Lithium Power International Ltd

Lithium Power International Limited (LPI) is a diversified pure-play lithium explorer and developer headquartered in Sydney, Australia with satellite offices in Santiago, Chile and Buenos Aires, Argentina. LPI is currently focussed on exploration at its Maricunga Lithium Project in Chile. Preliminary outcomes indicate a high probability of an economic lithium brine deposit and likely the next new Chilean producer. We value LPI at AUD200M, with our share price target of AUD1.20 based on risked NPV underpinned by corporate deal metrics.

<table>
<thead>
<tr>
<th>LPIASX</th>
<th>Price (as at 4pm AEST, 10 Mar 2017)</th>
<th>Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$0.36</td>
<td></td>
</tr>
<tr>
<td>Target</td>
<td>$1.20</td>
<td></td>
</tr>
<tr>
<td>Up/Downside</td>
<td>+233%</td>
<td></td>
</tr>
<tr>
<td>52 Week Range</td>
<td>$0.48-$0.25</td>
<td></td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>165M</td>
<td></td>
</tr>
<tr>
<td>Listed Options (A$0.55)</td>
<td>38M</td>
<td></td>
</tr>
<tr>
<td>Unlisted Options (A$0.20)</td>
<td>31M</td>
<td></td>
</tr>
<tr>
<td>Market Cap</td>
<td>A$59M</td>
<td></td>
</tr>
<tr>
<td>EV (estimated)</td>
<td>A$52M</td>
<td></td>
</tr>
</tbody>
</table>

Valuation Accretion Inevitable
An expected doubling of the resource in line with the extended acreage and deeper resource drilling across the project area as well as confirmation of the outstanding features of the Maricunga lithium brine aquifer are likely to be major factors in completion of the PFS stage, crystallising our current valuation by the end of the year. Further upside beyond this is anticipated by progression of the project towards a DFS and subsequent development. This will result in the decrease of the inherent risk premium in the stock by authenticating current project assumptions. Positive lithium market fundamentals are forecast to maintain sector momentum and allure.

Initial Results indicate Exceptional Characteristics
Preliminary estimates of some major drivers of attractive lithium brine economics such as grade (1,250g/l), flow rates (up to 38l/s) and drainable porosity (50%), rank Maricunga amongst the highest globally. A study by signumBOX in 2014 ranked Maricunga #4 out of 37 undeveloped brine projects in the world. The project has the added advantages of access to electrical power and being connected by a highway to the proximal mining city of Copiapo and the port of Caldera. Potential by-products such as sodium chloride and potassium salts add to appeal.

Lithium Market Fundamentals Underpin Sentiment
Positive market sentiment to continue to support lithium stocks as consumption continues to display exceptional growth over the next decade due mainly to increasing political and consumer focus on environmental issues. Battery demand is expected to spearhead expansion, particularly large format batteries requiring kilos of lithium for electric vehicles, rather than the grams used today in portable electronic applications. This is reinforced by the mammoth investment in electric vehicles by all the major car manufacturers and announcements of vast financing of lithium-based battery manufacturing facilities.

Other Projects Could Add Further Value
1. Greenbushes in southern Western Australia – Two granted exploration tenements adjacent to the world’s largest hard-rock lithium spodumene mine owned by Talison / Tianqi. The tenements are 100% owned by LPI.
2. Pilbara in northern Western Australia – One granted and two pending exploration tenements, the largest of which is the granted tenement located at Pilgangoora, and adjacent to the lithium spodumene deposits discovered by PLS, AIM and DKO. A 3,000m RC drilling programme is scheduled to commence 1H17. 100% owned by LPI.
3. Centenario Salar in northern Argentina – A collection of lithium brine exploration tenements within the central & northern section of the salar, in the same region as ORE, FMC and LAC. The tenements are 100% owned by LPI.
Company Overview

