

Lepidico

Alvarrões continues to deliver

Since Edison's last note, Lepidico (LPD) has announced the assay results of an additional six exploration holes at Alvarrões in Portugal. The holes confirm lepidolite mineralisation over 900m along strike and 500m down-dip. Significantly, in our opinion, hole ALVD018 extends the known mineralisation by more than 200m down-dip from the current mining face in Block 3 and is indicative of continuity between Blocks 1 and 3. As a result, whereas we had previously estimated a resource at Alvarrões in the order of 0.7-2.3Mt of mineralised material at a grade of 1.10-1.13% Li₂O, with an in-situ value (on achieving JORC-compliance) of US\$0.5-1.6m (see our note, [Drilling tees up Q3/Q4 mineral resource estimate](#), published on 11 September), this has now increased to 0.7-4.4Mt at 1.13%, with an in-situ value of US\$0.5-3.1m, with increased confidence in the higher number. Note that a formal mineral resource estimate for Block 1 is expected from Alvarrões later this month.

Year end	Total revenues (A\$m)	PBT* (A\$m)	Cash from operations (CFO) (A\$m)	Net (debt)/cash (A\$m)	Capex (A\$m)
06/16	0.1	(2.3)	(1.0)	0.7	(0.1)
06/17	0.1	(5.4)	(3.6)	3.3	(0.9)
06/18e	0.0	(3.4)	(5.7)	14.0	(23.6)
06/19e	0.0	(5.4)	(1.6)	(10.8)	(23.2)

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

L-Max geological risk declines

Upstream lithium mica feed to Lepidico's planned Phase 1 L-Max plant in eastern Canada (currently the subject of a feasibility study) is to be provided from as many as three lepidolite deposits – namely Alvarrões (via an ore offtake arrangement with Grupo Mota), Separation Rapids (via a concentrate offtake arrangement with Avalon Advanced Materials) and/or the PEG009 deposit at Pioneer Dome (subject to 75% farm-in by Lepidico). Of at least as much significance as the direct value of the in-situ resources being drilled, therefore, is the fact that exploration to date appears to demonstrate an extensive system of lithium-mineralised pegmatites of sufficient scale (>1Mt) and quality to provide long-term lepidolite concentrate feed for LPD's Phase 1 L-Max plant for well in excess of 10 years.

Valuation: 63% premium to current share price

We estimate that execution of the L-Max Phase 1 PFS according to the operational parameters contained therein will result in free cash flow to Lepidico of A\$26.7m pa once steady-state production has been achieved. Assuming US\$30m (A\$38.3m) of equity financing at the prevailing share price, this implies a valuation for Lepidico of A\$0.0196/share currently (up from A\$0.0185/share previously). This rises to A\$0.0287 in FY22, based solely on discounting our estimate of (maximum potential) future dividends to shareholders derived from the Phase 1 plant at a rate of 10% pa (fully diluted), ie no value is yet ascribed to the development of the Phase 2 plant or other development options (see our initiation note, [Masterful metallurgy](#), published on 4 July 2017).

Exploration update

Metals & mining

4 October 2017

Price **A\$0.011**

Market cap **A\$23m**

A\$1.2768/US\$

Net cash (A\$m) at end June 2017 3.3

Shares in issue 2,036.0m

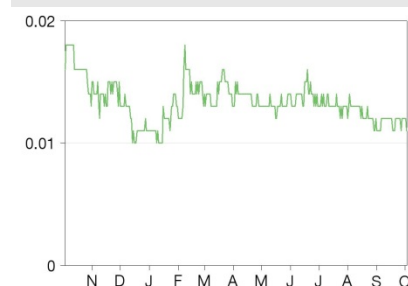
Free float 66.68%

Code LPD

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.0 (15.4) (29.4)

Rel (local) 0.4 (15.9) (31.8)

52-week high/low A\$0.0 A\$0.0

Business description

Lepidico provides exposure to a portfolio of lithium assets via its wholly owned properties, JVs and IP in Australia, Canada and Europe. Uniquely, it has successfully produced lithium carbonate from non-traditional hard rock lithium bearing minerals using its registered L-Max® (hereafter L-Max) process technology.

