LIT has also applied for extensive tracts of ground surrounding Talison Lithium's Greenbushes pegmatite mine in Western Australia. Talison's mine, source of the world's highest-grade Lithium, currently supplies more than 30% of global Lithium requirements and 75% of Chinese demand. We have mentioned this producer extensively in past notes on the Lithium sector.

### **Lithium Clays**

Most observers of the Lithium scene are accustomed to saline lakes (*salares*) and spodumene (hard rock) as Lithium host mineralisations however, Lithium, in small amounts, is widespread in clay minerals. The USGS is one of the few bodies to have highlighted this, as the US once had a producing Lithium mine based on clay. Lithium may be present in clays as impurities, as inclusions, in lattice cavities, adsorbed on the surface, or by isomorphous substitution. Isomorphous substitution is the most common occurrence. The clay containing the largest amount of lithium is swinefordite, but this mineral is found in only one location. Hectorite, a trioctahedral smectite, can contain a large amount of lithium and is not uncommon in arid regions. There is one TSX-listed Lithium hunter that has long championed a hectorite deposit in the US South-west.

According to the USGS, two types of origin have been postulated for hectorite: hydrothermal alteration of a montmorillonite, which was suggested first and is valid in some cases, and direct precipitation in saline lakes, which theory has gained support in recent years.

The Lithium is liberated, according to the USGS, through the degradation of micas, by weathering, through illite to mixed-layer clays and then to smectites. The Lithium is not carried to the montmorillonites during this transformation; because it is highly mobile, it is soon weathered out of the mica and either is carried away in solution or remains to be incorporated into the structure of newly formed clay minerals. The ubiquity of micas suggests that they should be considered as the carriers of lithium in clay mixtures. The micas can be so fine-grained that they cannot be separated from other clay minerals and may not be recognised unless the clays are very closely examined using X-ray powder diffractometry and other methods.