LPI listed in June 2016 raising AUD8M (40M shares @ AUD0.20) to fast track exploration and development of its assets in the Greenbushes area in southern WA, Pilbara region (WA) and the Centenario lithium brine salar in the Salta province, Argentina. In Jul ‘16 LPI announced that it entered into an agreement with Minera Salar Blanco Spa (MSB) and Li3 Energy (OTCQB: LIEG) regarding a JV (NewCo) to develop the Maricunga lithium brine project. LPI will earn a 50% equity interest in NewCo by funding the project through to DFS. The project is comprised of a number of tenements totalling 4,463Ha – 2,563Ha relates to the project exploration area and the remaining 1,900Ha has been set aside for the camp and evaporation ponds. Four of the exploration tenements are grandfathered under a previous mining code, which allows for the immediate exploitation of lithium.

In Sep ‘16 the legal and technical due diligence regarding the Maricunga Joint Venture between LPI, MSB and Li3 was satisfactorily completed. In Oct ‘16 LPI announced a successful institutional placement of 32M shares @ AUD0.38 raising approximately AUD12M with an additional AUD1.5M raised in an SPP to total AUD13.5M (directors participated to AUD0.5M). The shares were offered with free attaching options at an exercise price of AUD0.55. LPI has subsequently also committed USD7.0M to NewCo to facilitate the development of the Maricunga Lithium Project (MLP) and USD5.2M on acquisition costs to increase the size of the deposit. A final earn in payment of USD15.0M will be made in stages up to Dec ‘18 to fund a DFS and EIA report. Further funding is to be provided on a pro rata basis.

FIGURE 1: THE MARICUNGA JOINT VENTURE

LPI owns 50% of the Maricunga JV

Source: Company Reports
Valuation

Summary

We have used risked NPV as the primary measure of our valuation methodology. Our model has used a number of assumptions to generate anticipated cash flow from the MLP. The NPV of the expected cash flow is discounted at 50% to account for the current status of the project. We expect the market cap of LPI to move to AUD200m over the medium term with further upside available as the project progresses. Major factors will be:

- increases in M&I resources;
- confirmation of exceptional salar characteristics;
- reduction of the risk discount by advancing the project to DFS; and
- sustained positive lithium market fundamentals.

Our research indicates that the takeover of Li3 by Bearing Resources Ltd. (CVE: BRZ) would value LPI,s stake in the MLP at between AUD105M and AUD196M. Despite a risk that the deal might not advance, heavy trade in Bearings shares indicates the positive sentiment surrounding the deal. Furthermore, LPI has a controlling stake in MLP and should arguably trade at a premium to the value implied by BRZ’s holding.

Bearing’s Takeover Of Li3 Energy

Bearing has entered into a definitive agreement to acquire Li3 Energy and its 17.7% interest in the Maricunga Lithium Project for consideration of around 16M shares. Completion of the transaction remains subject to numerous conditions, including but not limited to:

- approval of the shareholders of both Bearing and Li3;
- satisfactory settlements with certain creditors of Li3;
- completion of satisfactory due diligence on the Project;
- the receipt of all required third party approvals, and specifically the approval of the TSX Venture Exchange, among others.

There has been a dramatic re-rating of the stock since the LOI was announced in late Nov’16. Heavy trade (around 0.5M shares per day) has seen the BRZ share price move from CAD0.43 to a high of CAD1.83. The share is currently trading at levels around CAD1.40.

Although BRZ has other assets, company comment indicates that Maricunga will become its principal project, igniting the argument that the entire market cap of BRZ could be attributed to its anticipated stake in MLP. Based on an estimated post deal issued share capital of 38M, this would place a value of between CAD37M (the increase in share price) and CAD70M (at market highs) on BRZ’s 17.7% share of MLP. This translates to a value of between AUD105M and AUD196M for LPI’s 50% stake. As we believe that BRZ and LPI will also become an effective arbitration opportunity for the value of Maricunga, we would settle on a current valuation based on BRZ’s current price around CAD1.40 value of AUD150M.

