

Novo Lítio[#]

BBG Ticker: NLI AU

Price: A\$0.044/sh.

Mkt Cap: A\$16.3m

SPECULATIVE BUY

Europe's Race For Lithium

Strong Project Potential

Novo Lítio (NLI AU) is the largest granted tenement holder in the Northern Portugal lithium belt with its current focus on developing the Sepeda project. The maiden resource of 10.3mnt at 1.0% Li₂O represents a strong starting point for development with drilling showing true widths of mineralisation of up to 70m. Open along strike and at depth, recent results from Phase 3 and 4 drilling have been encouraging. A resource update in which we expect an expanded resource with upgraded confidence is due in Q4 2017 and will build on the positive results of the recent scoping study.

The pegmatite swarms of Carvalhais primarily host lithium-bearing petalite, a low impurity source of lithium, currently predominantly utilised in the glass and ceramic industry. Petalite is also highly suited to lithium-ion batteries; recent metallurgical test work confirmed that NLI could produce a 4.4% lithium concentrate with only 0.01% Fe₂O₃ content. The test work also demonstrated that a battery grade lithium carbonate of 99.97% Li₂CO₃ could be produced again via conventional processing methods.

Lithium Market Fundamentals Strong

With leading projects in Portugal and Sweden we believe that NLI is well placed to capitalise on the strong expected demand growth for the lithium market which we expect to reach 300kt by 2020. The recent decision from European Governments in particular lends long term weight to the argument that lithium-ion batteries are here to stay as a result of a long term switch to EVs. Furthermore, a raft of companies including **LG Chem, Daimler Mercedes, BMZ, Volkswagen and Samsung** have committed to building battery manufacturing capacity in Europe itself.

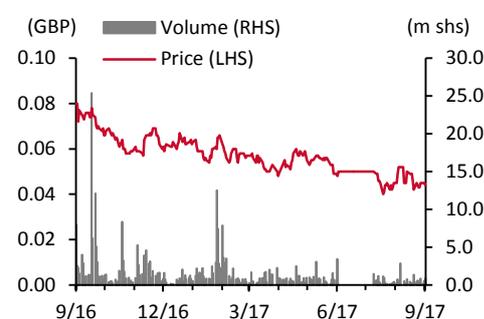
Recommendation and Target Price

NLI trades on an EV/t valuation of US\$20/t, a discount of 96% versus peers, which is unwarranted, in our view. We expect the successful completion of project milestones to further de-risk the Sepeda project and provide catalysts for rerating. Furthermore, we expect lithium prices to remain supported as supply growth from the majors has consistently disappointed so far and we expect market deficits to remain in the near term. Meanwhile the long term outlook has been strengthened by European Government commitments to EVs. **We initiate coverage with a Speculative Buy recommendation and target price of A\$0.20/sh. implying 354% upside potential.**

Company Description

Lithium exploration and development company with assets in Portugal and Sweden.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	-2.2%	-8.3%	-45%

SOURCE: FactSet, as of 20 September 2017 close.

Market:	ASX
Target price:	0.20
Shares in issue	370.4m
Free float:	77%
Net cash (Sept 2017):	A\$14m
Enterprise value:	A\$2.3m

Major shareholders

Slipstream Resources Inv	9.58%
Asgard Metals	5.65%
Soaraway Development	3.08%

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Investment Case

Following the announcement of a recent acquisition **Novo Lítio (NLI AU)** is now the largest granted tenement holder in the lithium belt of Northern Portugal. The current focus is on developing the Sepeda lithium project which is, in our view, one of the leading deposits in Europe. It has further potential to expand the known resource at Sepeda while the robust grade and low level of impurities mark it out for development to become a leading supplier of lithium to satisfy Europe's growing demand. A scoping study recently demonstrated the positive potential of the project although indicated that a larger resource is required in order to support a mine life and annual throughput to justify the capital cost of a carbonate conversion plant.

Along with the expansion potential at the Sepeda project, the recent acquisition of a further 354km² of granted tenements provides significant future exploration potential with a number of outcropping pegmatite swarms already identified. NLI is therefore well positioned, in our view, to deliver on expanding its JORC compliant resources. Furthermore, positive early results from the Swedish assets suggest strong potential here also which could also ultimately provide material to a Portuguese based processing plant.

At the date of last reporting NLI had a cash balance of A\$14m, having acquired the Lynas project, in Australia, in December 2015 and defined a maiden resource in October 2016 shortly before its sale to **Pilbara Minerals (PLS AU)** for A\$8m. NLI recently announced that it received 7.58m ordinary shares in PLS from the company to complete the payments for the Lynas project after PLS opted to satisfy the A\$3m balance in shares. NLI is therefore well positioned to continue the development of its core Sepeda project as well as continue with early stage exploration at its other assets in Portugal and Sweden.

Sepeda License – Legal Proceedings

In July 2017 NLI announced that it had commenced legal proceedings against the vendors of the Sepeda project, **Lusorecursos Lda**. NLI is seeking Ministerial consent to the grant of the tenement applications and sale of the Sepeda project tenements. NLI maintains that it has a binding agreement to acquire from Lusorecursos 100% of the granted license and the exploration license applications on the grant of the applications.

NLI maintain that it is entitled to acquire these tenements by the payment of:

- €10,625 on the grant and transfer of each tenement.
- €250k on the definition within the tenements of a 5mnt JORC compliant lithium resource at 1.2% Li₂O (or greater).
- €750k on the definition within the tenements of 15mnt JORC compliant lithium resource at 1.2% Li₂O (or greater).

NLI has made positive progress so far with the announcement of the commencement of injunction proceedings in September 2017. The company now anticipates that the proceedings will be determined in November 2017 which would enable a Mining License application to be submitted before 7 December 2017, the last date for application. This is the date of expiry for the exploration rights currently held by Lusorecursos. Pending the outcome of proceedings, NLI continues to have access to the Sepeda project and is continuing with exploration activities.

Sepeda Project: Attractive Resource and Economic Potential

NLI has recently published results of its scoping study, which confirm the attractive development potential for the project as well as the broad optionality that remains open to the company. Required capital of between US\$85-250m has been indicated, by the company, depending on the development option chosen (open pit or underground mining) or whether NLI opt to build a processing plant to produce lithium carbonate rather than technical grade petalite concentrate. Based on the current inferred resource, either open pit or underground mining would be appropriate. However, in order for a lithium carbonate processing plant to be economically justifiable a larger resource at higher confidence, which would enable a higher throughput and longer mine life, has been deemed necessary. NLI have

previously indicated that a resource expansion is due in Q4 2017 and with the resource open at depth and along strike we believe that this means the full range of development options beyond the base case also remain open.

Development Timeline, Sepeda Project

Q4 2016	Environmental Impact Assessment (EIA) & scoping study for petalite and lithium chemical production commenced
Q1 2017	Phase 1 and 2 drilling result in maiden JORC resource announcement
Q2 2017	Metallurgical test work Phase 3 and 4 drilling programme
Q4 2017	Resource update Commence Feasibility Study Demonstration plant for production of large scale offtake customer samples
Q3 2018	Grant of EIA and Mining License Commence technical grade concentrate plant Construction
Q2 2019	Mine Commissioning - Technical grade concentrate production commences Conversion plant construction commences
Q2 2020	Conversion plant commissioning – commence production of lithium carbonate and hydroxide

SOURCE: Company data, VSA Capital Research. NB Timeline is subject to resolution of ongoing legal dispute.

NLI began a four phase exploration and development programme in the latter part of 2016 with the initial two phases resulting in a maiden JORC 2012 Inferred Resource of 10mnt at 1% Li₂O. Phases three and four are currently underway which consist of 9,000m and 4,000m of drilling respectively. Phase four has been brought forward to run concurrently with Phase three and these programmes are intended to expand and upgrade confidence on the existing resource as well as provide 20t of material for pilot plant processing test work. The area of mineralisation which constitutes the current Resource represents only a portion of the Sepeda deposit, and is one of five known lithium bearing pegmatite zones across a 2,300m x 500m corridor. We therefore believe that there is significant further potential.