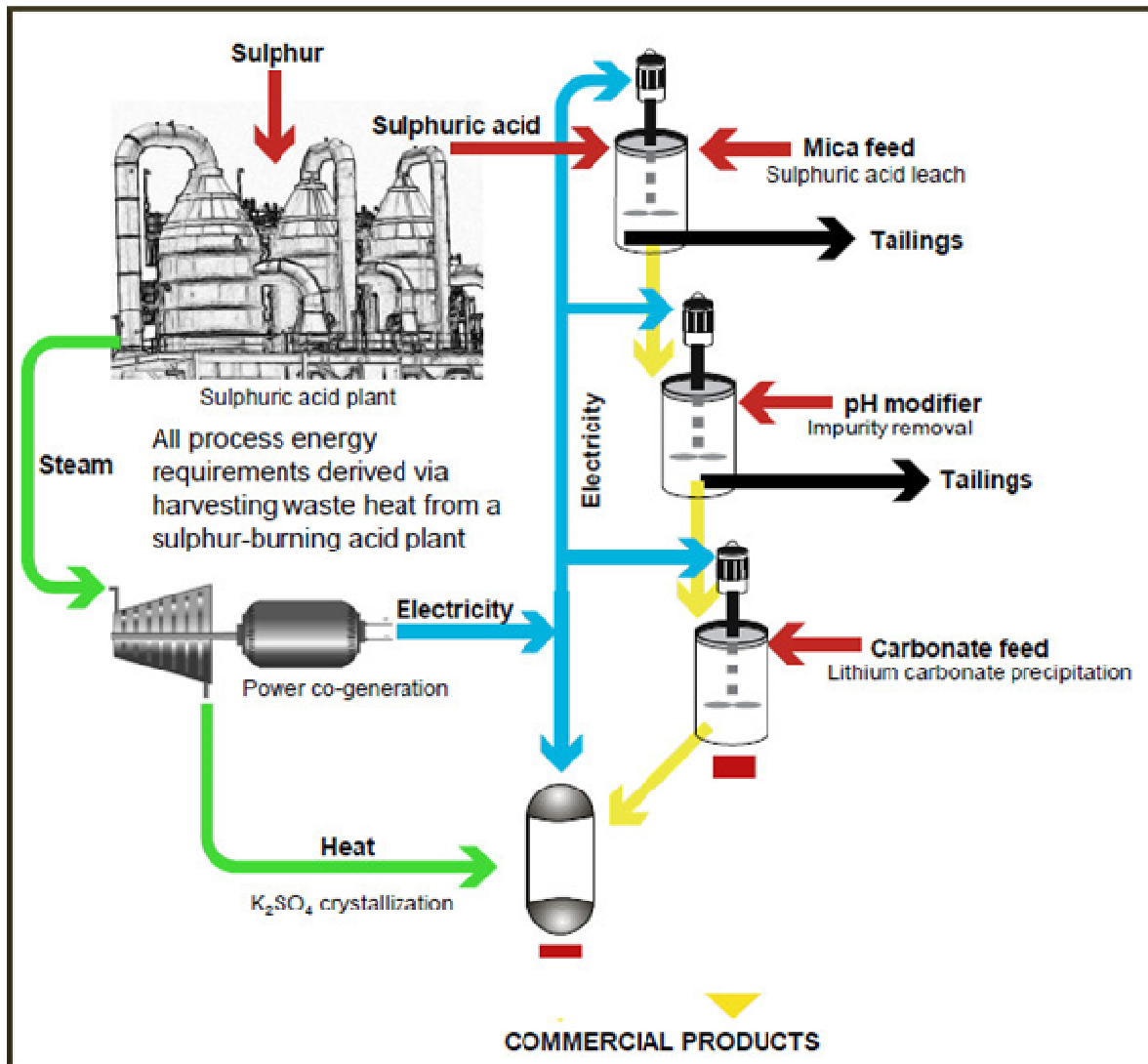
### **Lepidico**

The technology that LIT has been employing on both the Western Australian and Czech lithium mica samples is not exactly new, having been pioneered in Potassium mica applications but it is its application

to Lithium that is the innovation. L-Max is a proprietary process developed to extract and recover battery-grade Lithium carbonate and potassium sulphate fertiliser from Lithium-rich micas that include lepidolite, zinnwaldite and Li-bearing muscovite.

The technology emanates from a company called Strategic Metallurgy, which first exhibited it in a scoping study for Potash West. To advance its application to Lithium, a new company, named Lepidico, was established in 2015. Lepidico is developing the mineral processing technology for the mining sector. It currently has ownership of the proprietary technology (provisional patent applied for), with commercial applications emerging.

As previously noted, the process itself is not revolutionary but is innovative when applied to Lithium mineral processing. The process diagram below gives an idea of the flow of material through to commercial applications.



The process has a number of things to its advantage:

- Lithium carbonate production occurs in one facility – from ore to product
- It reprocesses Lithium mica contained in waste dumps and tailings – cheap mining
- Energy efficient process
- Simple processing using conventional techniques but in a unique configuration
- Potential potash by-product revenues off-set operating costs

The cost estimate for producing Lithium carbonate from a mica concentrate, with only a potassium sulphate (fertilizer) by-product credit, is sub-AUD\$2,000 per tonne of carbonate produced.

In return for LIT's participation in developing the L-Max technology, Strategic Metallurgy has granted LIT an exclusive licence to use its proprietary Lithium extraction process for up to 26 years within Western Australia and in two other nominated projects internationally. Lepidico is to receive a royalty based on gross revenue.

Lepidico cites some hypothetical projections on potential project economics, operating on the basis of a LOM Resource of 20 mn tonnes at 1% Li<sub>2</sub>O. At a posited production rate of 20,000 tpa of Li<sub>2</sub>CO<sub>3</sub>, 44,000 tpa of potassium sulphate. The OpEx is estimated at AUD\$2,000 per tonne lithium carbonate (equivalent), yielding gross revenues of AUD\$175 mn per annum, with an NPV of AUD\$1.1 bn and an IRR of 58%. While such back-of-the-envelope projections do not necessarily apply to Lepidolite Hill, they give an idea what a similar sized project might look like.

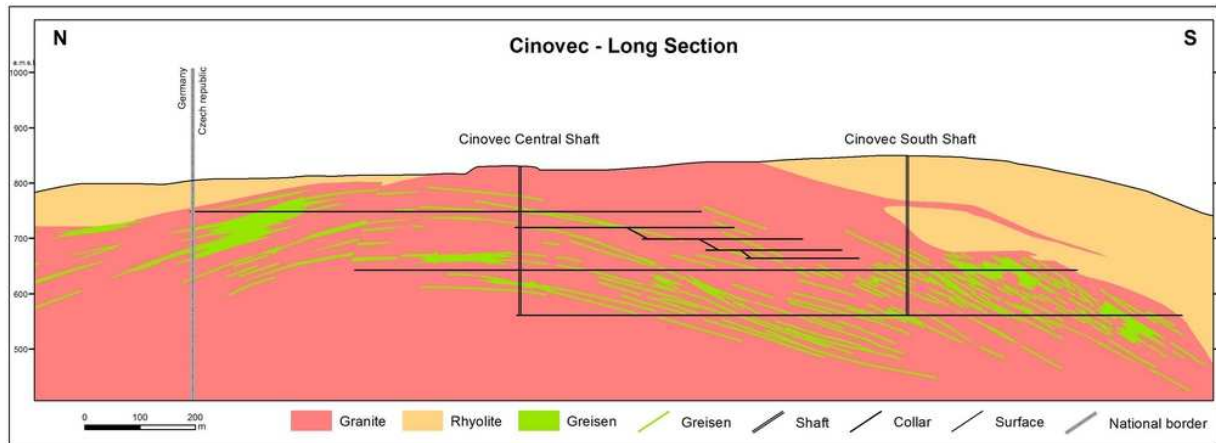
### **Cinovec**

Our first encounter with this asset was in our review of the Tin sector early last year. At that time, we came across LIT's JV partner European Metals (EMH.ax) which had signed an agreement back in 2013 to acquire some tin, tungsten and lithium assets in the Czech Republic. At the time LIT was not involved and EMH was going it alone.