The arbitrage formula is:

\[ 2.8 \times \text{Mkt Cap (CAD) BRZ} \times \text{AUD/CAD} = \text{Mkt Cap (AUD) LPI}. \]
Issues With Resource Valuation

This section could arguably be the subject of a thesis but we will briefly look at the difficulties comparing salars. Project economics are directly influenced by properties such as flow rates, grades, rainfall, evaporation rates as well as by-products and deleterious elements.

Furthermore, annual lithium production is often curtailed by environmental considerations and aquifer characteristics such as porosity, permeability and drainable porosity, will affect the amount of lithium brine able to be recovered from a specific volume. A project based on a clay reservoir with a drainable porosity of around 5% will need vastly more resources than a sand / gravel / halite reservoir with a drainable porosity of 50% - in fact 10 times the size!

From the above it should be clear that the need for vast resources might be unnecessary depending on environmental issues and brine reservoir characteristics. Each project will have its unique set of features that will govern production statistics, financing and off take.

Other Lithium Brine Companies

There are very few companies seeking to explore or develop other lithium brine deposits apart from LPI listed on the ASX. These are:

- Galaxy Resources Ltd (ASX: GXY – Mkt Cap AUD1.1B), which has the advanced Sal de Vida Project in Argentina. GXY also owns the producing hard rock mine, Mt Cattlin;
- Orocobre Ltd (ASX: ORE - Mkt Cap AUD802M) which is ramping up production from its new Olaroz brine operation in Argentina.

None of the above companies are strictly comparable due to their major brine projects being at different stages of development. We have therefore looked for companies at similar stages of development listed on stock exchanges around the world. Some companies, such as Orocobre, can give indications of the type of value that can be attributed to a project should the project be advanced to the construction stage.

In January Lithium Americas Corp (TSE: LAC) announced a USD174M strategic partnership arrangement with GFL International Co. Ltd. (Ganfeng), which largely finances Lithium Americas' 50% share of development of the Cauchari-Olaroz lithium brine project in Jujuy, Argentina. China-based Ganfeng is one of the largest integrated lithium producers globally.

Although this is largely a strategic alliance enabling Ganfeng access to lithium production and has yet to be finalized, it would result in a company with an EV of around AUD360M at current share prices and exchange rates for its 50% of the Cauchari-Olaroz Project which has a M&I Resource of 11.8Mt and grade of 666mg/l. Annual production is expected to be around 25ktpa and the project is in the feasibility stage.

Orocobre’s Salar de Olaroz Project has a M&I Resource of 6.4Mt LCE at a grade of 690mg/l. The market cap of AUD 802M and attributable debt of AUD170M results in an EV of ~AUD970 for ORE’s ultimate 67% holding in the project. The project is in the production ramp-up phase and is ultimately expect to produce around 35ktpa after announcing a doubling of capacity that is still to be constructed.

Wealth Minerals Ltd (CVE: WML) is a mineral resource company listed in Canada. The company’s main focus is the acquisition and development of lithium projects in South America. To date, the Company has positioned itself to develop the Aguas Calientes Norte, Pujia and Quisquiro Salars in Chile (the Trinity Project), as well as to work alongside existing producers in the prolific Atacama Salar, in addition to its...
recently announced Laguna Verde lithium project acquisition. WML continues to aggressively pursue new acquisitions in the region but currently has no recognized resources and enjoys a market cap of AUD100M.

Net Present Value

We have decided to calculate a risked NPV for the MLP. Although only in the PFS stage, a number of lithium brine projects have published many of the major project variables as components of a PFS or DFS and as such relatively accurate assessments of the input assumptions can be made. These inputs can be modified and as the project approaches the DFS stage and more accurate valuation will emerge. Our initial assumptions are based on the inputs summarised in the table below.