Sepeda Maiden Mineral JORC 2012 Resource

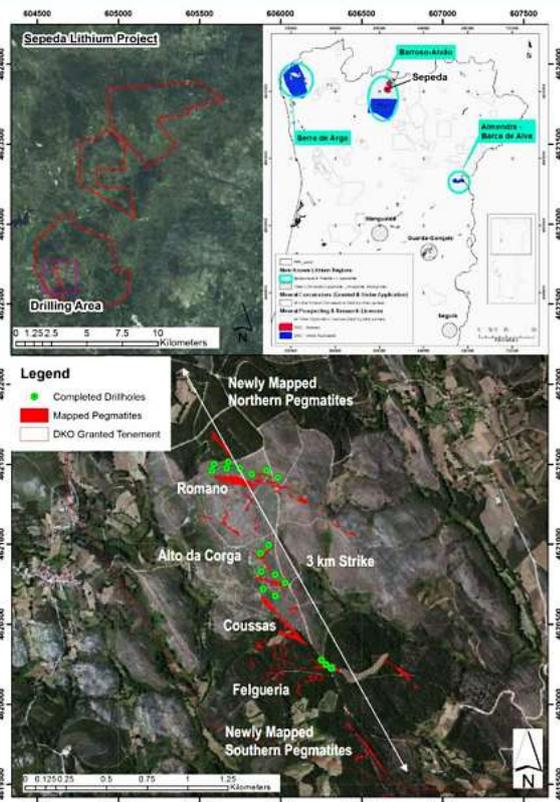
Tonnes, Mt - Inferred	Li ₂ O, %	Sn,%	Contained Li ₂ O, kt	Contained Sn, t	Li ₂ O Cut-Off, %
10.3	1.0	0.05	103	5.15	0.3

SOURCE: Company data, VSA Capital Research.

The Sepeda project is located in the Carvalhais pegmatite field which is a part of the Variscan Belt and takes the form of a north west trending and steeply south westerly dipping series of pegmatite blocks. The immediate area has been historically mined for tin and tantalum. However, since this was done using basic techniques, the mining depths of these shallow workings have typically not exceeded much more than 30m and the Romano pegmatite which forms the focus of current exploration is centred on one of the largest of these historical workings which measuring 300mx50m.

Location Sepeda Project, Portugal

Romano Historic Workings



SOURCE: Company data, VSA Capital Research.

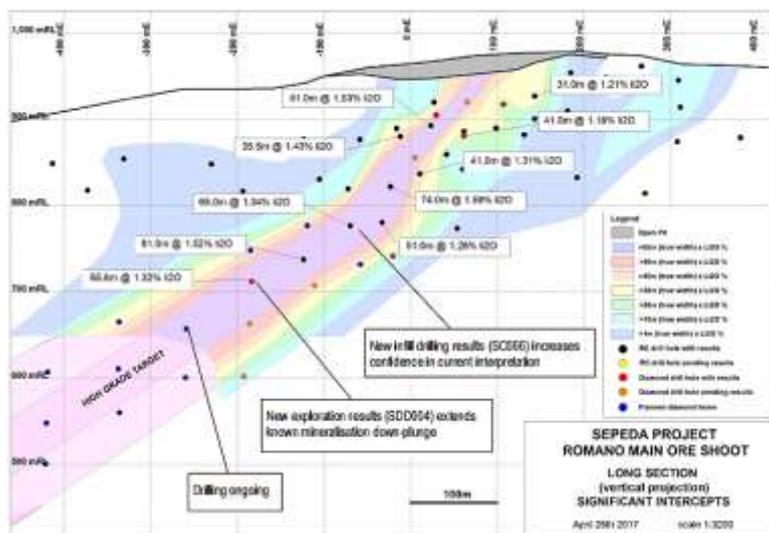
The pegmatites of the Romano deposit have been interpreted as being present in five distinct layers of mineralisation with the central high grade layer the dominant host of the mineralisation. The mineralisation dips at between 30° to 60° to the WNW and between 50° to 90° to the NNE and drilling has intercepted significant thickness with true widths of up to 60m. Whilst there is still further work to be done to assess grade continuity across the resource with mineralisation over such significant widths extending from surface we believe that the resource has strong economic potential which is confirmed by the findings of the recent scoping study.

Four Phase Drilling Programme Progress

	Date	RC Holes/M	Diamond Holes/M
Phase 1	Q3 2016	18/2,090m	0/0
Phase 2	Q4 2016	31/4,899m	2/282m
Phase 3, 4 (completed)	Q1-Q3 2017	34/4,827m	33/7,240m
Total Completed		83/11,816m	35/7,522m

SOURCE: Company data, VSA Capital Research.

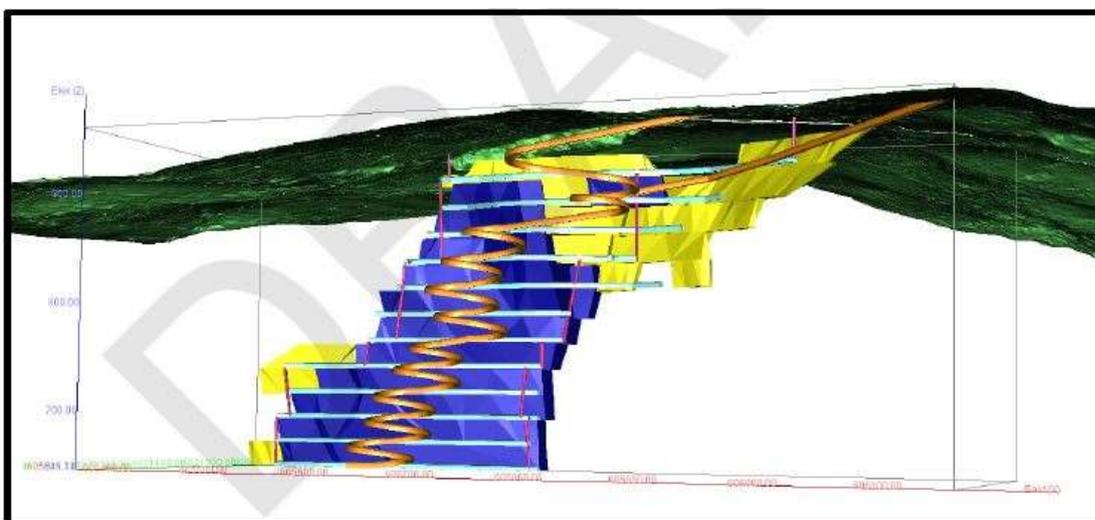
Phase 3, Significant Intercepts



SOURCE: Company data, VSA Capital Research.

The Phase 1 and 2 results used in the Maiden Resource calculation have been utilised in the recently released scoping study which demonstrated the potential for both open pit and underground mining. The third option of having a small open starter pit followed by underground mining has yet to be fully explored. Given the quality of the resource, it is unsurprising that both open pit and underground mining are viable according to the scoping study. The open pit and underground studies were carried out by Optiro and Golder respectively.

Golder Underground Mine Plan, Scoping Study, 2017



SOURCE: Company data, VSA Capital Research.

At this stage, the underground option is currently preferred due to the lower surface footprint and consequently lower socio-environmental impact. Golder assessed a variety of mining methods with the conclusion that long hole open stoping (LHS) with cemented backfill would be best suited as opposed to sub level caving or cut and fill methods. Whilst operating costs and geotechnical design were key drivers of the decision, LHS with cemented backfill would also be advantageous as unlike sub level caving, it does not create a subsidence zone, further minimising the surface impact. Owing to ASX reporting restrictions and the economic uncertainty related to an inferred resource NLI has not yet released the capital or operating cost breakdown of each option.

Expanding the Resource

Phases three and four, for which work is currently ongoing, are targeting an expansion and increase in confidence in the maiden mineral resource, a 300kg sample for metallurgical testwork as well as the collection of additional data necessary for the feasibility study. The drilling is a combination of RC and diamond drilling and the initial results have been highly encouraging. The recent scoping study has shown that a larger resource is required to make the more capital intensive option of building a lithium carbonate conversion plant economically viable. Indeed, we view the current resource as a starting point particularly as recent drilling has highlighted the consistency of grades within the current inferred resource whilst with mineralisation still open along strike and at depth there is significant potential for further expansion of the resource.

RC Drilling at the Romano Deposit



Phase 3 Core Showing Pegmatite and Country Rock



SOURCE: VSA Capital Research.