Next events

Alvarrões resource estimate Mid/late Oct 2017

Separation Rapids resource estimate Late Oct 2017

Feasibility study process design End 2017

Feasibility study report Q218

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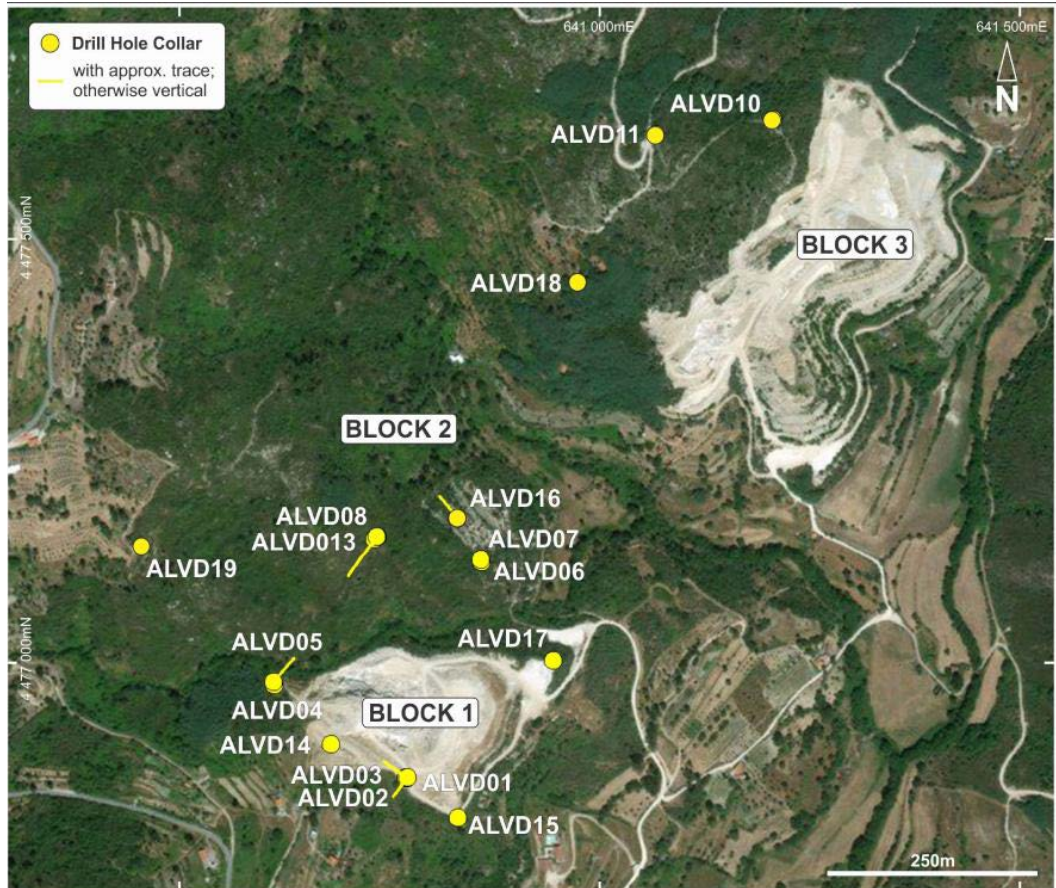
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Diamond drill hole locations

The map below provides the location of the individual holes drilled by Lepidico at Alvarrões. All holes intersected mineralised, lepidolite-bearing pegmatites.

Exhibit 1: Alvarrões diamond drill hole location



Source: Lepidico

As a result of the exploration work undertaken by Lepidico, the lithium pegmatites at Alvarrões have been shown to extend at least 900m along strike (ALVD19 to ALVD10) and 500m down-dip (ALVD15 to ALVD19). Note that the assay results from ALVD19 are not yet known but, depending on grade and width, have the potential to double our resource estimate once again. In all but five holes, the true width of the intersection was reported to be the same as the down-hole interval, indicating that the drill hole intersected the sill at right angles (as desired). All of the holes intersecting at right angles were drilled at a dip of 90°, indicating that the sills are essentially flat-lying. The system remains open in all directions.

Under the terms of its agreement with Grupo Mota (announced on 9 March 2017), Lepidico was required to undertake development expenditure of at least €250,000 over an 18-month exclusive period at Alvarrões with the goal of defining a JORC-compliant mineral resource of >1Mt at a grade of 1.5% Li₂O. This expenditure has now been met. In return, Lepidico will have an exclusive/pre-emptive right for three years in which to effect a commercial relationship with Grupo Mota regarding the supply of ore/concentrate from Alvarrões to Lepidico and/or the right for Lepidico to develop and operate a lithium mica mining and concentration project there. To this end, the drill programme was scheduled to be completed by the end of August, with final assay results anticipated by mid-

September ahead of a maiden JORC code-compliant mineral resource estimate at Block 1 in October.