According to EMH at the time of its acquisition, Cinovec was one of the largest undeveloped hard-rock Tin projects in the world, with "proven high metallurgical recoveries". Interestingly, in German the area is known as Zinnwald, which means "Forest of Tin" and the mineral from which the elements are extracted (zinnwaldite) is named after that place.

The Erzgebirge region is situated in a NW part of the Bohemian Massif. The deposit itself is related to post-orogenic granite intrusion, which intrudes rhyolites. The pervasively altered and greisenised Lithium-albite granite (with quartz, topaz, zinnwaldite and cassiterite) in the upper part of the cupola hosts flat veins surrounded by greisens and steep quartz veins with wolframite. The main minerals are cassiterite, wolframite, scheelite, zinnwaldite, topaz and fluorite.

Tin has been mined in the Zinnwald/Cinovec district since the 14th century. The Cinovec deposit under EMH's control was also mined historically for Tin, with around 21.5km of underground drives in place. The cross-section below shows the structure of the mine in relation to the mineralisation.



Underground mining ceased in 1972 in the central part of the Cinovec district, where near-surface flat-lying quartz-cassiterite-wolframite veins were mined. As the high-grade ore was running out, the Czech state-owned mining company initiated an extensive underground exploration program southward of the Central Mine. Extensive underground drilling and tunneling defined significant Tin-Tungsten-Lithium mineralisation associated with greisenitization and silicification.

The picture below shows the mine in its heyday. In fact, most of these structures still exist. The underground is flooded but given the topography, dewatering should not be a major issue. Mine water



is good quality and, at Zinnwald, the mine drainage goes straight into the local rivers.

The northern sector of the Cinovec district is less understood but it too was extensively mined in the 18th and 19th centuries.

This might signal potential for even further resource expansion with increased exploration effort in the future.

## Resource

The Cinovec project hosts an Inferred Resource of 28.1mn tonnes grading 0.37% Sn, 0.04% W, for total contained tin of 103,970 tonnes based on 83,000m of drilling undertaken by the Czechoslovakian government in the 1970s and 1980s.

The aspect of Cinovec that prompted the MOU with LIT was the Lithium component to the deposit, but the project also has potential by-products including tungsten, rubidium, scandium, niobium and tantalum. The historical resource estimated that the project hosts a partly overlapping hard-rock Lithium deposit with a total Inferred Resource estimate of 514.8 mn tonnes @ 0.43% Li<sub>2</sub>O.

<b>Cinovec Resource (January 2015) at 0.1% Li Cut-off</b>			
<b>Inferred Resource</b>			
Tonnes (mn)	Li %	W %	Sn %
514.8	0.20	0.01	0.03

## Trial Mining for Tin

According to EMH at the time of the acquisition, the deposit appeared to be amenable to bulk mining techniques. Over 400,000 tonnes of material had been trial-mined as a sub-level open stope and a feasibility study was completed by the Czech government. All operations ceased with the demise of the centralized economy in 1990.

Historical metallurgical test work, including the processing of the trial-mine ore through the previous on-site processing plant, indicates the ore can be treated using simple gravity methods, with good recovery rates for tin and tungsten in oxide minerals of approximately 75%.

Being located right in the centre of Europe, Cinovec is well-served by infrastructure, with a sealed road adjacent to the deposit, rail lines located 5km north and 8km south of the deposit and an active 22kV transmission line running to the mine.



The South Korean group, LG Chem, recently announced that it is looking to open an EV battery manufacturing plant in Europe that will produce ~50,000 EV batteries a year, and Wrocław in south-west Poland, less than 200 km from Cinovec, is reportedly the top contender for the siting.



### **How LIT Fits In**

Lithium is contained in Lithium micas (mainly zinnwaldite). It therefore concentrates in the gravity reject from Tin/Tungsten processing, and from this the Lithium micas can be concentrated by magnets. Lithium carbonate was produced on an industrial scale during mining in the 1970s.

In mid-April, LIT announced that it had been able to produce its first battery-grade lithium carbonate from the Cinovec project. The key aspects were:

- ✓ Carbonate purity exceeds 99.5%
- ✓ Leach recoveries of 92% were achieved
- ✓ Leach residence time was 18 hours

These results, which included leaching and chemical extraction processes, were achieved on a 50-kg sample of ore from the Cinovec deposit. The tests included successful recovery of a potassium sulphate by-product.

### **The Scoping Study**

The commercial implications of the aforementioned lithium results were included in EMH's scoping study, which was published on the 1<sup>st</sup> of May. The scoping study model combined the conventional tin and tungsten mining and recovery investigations with LIT's lithium extraction from the tailings discharge of the proposed tin/tungsten mining operations.

Feed for the lithium process plant comprises tailings from the tin-tungsten treatment process. The plant will treat lithium-bearing mineralisation via the following process:

- flotation to concentrate zinnwaldite (Lithium mica)
- atmospheric leach to capture Lithium in solution
- precipitation of battery-grade Lithium carbonate and sulphate of potash
- tailings disposal

Key assumptions in the cost estimates are:

- Feed rate of 2mn tpa of tailings material
- Lithium recovery of 70%

The scoping study did caution, though, that EMH did not want to imply that Cinovec would produce at those production rates, or at any rates inside or outside of those figures, or at all, at any time in the near or distant future. A rather all-embracing "get-out" clause!