**FIGURE 2: TABLE OF ASSUMPTIONS – BASE CASE**

<table>
<thead>
<tr>
<th>Item</th>
<th>Assumption</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFS complete</td>
<td>End 2018</td>
<td></td>
</tr>
<tr>
<td>Construction Start</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Full Production</td>
<td>2021</td>
<td>Ramp up during 2020</td>
</tr>
<tr>
<td>Annual production</td>
<td>20ktpa</td>
<td>Battery grade production</td>
</tr>
<tr>
<td>LOM</td>
<td>20 years</td>
<td>The expected resource of 1.2Mt LCE is expected to generate a LOM of 30yrs at a 50% yield</td>
</tr>
<tr>
<td>Capex</td>
<td>USD250M</td>
<td>Constant for all scenarios</td>
</tr>
<tr>
<td>Maintenance capex</td>
<td>USD5M/yr</td>
<td></td>
</tr>
<tr>
<td>Li2CO3 Price</td>
<td>USD10,000/t</td>
<td>Various scenarios tested</td>
</tr>
<tr>
<td>Opex</td>
<td>USD3000/t</td>
<td></td>
</tr>
<tr>
<td>Royalty</td>
<td>3%</td>
<td>Conservative – expect rate to be closer to 22%</td>
</tr>
<tr>
<td>Tax rate</td>
<td>35%</td>
<td>Conservative – expect rate to be closer to 22%</td>
</tr>
</tbody>
</table>

*Source: EverBlu Estimates*

The table below reflects the values that can be attributed to LPI’s 50% holding in Maracunga. The cash flows of the various scenarios have all been discounted at 10%.

**FIGURE 3: MATRIX OF NPV50 VALUES (USDM) OF LPI STAKE IN MLP**

<table>
<thead>
<tr>
<th>Li2CO3 Price (USD/t)</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7500</td>
</tr>
<tr>
<td>15ktpa</td>
<td>60</td>
</tr>
<tr>
<td>20ktpa</td>
<td>122</td>
</tr>
<tr>
<td>25ktpa</td>
<td>184</td>
</tr>
</tbody>
</table>

*Source: EverBlu Estimates*

We would value the expected cash flows from Maracunga at around AUD800M (at AUDUSD=0.75) once it reaches the DFS/construction phase. As we are in the PFS it would be prudent to place a risk factor of at least 50% on the project. This risk factor would decrease as the DFS is completed and eventually revert to zero as production starts and operating statistics are crystallized. On this basis we would
currently place a value of around AUD200M on LPI’s stake in the MLP.
SWOT Analysis

Strengths
Known geology
Operating in recognized and developed region – Chile
Low sovereign risk
Close to infrastructure – highway, port
Experienced management & operational team
Proven processing methodology
Initial drilling completed
PFS underway

Opportunities
Upside in resource estimation
Credits from potassium
3 tenements are granted under the “1932 old mining code”, which allows the immediate exploitation of lithium
Other lithium properties in Argentina and Australia
Increasingly stringent pollution regulations globally
Electricity grid energy storage
Lower battery costs driven by research and further efficiencies

Threats
Substitution of lithium compounds
Alternate battery technology

Weaknesses
Low oil price favours incumbent internal combustion engines
Current low resource estimate
The Maricunga Lithium Project (50%)

Background

The MLP is located in the northeast section of the Salar de Maricunga in Chile, the second largest lithium-bearing salt brine deposit in Chile. The project consists of mineral claims covering 4,463Ha.

The Salar de Maricunga is located in Region III (Atacama region) of northern Chile at an elevation of approximately 3,750m. It is located about 180km to the northeast of Copiapo, the capital of the Atacama region, via National Highway 31. Highway 31 is paved for approximately one-half of the distance and is a well-maintained gravel surface road thereafter and extends through to Argentina. Access to Maricunga from the city of El Salvador is via a well-maintained gravel surface highway. Occasional high snowfalls in the mountains may close the highways for brief periods during the winter.

FIGURE 4: THE MARICUNGA LITHIUM PROJECT AREA

Source: Company Reports

The project is well supported with:

- An international road to Argentina (Highway 31)
- Electricity supply in close proximity
- Cellular phone coverage
- Around 300km from port of Caldera

Geology And Resources

Lithium brine deposits are accumulations of saline groundwater that are enriched in dissolved lithium. The word brine refers to a solution of salt (NaCl) in water. Brine deposits are volcanic in origin and are often found situated in desert locations such as Argentina, Bolivia, Chile and China.