Highlights from Phase 3 include:

- 65.6m at 1.32% Li₂O from 235m (infill)
- 22.4m at 1.43% Li₂O from 235m (infill)
- 26m at 1.29% Li₂O from 117m (infill)
- 65m at 1.34% Li₂O from 167m (extension)
- 41m at 1.31% Li₂O from 128m (extension)
- 51m at 1.53% Li₂O from 69m (infill)

The strength of the results from depth are particularly encouraging as this is where the primary extension of the resource is likely to be realised. Indeed, the main shoot remains open at depth and hole SDD004 which intercepted 65m at 1.34% Li₂O is particularly encouraging. As highlighted in the Phase three schematic, at depth the high grade central layer is projected to continue down plunge and potentially thicken. This is being targeted as part of the 4km Phase four programme for which drilling is underway.

We expect a resource announcement during Q4 2017, which is likely to demonstrate both an expansion and increased confidence. Although the scoping study has confirmed that a larger resource is required to justify the economics of a carbonate conversion plant, NLI has always intended to expand the resource. Indeed, NLI is targeting a minimum mine life of 14 years. This more favourably suits electric vehicle manufacturers' production cycles which run for seven years. Indications to the company have been that raw material security and an offtake agreement would ideally cover two autocycles. Based on the results to date from recent drilling as well as the surrounding potential at the resource, we believe that this is achievable.

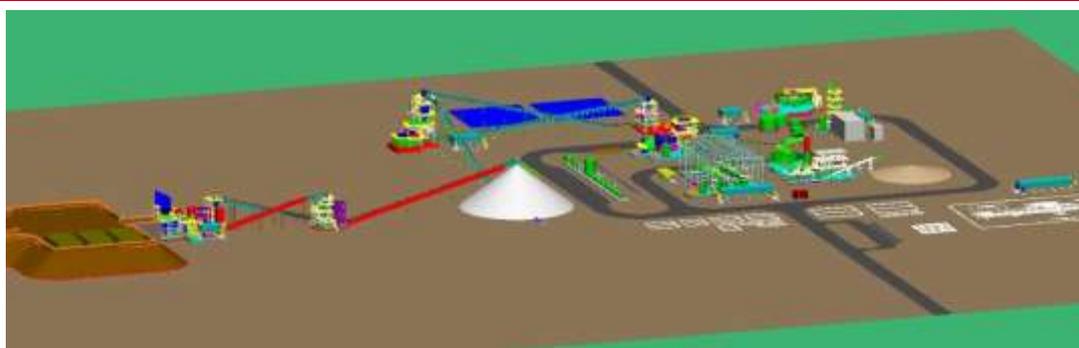
Concentrate, Carbonate or Hydroxide?

NLI's current strategy is to be able to produce technical grade lithium concentrate from petalite at Sepeda and convert this at its own facilities into battery grade lithium carbonate or lithium hydroxide. The intention is to commission the concentrator first and utilise cash flow to then advance the stage two conversion plant. This would then result in a dual product stream with two process routes. Two separate process routes are necessary because of the specific requirements for technical grade lithium used in ceramics, in particular the low iron content requirement. This dual process is attractive, in our view, because it is likely to result in nearer term cash flow generation whilst also enabling NLI to later gain direct exposure to the growing battery market through the higher value carbonate and hydroxide products.

The scoping study has demonstrated that producing a technical grade petalite concentrate is feasible based on the current inferred resource. However, the second stage involving conversion to a lithium carbonate would require a larger resource and mine plan in order to offset the higher capital. Given the upside potential we believe exists at the Romano deposit combined with the recent acquisition we believe that NLI is well placed to determine a sufficiently large resource to achieve this. Furthermore, testwork shows that the petalite concentrate would likely be more than 4% Li_2O and less than 0.04% Fe based on results to date. This low impurity concentrate will be sold to third parties for use in the technical market, which has strict specifications for concentrate purity.

The conceptual plant envisaged by Hatch has been designed as a two stage option with the first stage the concentrator which targets recoveries of 75%, and the second stage for conversion to a 99.5% lithium carbonate is targeting recoveries of 85%. The study also considered the viability of the project in terms of power, water and labour which was demonstrable in each case given the strong regional infrastructure.

Hydrometallurgical Plant Layout, Scoping Study, 2017



SOURCE: Company data, VSA Capital Research.

Metallurgical testwork has demonstrated that NLI is capable of producing battery grade lithium carbonate. NLI is currently exploring the potential for building a conversion plant once mine commissioning has been completed to also directly produce a lithium carbonate and lithium hydroxide product suitable for battery manufacture. Although the hydroxide and carbonate products add value to the final product this route comes with significant capital commitment. It should be noted that the technical grade concentrate that NLI intends to produce is itself a premium product compared to chemical grade spodumene concentrate, which has a higher impurity content.

Metallurgical Testwork Shows Battery Grade Potential

The lithium at Sepeda is primarily hosted in the mineral petalite. $\text{LiAlSi}_4\text{O}_{10}$, which is a white, yellow, grey-white and occasionally light pink mineral. Petalite does not accommodate significant quantities of iron in its molecular lattice which makes the final lithium product particularly suited to glass and ceramic grade products. However, the low levels of impurities also make it suitable for use in batteries. It can be processed via conventional means to produce high quality lithium end products. Indeed, whilst most investor attention is currently focused on the spodumene processed in Australia, it is important to highlight that petalite is also a current source of lithium supply with around 5ktpa lithium carbonate produced annually, according to USGS statistics, at the Bikita mine in Zimbabwe.

Metallurgical testwork has been carried out by Dorfner Anzaplan in Germany and ANSTO in Australia. Initial results have shown that a very low impurity 4.4% Li₂O petalite concentrate can be produced via conventional flotation methods which would potentially be suitable for both the glass and ceramics markets as well as the battery market. Indeed, the results indicate that the iron content would be around 0.01% Fe₂O₃. Hydrometallurgical testing has successfully demonstrated that a battery grade 99.97% LiCO₃ concentrate could be produced from core from the recent drilling.

High Grade Section of Core from Phase 3 Drilling



SOURCE: VSA Capital Research.

The hydrometallurgical and metallurgical testwork carried out by Dorfner Anzaplan in Germany utilised conventional processes to produce a battery-grade lithium carbonate product confirming the viability of Novo's development plan for the Sepeda project. Initial precipitation yielded a battery grade product of 99.88% lithium carbonate, although lock cycle testing was not carried out so true recoveries cannot yet be determined. However, bicarbonation resulted in a product purity of 99.97% lithium carbonate.

Further metallurgical testwork, for the Pre-Feasibility Study, will be carried out during Q1 2018 including locked cycle testing which will enable potential recoveries to be determined more precisely and thus the most appropriate equipment for the concentrator. The PFS will require a 300kg sample for testing. This work is due to be carried out by **Outotec** in Finland and has been delayed slightly by the legal issue surrounding Sepeda. The **Outotec** work will provide sufficient data for the initial design of a Lithium Chemical Plant and NLI are keen to focus on a modular design that would shorten the development schedule, minimise site construction and commissioning time. The demonstration plant due to be initiated in Q4 2017 will enable 10t bulk samples to be processed as NLI begins seeking out potential offtake partners. Source locations have been identified for these samples which must be representative of mining for the first ten to fifteen years so as to be of use to potential offtakers studying the samples.

Petalite and Technical Grade Lithium Pricing

It is important to clarify the differences between technical and chemical grade spodumene concentrate as well as the impact on pricing. Novo is currently weighing its options of technical grade petalite concentrate or converting to lithium carbonate or hydroxide. The former is the least capital-intensive process but results in the lowest value added product and NLI currently envisages a multi stream production path which could produce both lithium carbonate and technical grade petalite concentrate. This would provide both exposure to the growing market for lithium-ion batteries as well as limiting the associated operational leverage by maintaining exposure to the more defensive end of the market; an attractive strategy, in our view.