Based on these inputs, LIT estimated the capital cost for the lithium processing plant at US\$164 mn and the estimated operating cost is US\$39.14 per tonne treated, which resulted in a cost of less than \$2,000 per tonne of lithium carbonate produced after sulphate of potash credits.

## **The Deal with EMH**

Back in late April, LIT announced that it had signed a Heads of Agreement with EMH:

- ✓ 50/50 JV to process Cinovec's tin tailings and produce lithium carbonate and associated by-products
- ✓ LIT will manage the JV with a technical committee comprising equal representation
- ✓ LIT will utilize the license right granted by Strategic Metallurgy to the JV
- ✓ LIT will secure the technical support of Strategic Metallurgy
- ✓ The JV will also cover opportunities in countries sharing borders with the Czech Republic
- ✓ EMH will provide lithium-bearing tin tailings to the JV, following the extraction of Tin/Tungsten
- ✓ The JV will compensate EMH on the basis of:
  - Tonnes of concentrate fed to the leach circuit
  - Concentrate to be priced to provide equivalent IRR to both the tin operation and the Lithium operation

## **Evolution of the Relationship**

Lithium Australia is dependent upon EMH getting to production, while in our estimation LIT looks like the better resourced of the two companies in terms of access to funds and financial acumen on board.

EMH has come down with what is termed "style-drift" in the hedge fund industry, and who wouldn't with Lithium looking healthier than Tin by a long way? Looking at a release of EMH dated 20<sup>th</sup> of October, the company only talks about Lithium, stresses that it is its major focus, talks of sending bulk samples to Australia and but nowhere does it mention LIT.

One outcome to consider might be a merger between Lithium Australia and EMH. To a certain extent the two companies are like a dance act, one does not work without the other and the solo version is not as effective, if at all. Does one count this as one project or two? Without the Tin mine of EMH in production, processing operation of Lithium Australia will be left rather high and dry.

## **Mexican Addition to the Mix**

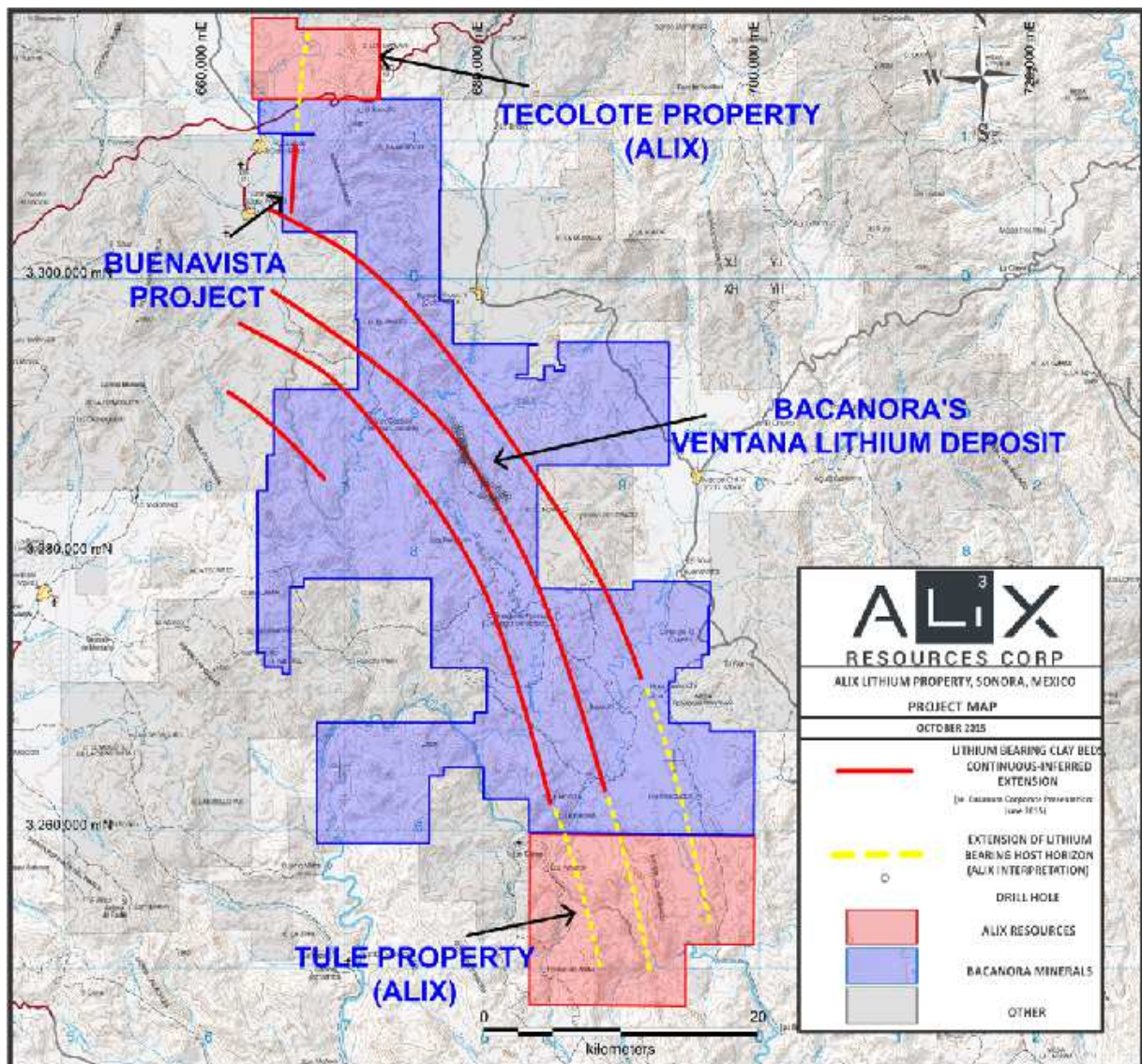
In recent weeks, LIT has announced the signing with Alix Resources Corp of a memorandum of understanding to jointly to develop lithium extraction technologies applicable to advancing Alix's lithium concessions in Mexico.