Lithium brine projects differ significantly from hard rock mining projects, due to their fluid nature. The Maricunga salar can be referred to as a lithium and potassium brine deposit. However, the important elements of a brine deposit are the contained elements and chemistry of the brine and the characteristics of the host aquifer, such as aquifer extent, thickness, internal variations/heterogeneity and the physical aquifer properties, particularly porosity.

Lithium brine projects can be subdivided into two broad deposit types depending
There are two broad deposit types depending on the salar characteristics – mature and immature salars.

- Mature salars (those containing extensive thicknesses – often hundreds of meters - of halite, such as the Salar de Atacama, and the FMC Hombre Muerto operation) and:
- Immature salars, which are dominated by clastic sediments, with limited thicknesses of halite.

The two different salar types reflect the different characteristics of these salars and the brine resources they contain. Individual salars may also contain immature and mature areas within the same salar basin (such as at Hombre Muerto).

Mature salt dominated salars are characterized by having high permeabilities and specific yields (to a maximum of ~ 15% Sy) near surface, with the porosity and permeability decreasing rapidly with depth. In these salars the brine resources is essentially between surface and 50m below surface, as below this depth there is limited permeability in the salt, due to salt recrystalization and cementation of fractures.

Immature salars conversely have porosity and permeability controlled by individual layers within the salar sequence. The porosity and permeability may continue to depths of hundreds of meters in clastic salars (such as at Silver Peak in Nevada). The porosity and permeability characteristics may be highly variable, due to differences between sand and gravel units and finer grained silts and clays.

The presence of different stratigraphic units in clastic salars typically results in differences in the distribution of the contained brine. It is very important to consider the characteristics of the host aquifer in each salar, together with the geometry and physical properties, particularly porosity.

All producing brine deposits share a number of characteristics:

- Arid climate,
- Closed basin containing a playa or salar,
- Tectonically driven subsidence,
- Associated igneous or geothermal activity,
- Suitable lithium source-rocks,
- One or more adequate aquifers, and
- Sufficient time to concentrate brine.

Economic brines have lithium concentrations in the range of 200 to 4,000 milligrams per litre (mg/l). Other elements in solution, such as boron and potassium, may be recovered as by-products.

In addition brines can also contain undesirable elements that create problems in processing such as magnesium or toxic elements that require care in waste disposal. The lithium metal produced from brines is mostly low grade but, while the capital input for brine production is high, operating costs are low.

The process of extracting the contained lithium metal consists of the brine being pumped up to the surface and concentrated by evaporation in a succession of artificial ponds, each one in the chain having a greater lithium concentration.

The figure below shows a schematic deposit model for brine deposits showing part of a closed-basin system consisting of interconnected sub-basins. The sub-basin containing the salar is the lowest.
Lithium pathways, sources and sinks

Over USD30M has already been invested in the project

Over USD30M has been invested in the project to date and has led to a resource prepared by Li3 Energy which has a historical estimate as defined by National Instrument 43-101. This historical resource includes a measured resource of 0.60Mt LCE and inferred resource of 0.06Mt LCE, both of which are at an average grade of 1,250 mg/L from 6 mineral claims (Litio 1 – 6) covering 1,438Ha. With the JV including claims Cocina 19-27, San Francisco, Salamina and Despreciada the acreage increased to 4,463Ha. This includes a Recently completed drilling shows that potentially economic quantities of brine are present on all these claims. As a result our expectations are that the upcoming JORC resource statement will more than double to over 1.2Mt LCE.