Exhibit 2: Financial summary

Accounts: IFRS, Year-end: June, A\$000s	2015	2016	2017	2018e	2019e	2020e
PROFIT & LOSS						
Total revenues	9	116	0	0	0	18,531
Cost of sales	0	0	0	0	0	(15,982)
Gross profit	9	116	0	0	0	2,549
SG&A (expenses)	(455)	(617)	(617)	(617)	(617)	(617)
Other income/(expense)	0	0	0	0	0	0
Exceptionals and adjustments	(16)	(415)	0	0	0	0
Depreciation and amortisation	(5)	(6)	(4)	(1,689)	(3,787)	(4,783)
Reported EBIT	(467)	(923)	(621)	(2,307)	(4,404)	(2,851)
Finance income/(expense)	(18)	(5)	3	17	77	(970)
Other income/(expense)	(559)	(448)	(504)	(504)	(504)	(504)
Exceptionals and adjustments	0	(888)	0	0	0	0
Reported PBT	(1,044)	(2,263)	(1,122)	(2,794)	(4,832)	(4,325)
Income tax expense (includes exceptionals)	0	0	0	0	0	0
Reported net income	(1,044)	(2,263)	(1,122)	(2,794)	(4,832)	(4,325)
Basic average number of shares, m	178	465	1,883	3,684	5,332	5,332
Basic EPS	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
BALANCE SHEET						
Property, plant and equipment	9	4	0	18,538	37,823	43,000
Goodwill	0	0	0	0	0	0
Intangible assets	0	16,204	18,676	21,868	21,868	21,868
Other non-current assets	1,485	715	3,187	6,379	6,379	6,379
Total non-current assets	1,494	16,922	21,863	46,785	66,070	71,247
Cash and equivalents	53	666	3,300	15,302	15,302	15,302
Inventories	0	0	0	0	0	1,544
Trade and other receivables	4	3,870	0	0	0	1,523
Other current assets	0	0	0	0	0	0
Total current assets	57	4,537	3,300	15,302	15,302	18,369
Non-current loans and borrowings	0	0	0	0	24,117	35,372
Other non-current liabilities	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	24,117	35,372
Trade and other payables	105	614	92	92	92	1,406
Current loans and borrowings	115	0	0	0	0	0
Other current liabilities	40	33	33	33	33	33
Total current liabilities	260	647	125	125	125	1,439
Equity attributable to company	1,292	20,812	25,038	61,962	57,130	52,805
Non-controlling interest	0	0	0	0	0	0
CASH FLOW STATEMENT						
Profit for the year	(1,044)	(2,263)	(1,122)	(2,794)	(4,832)	(4,325)
Taxation expenses	0	0	0	0	0	0
Depreciation and amortisation	5	6	4	1,689	3,787	4,783
Share based payments	450	40	0	0	0	0
Other adjustments	(451)	1,036	(2,472)	(3,192)	0	0
Movements in working capital	(10)	148	3,348	0	0	(1,754)
Interest paid / received	0	0	0	0	0	0
Income taxes paid	0	0	0	0	0	0
Cash from operations (CFO)	(1,050)	(1,033)	(242)	(4,297)	(1,045)	(1,296)
Capex	(9)	(63)	(2,472)	(23,419)	(23,072)	(9,959)
Acquisitions & disposals net	0	32	0	0	0	0
Other investing activities	(563)	(80)	0	0	0	0
Cash used in investing activities (CFIA)	(572)	(111)	(2,472)	(23,419)	(23,072)	(9,959)
Net proceeds from issue of shares	1,505	1,872	5,348	39,718	0	0
Movements in debt	100	(115)	0	0	24,117	11,255
Other financing activities	0	0	0	0	0	0
Cash from financing activities (CFF)	1,605	1,757	5,348	39,718	24,117	11,255
Increase/(decrease) in cash and equivalents	(18)	613	2,634	12,002	0	0
Currency translation differences and other	0	0	0	0	0	0
Cash and equivalents at end of period	53	666	3,300	15,302	15,302	15,302
Net (debt) cash	(61)	666	3,300	15,302	(8,815)	(20,071)
Movement in net (debt) cash over period	(61)	727	2,634	12,002	(24,117)	(11,255)

Source: Company sources, Edison Investment Research

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