Alix Resources main asset is the Electra Project. LIT has bought in just at the cusp of Alix beginning work here. The first phase of the work program will commence on the Tule Concession this month and will focus on two initial, high priority targets determined by Alix geologists.

The Electra Project consists of two large exploration concession applications covering 22,625 hectares, with one adjoining Bacanora Minerals' Sonora Lithium Project to the north and one to the southern end, as shown in the map on the following page.

Bacanora Minerals, a TSX-listed company that has recently come to notice in the Lithium space with news of its Sonora Lithium clays deposit with some sort of offtake having been signed with Tesla. We shall discuss here some of the details of the Sonora deposit because it gives a good idea of the potential for LIT and its partner to replicate Bacanora's experience in the region.

Alix's Tule Concession, comprises 18,125 hectares (approximately 15 kms east-west by 12 kms north-south), covers the extension of three lithium-bearing horizons, as outlined in recent Bacanora presentations.



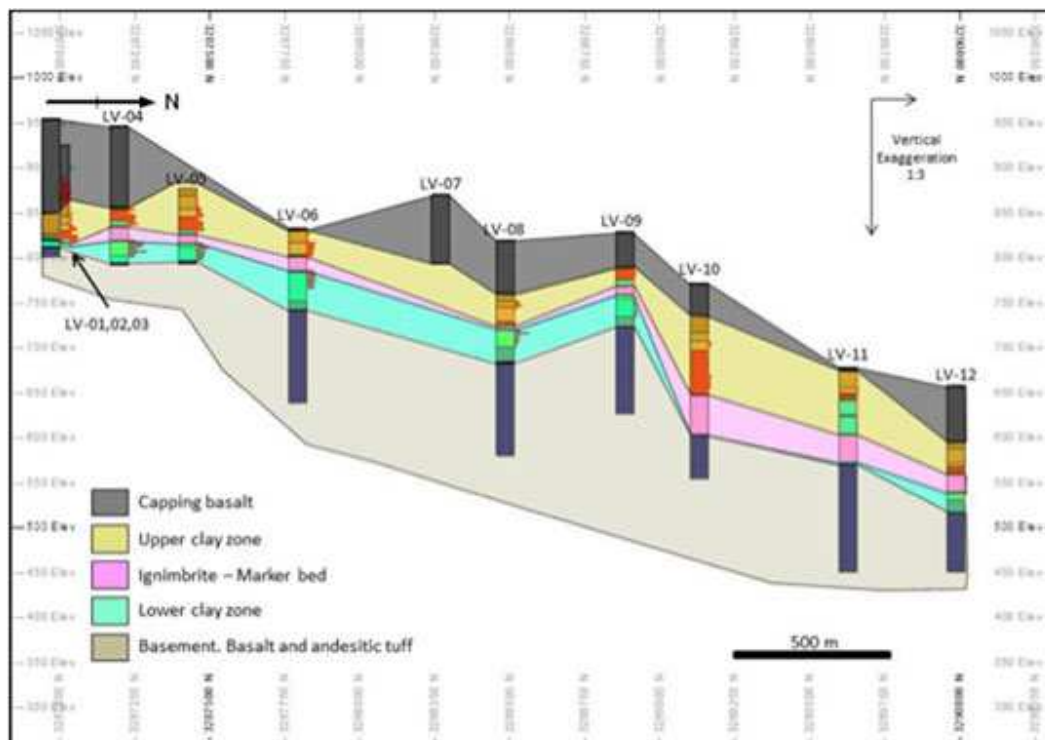
The mineralised trend on the Bacanora property has been interpreted as extending approximately 15 kms SSE from the La Ventana Lithium deposit to the location of another lithium prospect, and at least an additional 12 kms from this point, towards Alix's Tule Concession.

Alix's Tecolote concession is located north of the Buenavista Concession at Bacanora's Sonora Project and north of the village of Huasabas. The property covers approximately 4,500 hectares. Intercepts from 11 of the 24 reverse-circulation holes drilled at the Buenavista Concession returned values in excess of 1,018 ppm Li and as high as 2,210 ppm Li (equivalent to 0.54% and 1.18% LCE respectively) in a lithium-rich stratigraphic trend interpreted by Bacanora to extend north, through Alix's Tecolote concession. This concession covers approximately 7 kms of this interpreted stratigraphic trend.