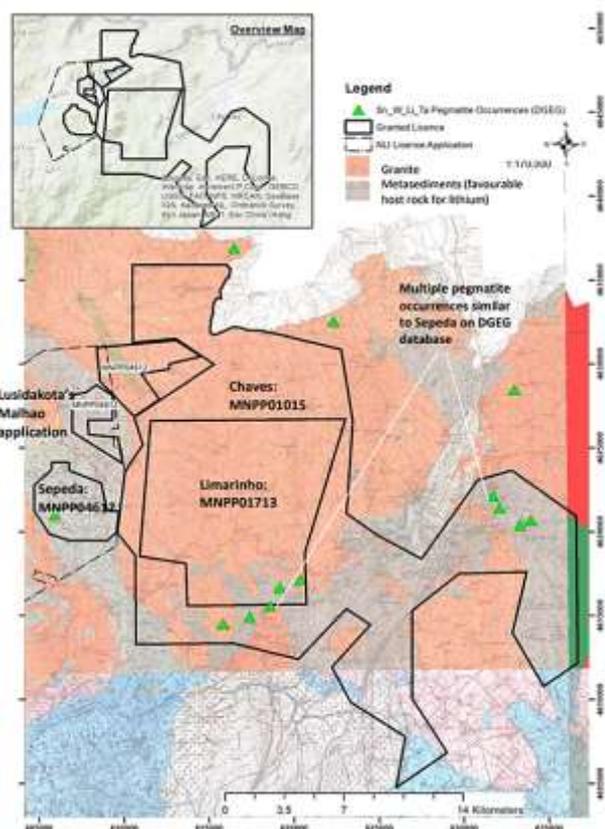
Chemical grade spodumene concentrate (5% Li₂O) is currently primarily used for conversion to lithium carbonate and Australia is the main supplier with 2017 contracts typically pricing at US\$830/t. Meanwhile, technical grade spodumene concentrate with a lithium content of 7% Li₂O is used in the glass and ceramic market which accounts currently for around a third of global demand which has historically tracked global GDP growth. This product attracts a significant premium to chemical grade and 2017 contracts are estimated at between US\$1,500-1,700/t.

The key difference is, however, the low level of impurities in the technical grade product and all the data so far indicates that Novo would meet the requirements. However, its lithium content has been shown to be around 4% Li₂O in early testing meaning an adjustment would have to be made to pricing. This would imply a range of US\$940-1,130/t based on the above pricing. It is also important to note that the more available current market statistics are for spodumene and not petalite. However, we highlight that this Novo are not marketing a new product to the lithium market and historical data from Lithium Australia which managed the Greenbushes mine in the 1980s showed that lithium petalite concentrate traded at a premium of c70% to chemical grade spodumene concentrate priced at US\$150/t at that time.

Other Portuguese Exploration & Recent Acquisition

Most recently NLI has significantly expanded its exploration footprint with the acquisition of a 354km² granted tenement package from TSX-V listed **Medgold Resources Corp (MED CN)**. The key advantage is the fact that the tenements have licenses already granted. The Portuguese system is such that multiple applications can be made on a site where a license has not yet been granted and where multiple applications are made an auction style process determines the eventual licensee. Given the prospectivity of the region for lithium and the strong market fundamentals, ungranted licenses typically have multiple applications and the process can take some time to be resolved. Having obtained granted licenses on which exploration work can be begin immediately therefore significantly strengthens NLI's position and improves the company's chances of rapidly realising its potential. It is now the largest granted tenement holder in the region and therefore, in our view, offers the strongest investment exposure to the region's lithium producing potential.

Map, New Tenement Areas, Northern Portugal



SOURCE: Company data, VSA Capital Research.

The Chaves-Limarinho tenements contain multiple tin-bearing pegmatite outcrops which appear geologically similar to Sepeda. Indeed, multiple historic open pit and underground workings have been identified within each zone with a similar setting and host rock as Sepeda. The Easterly pegmatites that can be seen on the map above consist of a series of workings and outcroppings over a 3km strike. The largest of these pits is 120m long by 20m wide and 20m deep.

Given the geological similarities we believe that the transaction is highly complementary to the Sepeda project and further underpins our positive view of NLI's potential to be a leading European lithium supplier. Ultimately we believe that NLI intend to establish resources in the new tenements that could provide feeder deposits developing a hub-spoke type model with multiple deposits feeding into a central processing plant from across Northern Portugal. Given the results of the recent scoping study, additional resources and mineralisation which could expand NLI's mining potential are likely to be beneficial in making the economics of the Stage 2 carbonate conversion plant more robust.

NLI intend to carry out surface sampling and mapping in the coming months to identify suitable drill targets. We highlight that NLI has demonstrated its technical ability to rapidly progress this type of early stage exploration having defined two maiden JORC resources on two different continents within twelve months.

In addition, NLI also has large tenements under application for exploration in Portugal. The Serra de Arga pegmatite field and the Barca de Alva pegmatite field are also under application for exploration by Novo and the entire tenement package including Sepeda covers 753km². Historical data at Serra de Arga shows that surface lithium values range between 1-2.67% Li₂O whilst at Barca de Alva similar data shows lithium values of up to 0.34% Li₂O.

Swedish Lithium Portfolio

Novo has identified a portfolio of newly granted exploration leases, totalling 126km², which form a secondary focus for the company. Historical records demonstrate that the three areas are highly prospective for lithium and a programme to define potential drill targets began on the 15 May. This work will focus on the Spodumenberget prospect where historical reconnaissance work primarily involving surface sampling of soil and rock chips has yielded lithium values of up to 1.69% Li₂O from spodumene-bearing pegmatites. Novo has developed a strong track record in lithium exploration, having defined two JORC 2012 compliant Resources within 12 months, both of which have significant economic potential.

Although at an early stage of development the Swedish projects strengthen Novo's portfolio of European lithium assets, in our view. Europe is developing its own battery manufacturing supply chain and there is strong demand potential from both electric vehicles and grid management. Consequently raw material supply is of increasing concern whilst with the recent flurry of government announcements relating to electric cars there is rising scrutiny of mineral sourcing which favours projects in developed markets. Furthermore, the scale of production typically associated with lithium mines does not make it unfeasible to transport lithium concentrate across the continent to central processing facilities for upgrading to lithium carbonate or hydroxide.

Location of Novo's Swedish Lithium Leases



SOURCE: Company data, VSA Capital Research.

The initial results of rock chip sampling and mapping were encouraging with two to three zones of spodumene-bearing pegmatites confirmed. The zones have been confirmed across a strike length of 340m and up to 100m wide dipping south east at 15-60° and likely plunging to the north west at a moderate (<50°). Seven rock chip samples averaged 1.28% Li₂O. Four of the samples yielded above 1% while peak values were 2.77% and 1.88%. Further work is now being carried out to determine drill targets.

In addition, the Hamrange site is contiguous to the Bergby lithium project where recent drilling yielded 10.5m at 1.62% Li₂O while Novo's exploration tenement contains multiple mapped pegmatite zones. The third site, at Räggen, is located within a historical tin mining district where pegmatite occurrences have been confirmed although it remains to be seen whether these pegmatites are lithium bearing.

Sweden frequently ranks highly for mining investment on the Fraser Institute survey, reaching 13th in 2015 and 8th overall in 2016 and is therefore one of the most attractive jurisdictions for mining investment globally. There have, however, been an increasing number of instances where the competing interests of mining companies and the local indigenous people, has resulted in permitting delays and other similar setbacks. That said, none of the tenements owned by NLI encroach on Sami land and it therefore avoids one of the few potential issues relating to operating in Sweden.

Valuation

Our valuation methodology is based on a peer group average of enterprise value to contained tonnes of lithium. The peer group is confined to hard rock projects for which the risk factors through development are more closely aligned. Currently **Novo Lítio (NLI AU)** trades on an implied valuation of US\$3/t compared to a peer group average of US\$471/t. Given the attractive nature of the resource, cash position, strong management team, stable jurisdiction and backdrop of strong lithium market fundamentals we believe Novo offers a realisable development programme and significant upside potential. With the positive results of the current programme materially de-risking the Sepeda project we believe that upcoming milestones offer significant catalysts to drive a re-rating. While we recognise that the legal issue is likely a weight on the shares we expect the court case to be resolved swiftly and in NLI's favour.

Target Price

Peer Group Weighted Average, US\$/t	471
Implied Enterprise Value, A\$m	61
Cash, A\$m	14
Target Market Capitalisation, A\$m	75.1
Number of Shares Outstanding, m	370.4
Target Price per share, A\$/sh.	0.20

SOURCE: VSA Capital Research, Factset, AUDUSD 0.76

Based on the peer group average we infer a target valuation of A\$61.1m and target price of A\$0.20/sh. implying 354% upside potential.

Chart peer group performance



SOURCE: Bloomberg, VSA Capital Research.