The host rocks on the Buenavista concession are calcareous, fine-grained sandstone to mudstone intercalated with tuffaceous bands that are locally gypsiferous. The stratigraphic controls and strong bedding of the volcano-sedimentary sequences are projected to be traceable for long distances north of the Buenavista concession.

### The Mexican Lithium Geology

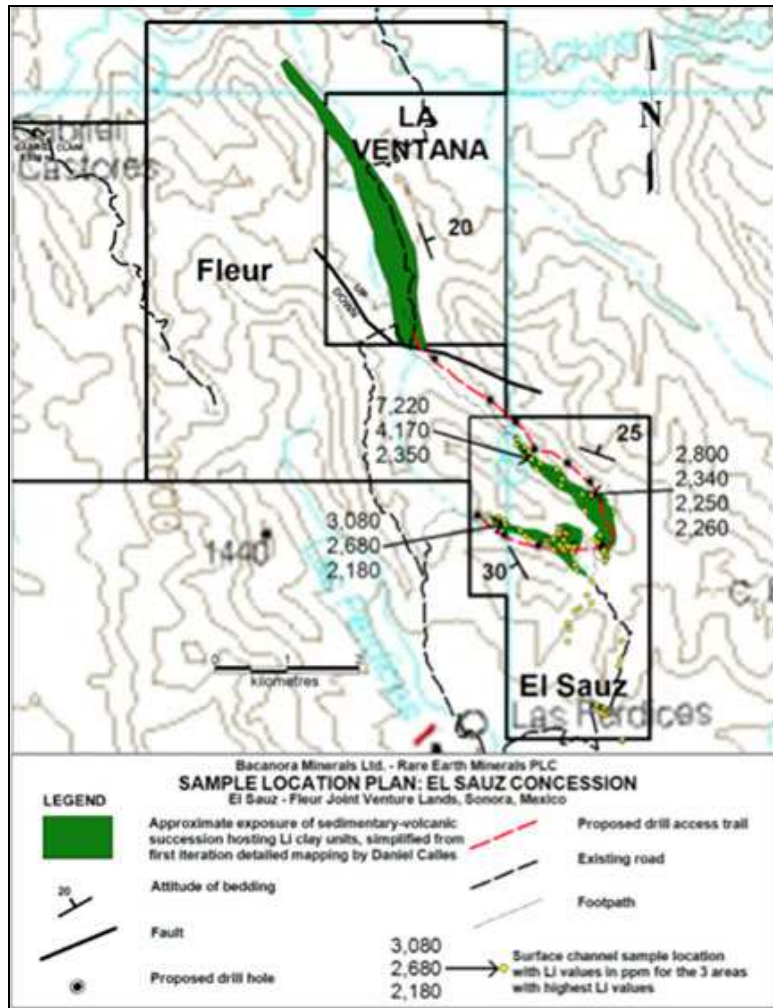
In Mexico, Lithium-bearing hectorite and polyolithionite clays crop out of a volcano-sedimentary sequence located near the towns of Bacadehuachi and Huasabas. Below is a cross-section of Bacanora's deposit, which shows that the clay zones were created as per the previously mentioned weathering and breakdown of the mica, and then overlain by volcanic activity with a basalt cap.



Clearly, Alix and LIT are targeting the same type of occurrence on their adjoining concessions.

### The Sonora Lithium Project

It is useful to look further at the Sonora project to get an idea of what might await the LIT/AIX JV. The Bacanora package consists of ten mining concession areas covering approximately 100,000 hectares in the northeast of Sonora State. It is managed by a Joint Venture between Bacanora Minerals and the AIM-listed Rare Earth Minerals.



The JV partners, through drilling and exploration work to date, have established an NI43-101 Indicated Mineral Resource of 1.12mn tonnes LCE contained in 95mn tonnes of clay at a Lithium grade of 2,200 ppm and an Inferred Mineral Resource of 6.3mn tonnes LCE contained in 500mn tonnes of clay at a Lithium grade of 2,300 ppm.

<b>La Ventana - Inferred Resource</b>				
<b>Unit</b>	<b>Tonnes</b>	<b>Li ppm</b>	<b>LCE %</b>	<b>LCE tonnes</b>
Upper Clay	22,642,000	2,632	1.3	292,000
Lower Clay	20,682,000	4,103	2	420,000
Lower Clay - up dip	16,829,000	2,557	1.3	218,000
Upper & Lower Clay	60,153,000	3,000	1.6	930,000

The attractions of the Sonora project are various but its main advantage is the clay nature of the mineralisation and the fact that this is relatively near surface (though with a basalt cap over much, but not all, of the deposit).

Lithium Australia is clearly trying to leverage its rather unique work with Lithium silicates (particularly micas) in Australia onto a broader stage. The opportunity to partner on a deposit with a similar mineralogy in Mexico was too good to let pass, and clearly Alix, as very much a junior in the exploration space needed a big brother to supply the skill sets and technology to augment its credibility.

### **The Frankfurt Angle**

With Cinovec being quite literally on the border with Germany, LIT is a natural to attract the attention of German investors. It has a Frankfurt Stock Exchange 'listing' with the ticker: A14XX2.

### **Directors & Management**

In line with the Australian trend towards slim-line boards, Lithium Australia is not top-heavy. The board is made up of:

The Managing director, Adrian Griffin, has spent some 35 years in mining. His expertise ranges from project identification, development and financing to overseeing the operation of integrated mining and processing facilities. His substantial international experience includes diamond exploration and production and being a founder and technical director of Ferrum Crescent, an iron-ore developer in South Africa. He was also a founding director of Northern Uranium and Potash West (developer of the KMax process to recover potassium and other metals from glauconite) and is a non-executive director of Reedy Lagoon Corporation. Recently, he was instrumental in identifying the global opportunity to establish lithium micas as a source feed for the lithium chemical industry.

Bryan Dixon, a non-executive director has substantial experience in the mining sector and the management of public and listed companies. He previously held positions with KPMG, Resolute Samantha Limited, Société Générale and Archipelago Resources Plc. He also holds a non-executive director role at Hodges Resources and is the Managing Director of Blackham Resources He is a chartered accountant by profession.

We know of LIT's non-executive chairman George Bauk, due to our previous interactions with Northern Minerals, the Xenotime/REE story, where he has been managing director and CEO since 2010. He has more than twenty-five years of mining industry experience, which includes particular expertise in critical metals. Skilled in strategic management, business planning, the establishment of high-performing teams and capital raising, he has held senior operational and corporate positions with WMC Resources and Arafura Resources and was managing director of Indigo Resources (formerly Western Metals).

The Chief Financial Officer (and Corporate Secretary) is Barry Woodhouse. He has been involved in the manufacturing, mining services, exploration, mining, production (gold, oil and gas, iron ore, bauxite, lithium, copper, uranium and manganese) and information technology industries as chairman, director, CFO, financial controller and/or company secretary with a number of listed and private entities for a over more than twenty-five years.

### **The Lithium Outlook**

In a monolithically grim mining scene, the Lithium space stands out not just for a healthier price for the mineral in question but for a secular upward trend in demand and a number of projects that are attracting big-buck investments. Talison's sale to a Chinese group (and then part resale to Rockwood) set the bar high. This was followed by Neometals' success in attracting Ganfeng, making the Lithosphere one of the most happening places in the minerals space.

The Lithosphere can be divided into three parts: the *salares* operators, the Lithium clay seekers and the Hard Rockers. The former are almost all in South America but with a few isolated examples in the USA. The latter are scattered all over the globe and focus mainly on spodumene deposits. In the past, the interesting combo of Tin/Tantalum/Lithium was widely exploited but went into retreat with the rise of brine. Now, though, there is a resurgence in this type of deposit, with Spain and the mountains of the Czech/German border region being two places richly gifted in this regard. LIT straddles the latter two groups, as it has both lithium clay and mica rock deposits.

The overarching trends in the Lithosphere to look for in coming years are:

- Expect Australian players to become mine-to-market, probably within the next two years
- Hopefully a transparent spot market for Lithium will evolve (though hopefully not in China)
- Expect that recycling (probably driven by German interest) will evolve faster when a large enough pool of used lithium products is available (but only if Lithium prices are high).

An advantage that has emerged in the intervening years since the highpoint of the lithium boom in 2010 is that the plethora of players has been winnowed down to a more manageable number and the projects have been coming to market in a more orderly fashion. This is more by accident than design but it is certainly a contrast to what has happened (or rather not happened) in the Rare Earth space.

The Lithosphere is starting to look like one of the healthier parts of the mining space, with a good distribution of producing mines, through realistic mines in development through to, finally, do-able projects at the more formative end of the spectrum. This should create a virtuous circle that leads to the best projects getting financed and those in the space being able, hopefully, to distance themselves from the travails of the wider mining sector.