Novo Lítio Deeply Undervalued

Although the sharp rise in valuations for lithium juniors in 2015 and early 2016, was followed by a period of correction with stocks such as **Nemaska Lithium (NMX CN)** and **Pilbara Minerals (PLS AU)** down from April 2016 highs, we believe that recent market developments namely governments commitments to ban combustion engines which has resulted in keener investor focus on battery materials prompting a recovery in valuations. Australian and Canadian listed stocks have also benefitted from a weaker USD over the past few months. Indeed, NMX and PLS are up 49% and 67% respectively from April 2017 lows. Lithium prices have pulled back modestly from end of 2016 highs as supply has

begun to react, however, news sources of supply have consistently disappointed and we believe that the current market deficit is unlikely to reverse in the near term. We therefore expect prices to remain supported as a result.

We note the recent transaction by **Savannah Resources (SAV LN)** for a 75% interest in **Slipstream Resources** Portuguese lithium assets, however, we have not used it in our peer group analysis as no resource has as yet been determined on the project. SAV is, however, targeting similar areas of pegmatite swarms as NLI, although is focusing on lithium bearing spodumene. Although a mining license exists on the key property at Mina do Barroso it runs for thirty years from 2006 with commissioning targeted for 2020 at the earliest. Historical drill data exists, which although significant, generally falls short of those from Sepeda (16m at 1.35% Li₂O from surface, 22m at 1.1% Li₂O from 3m, 32m at 1.16% Li₂O from 20m). Aside from rock chip sampling, no recent exploration programmes have been carried out and we view the project as at a relatively earlier stage than NLI, which is reflected in the transaction price which may total up to A\$10.1m depending on milestone achievements.

There remains a stark divide in sector valuations. Processing and political risk appear to be the primary determinants of valuation with premium stocks all focusing on spodumene production in top tier jurisdictions such as Canada or Australia. Indeed, the weakest valuations are for projects such as **Prospect Resources (PSC AU)** and **Birimian Gold (BGS AU)** which located in Zimbabwe and Mali are operating in far less attractive jurisdictions with respect to mining investment whilst **European Metals (EMH AU)** is focussed on the processing of lithium-bearing micas and although laboratory testing has proven successful it is not yet a commercially scaled process.

In the case of NLI, the current implied valuation on an EV/t of contained lithium is just US\$3/t, indicates a discount of 99% to peers, which is unwarranted, in our view. In Portugal, which frequently ranks highly in the Fraser Institute Index of mining investment attractiveness, the Sepeda project is located in a stable and attractive location with a government which is experienced in supporting developing mining projects. Furthermore, lithium-bearing petalite is commercially processed to produce lithium products currently and NLI's recent metallurgical test work has confirmed the potential for a conventional processing circuit to produce battery grade lithium carbonate at Sepeda. Consequently, we believe that the discount currently weighing on the shares is unwarranted and we expect the stock to rerate through the coming months as the development timeline is successfully completed.

Risks

- **Commodity Prices.** The company is primarily exposed to the lithium market and unexpected changes to commodity prices are likely to affect our valuation.
- **Political Risk.** Changes to the political regime and mining code in Portugal would potentially alter the risk profile and the ability of the company to deliver on its development schedule.
- **Macro Risk.** Unexpected moves in the EUR remain a risk for the slow recovery of the Eurozone economies.
- **Execution Risk.** The potential for delays and operating issues are an inherent industry risk, this may include delays in receiving financing or hold ups to the completion of development milestones.
- **Financing Risk.** Access to financing has been challenging for natural resources companies recently owing to volatility in commodity markets.
- **Legal Risk.** NLI has escalated a dispute over the grant of tenement applications to the company by the vendors. While the company maintains that it expects this to be resolved in its favour, there is a risk that either the decision goes against the company or that proceedings take longer than expected.

Peer Group Comparison

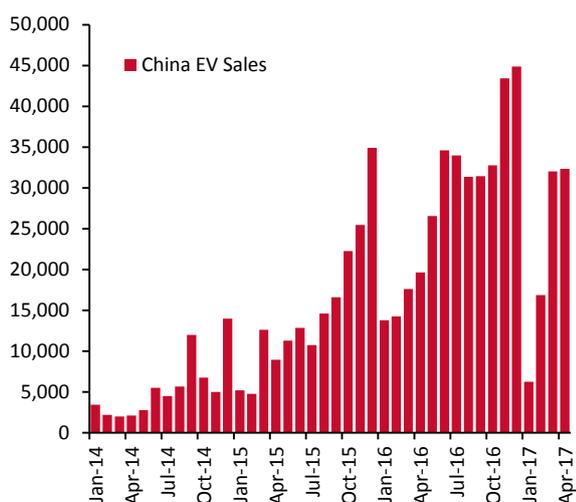
Company	Ticker	Market Cap (US\$m)	EV (US\$m)	Cash (US\$m)	Location	Resource M&I, (Mt Contained Li2O)	Avg. Grade M&I, Li2O (%)	Resource, Inferred (Mt)	Avg. Grade Inf'd, Li2O (%)	EV/t (US\$) (M&I&I)
Critical Elements	CRE CN	204	204	1	Canada	0.26	0.98%	0.09	0.86%	580
Nemaska Lithium	NMX CN	437	410	27	Canada	0.44	1.57%	0.07	1.57%	801
Rock Teck	RCK CN	27	25	1	Canada	0.04	1.10%	0.06	1.00%	257
Sayona Mining	SYA AU	13	12	1	Canada	0.07	0.96%	0.02	0.93%	134
Pilbara Minerals	PLS AU	691	746	(55)	W. Australia	1.27	1.33%	0.69	1.13%	381
Prospect Resources	PSC AU	41	35	6	Zimbabwe	0.52	1.09%	0.23	1.25%	47
European Lithium	EUR AU	20	19	0	Austria	0.07	1.2%	0.07	1.17%	130
European Metals	EMH AU	85	84	0	Czech Republic	1.74	0.50%	1.24	1.17%	28
Birimian Gold	BGS AU	75	71	5	Mali	0.35	1.37%	0.10	1.37%	156
Novo Lítio	NLI AU	13	0.36	13	Portugal	-	0	0.10	1.00%	3

SOURCE: Company data, FactSet, VSA Capital Research

Lithium Market Update

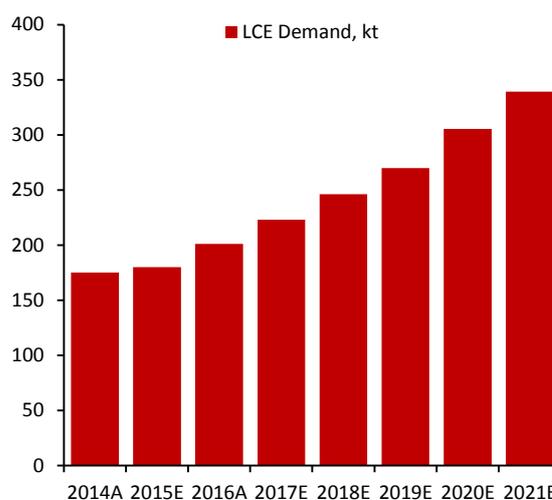
The rapid growth of the lithium market over the past two years has been driven by a surge in demand for lithium-ion batteries, primarily driven by the growth of the electric vehicle market in China where sales have increased 34% YTD to 84.5k units after a 91% YoY increase in 2016 to 344k units. In order to meet rising demand, battery manufacturers have commissioned additional manufacturing capacity often termed mega-factories. The most well-known of these is the **Tesla (TSLA US)** gigafactory in Nevada, which we anticipate to require around 25-30ktpa of lithium carbonate equivalent demand to meet its 500,000 battery pack annual capacity. However, China is the largest single consumer at around 35% of global demand which we estimated reached a total of c.195ktpa LCE in 2016.

EV Sales, China



SOURCE: Ev-blogspot, VSA Capital Research.

Global Lithium Consumption Growth, kt



SOURCE: USGS, VSA Capital Research

As well as TSLA's factory for which there is potential to double capacity with a Phase 2 expansion, there are a number of other factories in the pipeline which are expected to commission between 2016 and 2020. **LG Chem's (051910 KR)** 7GWh plant in China came online in 2016 while they also have an expansion project for their Michigan, US plant of 1.6GWh. **Foxconn Technology (2354 TW)** are adding 15GWh of capacity in China to commission in 2016 while **BYD (1211 HK)** are adding 20GWh by 2020. **Boston Power** are also adding to Chinese capacity with a 10GWh increase by 2020 while **Samsung SDI (006400 KR)** have announced a 1.5GWh expansion in South Korea.