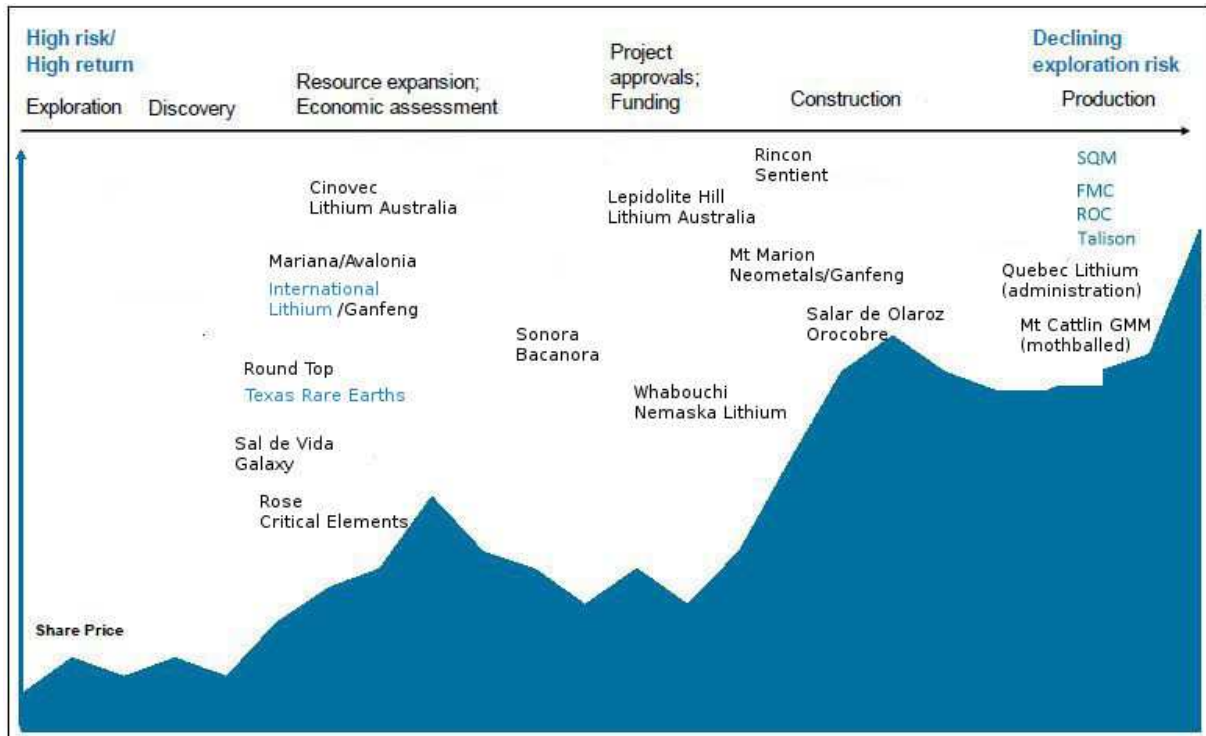
**The Lithium Lifecycle**

Below can be seen our update on the Lithosphere and its timeline to production. Interestingly, on the most advanced side we have two mines that have been stopped dead in their tracks, with the other operating mines being those in the “cartel” (Talison is part-owned by Rockwood).

Neometals has been edging forward and now has Ganfeng motoring the project along. Rincon was ahead of the pack in 2010 and has been marking time and Orocobre seems to have lost momentum as well.

Nemaska has just announced a deal with Johnson Matthey as the offtake partner and has secured a brownfield processing plant. Now it just needs to fund the build but is essentially ready to roll.

International Lithium has the same partner as Neometals, but that only goes to reinforce that Ganfeng will push ahead with Mt Marion, which is way more advanced.





We should not be surprised to see Mt Cattlin getting back into operation with its new owner, General Mining. The Quebec Lithium asset is currently mired in the debtor-in-possession sale process, which gives us no clear sign of future direction.

The Lithium space is no longer overcrowded. There has been a drastic reduction in the number of serious players, caused partly by financing but also by promoters running off in search of shinier objects.

### **Risks**

Specialty metals always bring the danger of wider price oscillations than larger-volume traded minerals. Lithium, though, does have the advantage of a cartel instilling discipline in its ranks. This does not remove the issue as a real risk, or as a source of concern or uncertainty at least. More critical, however, for LIT are financing issues in the currently tough environment for project finance.

- Weakness in lithium price, either from potential over-supply or cartel actions to punish/discourage new entrants
- Financing difficulties with the Lithium project's more advanced stage
- Budget overruns on either the WA or Czech lithium projects and/or construction delays
- Renewed strength in the Australian dollar

For the moment the Australian dollar is weak and playing very much in favour of miners. However, it has been known to turn around swiftly in the event of a recovery of mining markets, with which the currency is closely linked.

Financing looms as the most obvious potential pitfall for both of LIT's Lithium projects. While an element of financing outlook is dependent upon price, this can be obviated in some circumstances with financing supported by an offtaker. The problem with Cinovec is not that LIT needs to get the financing but, rather, that EMH must.

### **Conclusion**

It is maybe too early as yet to add LIT to the tortoise-turned-hare category, however, history has shown one should not underestimate the speed at which Lithium explorers in Australia can move.

LIT has appeared from nowhere and achieved more in one year than many others have done in the six years since the first flush of the Lithium "boom". Under its former guise of Cobre Montana it moved under the radar, accumulated its first couple of targets and set its course for exploiting a unique style of Lithium mica mineralisation. Since the company's renaming, the technology has firmed up, the Czech project has a Scoping Study out and the Mexican prospect has been added to the mix.

With Lithium deposits in Europe being scarce, by a process of deduction, the Cinovec project certainly ranks as the front-runner. The challenge now will be to rustle up the funds to move the project(s) forward towards production. If that means EMH having to take a backseat, or even being folded into LIT, then so be it. LIT is, by any measure, the intellectual and technological driving force behind Cinovec and should have the lead.

Should all three of LIT's projects come to fruition they should not upset, in a meaningful way the supply/demand balance in the Lithium space. Currently, they manage to fill a sweet spot for mid-size buildable projects, with Lepidolite Hill in particular adding to the global mix a project that works initially with tailings, thus removing mining cost from the Opex equation.

We regard Lithium Australia at this time as a **LONG** opportunity with a twelve-month target price of AUD\$ 0.34.



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