Lithium Carbonate Price, US\$/t; Long term contract



SOURCE: Benchmark Mineral Intelligence, VSA Capital Research.

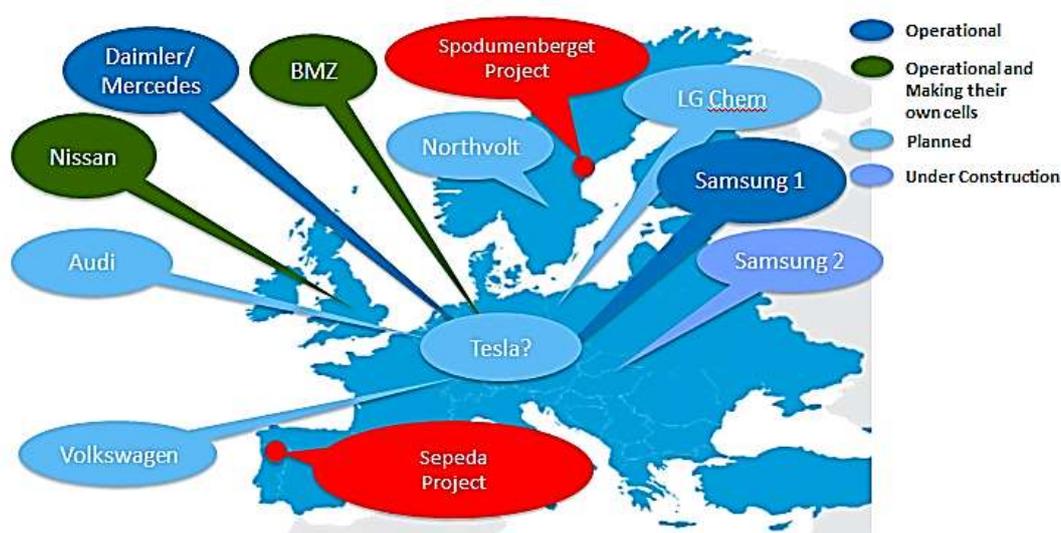
Global demand was up by around 13% YoY in 2016 to around 195ktpa and we expect strong growth for lithium carbonate to continue at a CAGR of 11%pa to 2025. As a result, prices of lithium carbonate have risen sharply in 2016 from around US\$6,000/t in 2015 to US\$9,500/t in 2016, ahead of our upper estimate of US\$8,000/t. However, it is the lithium hydroxide segment of the market which has experienced the greatest increase in prices. Lithium hydroxide is the current preferred raw material for battery manufacturers, however, currently there is around only 60ktpa of converting capacity and this bottleneck drove prices from between US\$7-8,000/t to US\$12-15,000/t in 2016 and as high as US\$20,000/t in the case of some smaller transactions. Prices have largely maintained support in 2017 across product ranges.

Whilst there have been a raft of announcements relating to additional expansions, particularly in terms of lithium hydroxide conversion capacity, we do not believe that these are likely to have a meaningful impact on prices until 2019 at the earliest. The market is currently dominated by a small number of companies which control around 50% of supply; **Albemarle (ALB US)**, which owns Rockwood Lithium, **SQM**, **FMC** and **Chengdu Tianqi** which is listed on the Shenzhen Exchange. Tianqi has committed to construction of a lithium hydroxide plant of 24ktpa at a cost of US\$300m which is due to commission in late 2018 although this is an aggressive timeline. SQM intends to add 7ktpa to its 6.5ktpa during 2017 whilst FMC has committed to 20ktpa of new capacity. Hydroxide prices are therefore likely to remain elevated relative to carbonate prices in the medium term whilst end users await this new capacity to come online. On the carbonate front, moves to expand supply of the raw material for conversion have already begun albeit slowly. Traditional production from brines may only be ramped up slowly as it is an evaporation process primarily. However, significant new supply, particularly from smaller producers, is also only likely to come online from late 2018 onwards.

Lithium in Europe

The EU imports substantially all of its lithium requirements, which totals around 20% of annual global demand. Internal supply is currently limited to small scale production (c1ktpa LCE) for the glass and ceramics industry. However, over the past 18 months the demand outlook has been changing rapidly. The emissions scandal has focussed development plans for European car manufacturers who are adopting aggressive targets for electric vehicle production which include significant levels of vertical integration. Indeed, both **Daimler** and **Volkswagen Group** have committed to making 25% of their fleet electric by 2025 and while Audi has made a strong commitment to EVs it has opted to source batteries from Samsung. Daimler have indicated that this would require 22GWh of battery manufacturing capacity and broke ground in May 2017 on a battery plant near Dresden which is expected to take 9-12 months to construct. Furthermore, Jaguar Land Rover in partnership with Ford and BMW have also indicated that they are considering building an integrated facility while **Tesla (TSLA US)** are reviewing sites for a potential European gigafactory.

European Battery Plants



SOURCE: Company data, VSA Capital Research.

As well as the integrated solutions proposed by the car manufacturers, existing suppliers such as **LG Chem, Samsung and BMZ** are rolling out plans to build European lithium-ion battery manufacturing capacity. Samsung, having purchased a facility from **Magna Steyr** in Austria are constructing a new facility in Hungary which would be able to supply batteries for 50k EVs per annum by H2 2018. **BMZ** intend to expand their 15GWh of capacity to 30GWh by 2020. The largest potential addition comes from **Northvolt**, a Swedish company headed by a former Tesla executive which is seeking to raise US\$4bn for a 32GWh plant, which would be one of the largest in the world.

The emergence of Europe as a centre of battery manufacturing capacity, which means the region is likely to be as important as China and the US, in our view, (although offtake agreements are yet to be secured by these emerging battery manufacturers). Security of lithium supply is likely to become a key issue in the medium term as these facilities come online particularly given how Chinese producers have already moved to secure a number of offtakes with the most advanced projects globally. Chinese firms such as Tianqi and Ganfeng have already moved to secure long term offtakes with the leading Australian projects. Ganfeng have been particularly active, having increased their stake in the Mt Marion project to 43.1%, whilst recently committing to a long term offtake with **Pilbara Minerals (PLS AU)** for all but 140ktpa of the initial 2mntpa spodumene concentrate production. **Galaxy Resources** have also focused on Chinese consumers although the offtake agreements to date have been short term, lasting just one or two years. In the Americas, **Bacanora Minerals (BCN LN)** have secured an offtake agreement from Japanese group, **Hanwa**, for 70-100% of its Stage 1 production (17.5ktpa LCE) whilst **Nemaska Lithium (NMX CN)** made an agreement with **Johnson Matthey (JMAT LN)** for an undisclosed volume of lithium salts.

Available lithium from emerging producers is therefore in short supply and there are few projects in Europe which at this time offer genuine commercial scale potential. However, we believe NLI's Sepeda project is one of these. Although China's offtakers have primarily looked to Australia given the natural geographical affinity we do not believe that with the current volumes and value of lithium products being traded, the costs of long distance shipping are going to make a meaningful impact on supply agreements. Indeed, **European Lithium (EUR AU)**, based in Austria, which secured an offtake agreement in May 2017 for 50ktpa spodumene concentrate did so with a Chinese group, Shandong RuiFu Lithium Company, further reducing availability for European manufacturers.

We note that although the economics of the lithium brine producers in South America appear more attractive than hard rock peers offtakers have been hesitant to sign long term agreements to date. We believe that this is due to both the difficulties associated with brine ramp up and achieving a consistent battery grade product as well as the relative weakness in terms of the investment attractiveness of jurisdictions such as Argentina. Consequently we believe that projects in top tier jurisdictions are likely to prove more attractive for offtakers looking to secure reliable and consistent high quality lithium supply. We believe that this is where European projects such as Novo can capitalise.

Aside from EUR's Wolfsberg project (17mnt at 1.3% Li₂O, JORC 2004) and **Rio Tinto's (RIO LN)** Jadar project (125mnt at 1.8% Li₂O), other European projects appear unlikely to meet commercial requirements due to their small scale or are at too early a stage to fairly assess the resource and lack the early mover advantage of NLI.

European Governments' Ban Internal Combustion Engines

In the past few weeks the battery market and electric vehicle market have received a significant increase in attention as governments have set out targets to completely eradicate the internal combustion engine from their roads. Europe is the leader in this legislative switch to EVs and France and the UK have committed to banning the sale of petrol and diesel cars by 2040 in response to the emissions scandal and the revelation over the negative effects of diesel emissions.

This has little impact on our short and medium term assumptions for the market, however, it should provide greater comfort and certainty for investors about the longevity of the market and its potential for long term growth beyond our current investment horizon. The fact that lithium is not a geologically scarce mineral is critical for achieving this long term growth. Indeed, it is this fact that makes long term growth viable and realisable particularly in the context of the current EV market which currently only accounts for around 1% of the global vehicle market.

Over the longer term developments in battery technology will be crucial to the penetration of electric vehicles and developing electricity generation. Currently EVs are heavily subsidised while vehicle range and charging times are

constantly at the forefront of consumer's minds; in the UK, grants of up to £4,500 are available for purchasing approved EV models. Both these issues as well as a roll out of EV charging infrastructure have to be resolved before mass adoption can take place. Indeed, subsidies must be reversed and governments will have to replace fuel duty revenue as petrol and diesel are phased out; in the UK fuel duty revenue is projected at £27.5bn in 2017-18.

In our view, the pace of technological change is likely to hasten with investment and interest pouring into the sector. This should in a relatively short space of time resolve the issues of range and improve battery life, cost with likely developments in size and weight also. Meanwhile, the commitment to EVs necessitates investment in infrastructure which governments are well placed to assist. However, the impact on tax revenue is a key issue that is some way from being resolved.

The implications for grid demand are also significant with a recent study by the National Grid indicating an additional 30GW on current peak demand (currently 61GW): this would require 10,000 new wind turbines or 10 new nuclear power plants. Batteries, however, offer a solution in this regard also as enhanced technology will significantly improve the ability of renewables to reliably deliver to the grid according to demand meaning they can genuinely complement existing energy sources.

Supply Challenged to Keep Pace with Demand

The nature of lithium production means there are specific industry risks for lithium project developers which limit the ability of both incumbent producers and new entrants to rapidly increase production. As a result, we believe that market deficits are likely to be sustained through until 2019 at least, driving stronger lithium pricing for both carbonates and hydroxide product.

Being highly reactive, lithium never occurs in metallic form in nature, but instead is most commonly found in its oxidised mineral and metal compounds, in two main forms:

- As brines from evaporate basins (dried up seas and salt lakes, as well as from some oil field brines and geothermal well fluids).
- In pegmatites, where the primary lithium minerals are lepidolite $K(Li,Al,Rb)_3(Al,Si)_4O_{10}(F,OH)_2$ and spodumene $LiAl(SiO_3)$. Some high temperature, tin-tungsten ore bodies, called greisens, also produce by-product lithium.
- In addition, lithium-bearing volcanic clays are being considered for future potential commercial exploitation.

Once identified, lithium is extracted using one of two methods and saleable products tend to be conversions of the mineral or brine liquor to one of lithium hydroxide ($LiOH$ and $LiOH-H_2O$), lithium nitride (Li_3N), or lithium carbonate (Li_2CO_3). The production economics and benefits of brines versus hard rock deposits vary, depending on the size of the resource and its geographic/climatic location.

- Brine extraction is relatively simple, with the fluids pumped to the surface and distributed into large ponds, in order to slowly evaporate. This leaves the soluble salts, including lithium, which are then pumped, or mechanically loaded, to be treated in a chemical separation plant. Brines have lower production costs per tonne of product and longer mine lives, but can have variable production rates month-on-month and season-to-season, depending upon the weather. Brine operations also typically have much larger pre-production capex requirements than pegmatite-based mines. They currently represent two-thirds of total world production.
- Lithium from pegmatites or greisens is extracted via mining and processed in a more conventional manner, through crushing and grinding, followed by chemical separation. Pegmatites have the advantage of predictable lithium compound production rates, an advantage when producing high spec product for batteries. However, operating costs tend to be higher than those of brine operations.

World Lithium Production and Reserves (t)

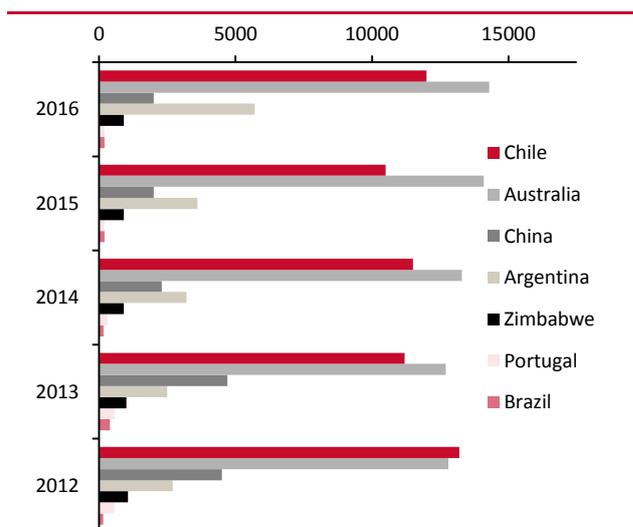
	Mine Production	
	2015A	2016A
Argentina	19,163	30,341
Australia	75,054	76,119
Brazil	1,065	1,065
Chile	55,892	63,876
China	10,646	10,646
Portugal	1,065	1,065
United States	-	-
Zimbabwe	4,791	4,791
World total (rounded)	167,675	187,902

*NOTE: *US production withheld to avoid disclosing company proprietary data, and excluded from total. LCE converted from lithium metal using conversion factor 5.323.*

SOURCE LEFT: US Geological Survey.

SOURCE RIGHT: <http://www.statista.com/>.

Five-Year Worldwide Lithium Production (t)



Rapidly increasing production from brine sources is constrained by the nature of the process and this goes some way to explaining the rapid rise in pricing for lithium products in 2016. Only SQM were able to significantly ramp up production in 2016, by 28% 44kt although have guided for flat sales volumes in 2017. This in combination with higher prices has resulted in a 111% increase in segment revenues to US\$338m. However, gains at the other leading lithium producers have been more modest. ALB lithium revenues were up 16% YoY in 2016 to US\$968m whilst FMC lithium revenue of US\$264m was up 11% YoY. The latter two results suggest largely flat production with higher prices the key driver behind the results. This demonstrates the challenges associated with rapidly ramping up lithium production and whilst ALB have committed to raising production to 160ktpa by 2020, which given their performance in 2016 appears overly optimistic, in our view.

That said, we do expect the incumbent producers to respond to higher prices, however, significant impacts are not likely to be felt for at least 18 months and given demand is likely to remain strong over this period we expect prices to remain elevated.

Over the longer term we do expect the extensive brine potential within China to be exploited. **CRU Group** believe 190ktpa of capacity may be forthcoming in the next five to 10 years from announced and quantified projects to date. Logistically, the country is hampered by the brine basins being in the more remote areas of China and Mongolia which lack sufficient or extensive power and transport infrastructure. China's One Belt One Road policy of expenditure over the coming five years is intended to debottleneck these regions and open them up to investment. However, whether this will be deemed a suitable source of supply for ethically minded EV manufacturers will remain to be seen given China's track record and the European emissions scandal.

Pricing Outlook

Supply has only reacted modestly in 2016 due to the constraints on production inherent in the industry and whilst we do expect a stronger supply response from the incumbent producers this is unlikely to outpace the rising demand for lithium in the near term. Consequently we expect carbonate prices to continue to rise until 2018/19 albeit more modestly before additional production commissioning in 2019 and 2020 results in a normalisation of pricing. The bottlenecks in the hydroxide segment of the market are also likely to remain and we do not believe that new capacity will be brought online until 2019/2020 despite the raft of announcements in recent months.

Petalite and Technical Grade Lithium Pricing

Should Novo simply produce a technical grade petalite concentrate we believe it is important to clarify the differences between technical and chemical grade concentrate as well as the impact on pricing. Novo is currently weighing its options of technical grade petalite concentrate or converting to lithium carbonate or hydroxide. The former is the least

capital intensive process, however, results in the lowest value add product and Novo currently envisage a multi stream production path which could produce both lithium carbonate and technical grade petalite concentrate. This would provide both exposure to the growing market for lithium ion batteries as well as limiting the associated operational leverage by maintaining exposure to the more defensive end of the market; an attractive strategy, in our view.

Chemical grade spodumene concentrate (5% Li_2O) is currently primarily used for conversion to lithium carbonate and Australia is the main supplier with 2017 contracts typically pricing at US\$830/t. Meanwhile, technical grade spodumene concentrate with a lithium content of 7% Li_2O is used in the glass and ceramic market which accounts currently for around a third of global demand which has historically tracked global GDP growth. This product attracts a significant premium to chemical grade and 2017 contracts are estimated at between US\$1,500-1,700/t.

The key difference is the low level of impurities in the technical grade product and all the data so far indicates that Novo would meet the requirements. However, its lithium content has been shown to be around 4% Li_2O in early testing meaning an adjustment would have to be made to pricing. This would imply a range of US\$940-1,130/t based on the above pricing. It is also important to note that the more available current market statistics are for spodumene and not petalite. However, we highlight that this Novo are not marketing a new product to the lithium market and historical data from Lithium Australia which managed the Greenbushes mine in the 1980s showed that lithium petalite concentrate traded at a premium of c.70% to chemical grade spodumene concentrate priced at US\$150/t at that time.

Appendix 2: Key Personnel

John Fitzgerald, Non-Executive Chairman

Mr Fitzgerald is an experienced Company Director and resource financier. He has worked with the resources sector for 30 years providing corporate advisory, project finance and commodity risk management services to a large number of companies in that sector. Mr Fitzgerald is a Non-Executive and lead Independent Director of Northern Star Resources Ltd and a Non-Executive Director of Danakali Resources Ltd, and Carbine Resources Ltd. He has previously held positions as Chairman of Integra Mining Ltd and Atherton Resources as well as senior executive roles with a number of Investment Banks with a focus on the provision of services to the mining sector. Mr Fitzgerald is a Chartered Accountant, a Fellow of FINSIA and a graduate member of the Australian Institute of Company Directors.

David Frances, Chief Executive Officer

International mining executive of 25 years with a track record of developing assets in Africa (Democratic Republic of Congo) with Mawson West (TSX: MWE) from 2006- 2012. Mr Frances took MWE private in 2009 when it was a \$5M ASX listed company with exploration and development projects in the DRC.

After successfully completing a transaction with Anvil Mining and subsequently recommissioning and restarting the Dikulushi copper-silver mine Mr Frances then completed the largest base metals capital raise and IPO in the world for 2010 when MWE was listed on the TSX with a market capitalisation of \$250M.

David has also overseen other successful developments and his experience in successfully exploring, funding, and developing projects, his proven corporate strategic skills, and his knowledge of equity capital and debt markets will complement the highly experienced and successful management team of Dakota.

Dr Francis Wedin, Technical Director

Francis Wedin is a mining and metals industry executive, with a diverse expatriate working background spanning three continents and multiple commodities, producing a proven track record of mineral exploration and development success. Whilst MD of Asgard Metals, Francis was involved in the identification and acquisition of the Lynas Find lithium project, which was later vended to Dakota. Since joining Dakota, he has overseen the discovery of a new, high grade resource at Lynas Find, and has been instrumental in growing Dakota into a globally significant lithium development company focused on Europe.

Francis has a PhD in mineral exploration parameters focused on the Tethyan Metallogenic Belt, is a Fellow of the Geological Society, London, and a member of the Australasian Institute of Mining and Metallurgy. He is bilingual in English and Turkish, with proficiencies in other languages. He is currently studying an MBA with a focus on renewable energy technologies related to the lithium market.

Professor Dudley John Kingsworth, Non-Executive Director

Professor Kingsnorth is a Fellow of the Australian Institute of Company Directors, in addition to being a Fellow and past VP of the Australasian Institute of Mining and Metallurgy (AusIMM), and a Fellow of the Institute of Materials, Minerals, and Mining (UK).

He has more than 45 years' experience in the international mining industry, and is internationally recognised as a world authority on lithium and rare earths markets. Dudley is the current leader of the Curtin Graduate School of Business's Critical Materials Initiative.

He is also an experienced director and has acted as Chairman, Managing Director, CEO, Director, Project Manager, and Marketing Manager, for various listed and unlisted Companies in the, lithium, rare earths, tantalum, gold, iron ore and aluminium sectors.

Appendix 3: Financial Statements,

Profit and Loss (A\$), June Year End

	FY 2016A	FY 2015A
Other Income	73,907	8,831
Employee Benefits and Director Fees Expense	(66,470)	(52,850)
Depreciation Expense	(246)	(650)
Unrealised Foreign Currency Loss	(2,354)	-
Share Based Payment	(368,139)	-
Legal and Audit Expense	(41,126)	(53,819)
Travel Expense	-	(1,572)
Consulting Fees	(229,334)	(76,950)
Exploration and Evaluation Expenditure	(1,131,347)	(70,521)
Other Expenses	(147,095)	(31,849)
Loss Before Income Tax Expense	(1,912,204)	(279,380)
Income Tax Expenses	-	-
Total Loss for the Year	(1,912,204)	(279,380)

SOURCE: Company data, VSA Capital Research.

Balance Sheet (A\$), June Year End

	FY 2016A	FY 2015A
Cash and Cash Equivalents	4,115,625	457,236
Cash on Term Deposits	10,000,000	-
Trade and Other Receivables	169,591	4,161
Available for Sale Financial Assets	17,500	20,000
Total Current Assets	14,302,716	481,397
Available for Sale Financial Assets	6,000	6,000
Other Assets	10,000	10,000
Plant and Equipment	185	431
Exploration and Evaluation Expenditure	5,388,063	-
Total Non-Current Assets	5,404,248	16,431
Total Assets	19,706,964	497,828
Trade and Other Payables	293,395	18,932
Other Current Liabilities	10,343	-
Total Current Liabilities	303,738	18,932
Issued Share Capital	53,276,848	36,140,528
Milestone Shares	2,340,000	-
Other Reserves	2,046,767	686,553
Accumulated Losses	(38,260,389)	(36,348,185)
Total Equity	19,403,226	478,896
Total Liabilities and Equity	19,706,964	497,828

SOURCE: Company data, VSA Capital Research.

Statement of Cash Flows (A\$), June Year End

	FY 2016A	FY 2015A
Cash Flows from Operating Activities		
Payments to Suppliers and Employees	(510,122)	(323,747)
Payments for Exploration and Evaluation Expenditure	(1,036,759)	(116,121)
Interest Received	33,855	8,305
Net Cash Flows Used in Operating Activities	(1,513,026)	(431,563)
Cash Flows from Investing Activities		
Payment for Purchase of Prospects	(357,617)	-
Payment for Term Deposits	(10,000,000)	-
Net Cash Flows from Investing Activities	(10,357,617)	-
Cash Flows from Financing Activities		
Proceeds from Issue of Shares and Options	16,584,472	715,596
Share Issue Costs	(1,053,087)	(48,340)
Net Cash Flows from Financing Activities	15,531,386	667,256
Net Increase in Cash and Cash Equivalents	3,660,743	235,693
Unrealised Foreign Exchange Loss	(2,354)	-
Cash and Cash Equivalents at Beginning of the Year	457,236	221,541
Cash and Cash Equivalents at End of the Year	4,115,625	457,236

SOURCE: Company data, VSA Capital Research.

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- HOLD: The price of the stock is expected to move in a range between -10% and +10% in absolute terms over the next twelve months.
- SELL: The stock is expected to decrease by in excess of 10% in absolute terms over the next twelve months.

In addition, on occasion, if the stock has the potential to increase by in excess of 10%, but on qualitative grounds rather than quantitative, a SPECULATIVE BUY may be used.

Distribution of VSA Capital Limited's Equities Recommendations

VSA Capital Limited must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "BUY", "HOLD", or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis.

Recommendation and Target Price History

Valuation basis

Our valuation for Novo Lítio is based on a peer group EV/t multiple based on total resources.

Risks to that valuation

Commodity prices, political risk, execution risk.

This recommendation was first published on 8 June 2017.

SOURCE: FactSet data, VSA Capital Research.