Development Programme

The project has entered the Pre-feasibility stage. This will involve the following major steps

- Declaring a resource compliant to JORC Code (2012)
- Establish optimal production rate and establish the most suitable process for recovery of lithium and other marketable by-products
- PFS to evaluate the project economics and configuration for the optimal route of development.
- Determine permitting requirements and conduct environmental base line studies.
- Infrastructure studies have commenced and requirements noted
- A Tier 1 international environmental and engineering firm has been hired to undertake the studies required to complete the EIA.
- Determine inputs for DFS
FIGURE 6: DEVELOPMENT PROGRAMME

LPI has recently completed the drilling programme at the MLP. 19 holes in total were drilled as part of this program including:
- 8 resource rotary holes;
- 3 resource sonic holes;
- 1 test production well; and
- 7 monitoring wells for the EIA.

The table below gives a summary of the types of holes drilled, assay intervals, depths and grades.

FIGURE 7: RESOURCE DRILLING RESULTS

<table>
<thead>
<tr>
<th>Exploration Hole Number/Name</th>
<th>Total Depth (m)</th>
<th>Assay Interval (m)</th>
<th>Lithium (mg/l avg)</th>
<th>Potassium (mg/l avg)</th>
<th>Drilling method</th>
<th>Elevation mean sea level (m)</th>
<th>Coordinates (WGS 84 zone 19S)</th>
<th>Azimuth</th>
<th>Dip</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 M10</td>
<td>200</td>
<td>40</td>
<td>1,239</td>
<td>8,611</td>
<td>Rotary</td>
<td>3,760</td>
<td>7,027,170, 493,450</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>2 M1</td>
<td>77</td>
<td>66</td>
<td>1,447</td>
<td>9,903</td>
<td>Rotary</td>
<td>3,760</td>
<td>7,028,190, 494,270</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>3 M2</td>
<td>198</td>
<td>190</td>
<td>931</td>
<td>6,605</td>
<td>Rotary</td>
<td>3,765</td>
<td>7,028,210, 490,570</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>4 S5</td>
<td>200</td>
<td>186</td>
<td>1,005</td>
<td>6,934</td>
<td>Rotary</td>
<td>3,765</td>
<td>7,026,390, 488,540</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>5 S3</td>
<td>200</td>
<td>186</td>
<td>1,040</td>
<td>7,708</td>
<td>Rotary</td>
<td>3,765</td>
<td>7,026,300, 490,560</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>6 S13</td>
<td>200</td>
<td>186</td>
<td>999</td>
<td>7,294</td>
<td>Rotary</td>
<td>3,765</td>
<td>7,030,020, 492,310</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>7 S6</td>
<td>200</td>
<td>186</td>
<td>1,368</td>
<td>9,468</td>
<td>Rotary</td>
<td>3,760</td>
<td>7,024,000, 489,900</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>8 M1A</td>
<td>200</td>
<td>192</td>
<td>822</td>
<td>6,104</td>
<td>Sonic</td>
<td>3,760</td>
<td>7,028,180, 494,260</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>9 S2</td>
<td>200</td>
<td>192</td>
<td>954</td>
<td>6,580</td>
<td>Sonic</td>
<td>3,760</td>
<td>7,027,145, 492,131</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>10 S18</td>
<td>173</td>
<td>168</td>
<td>1,382</td>
<td>11,041</td>
<td>Sonic</td>
<td>3,760</td>
<td>7,024,140, 494,050</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>11 S19</td>
<td>360</td>
<td>336</td>
<td>975</td>
<td>7,273</td>
<td>Rotary</td>
<td>3,760</td>
<td>7,027,380, 493,100</td>
<td>0</td>
<td>-90</td>
</tr>
<tr>
<td>Pump P4</td>
<td>180</td>
<td>Pumping well 24-25 l/s</td>
<td>Rotary</td>
<td>3,760</td>
<td>7,027,180, 493,440</td>
<td>0</td>
<td>-90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company Reports

Assays have now been completed for all 11 resource drill holes. These holes received some of the highest globally recognised lithium brine grades to date with holes ending in lithium brine at depths of 200m. Drilling intersected units of sand, gravel, clay and halite with a predominance of sandy to gravelly material. An
Deep hole open at depth bodes well for increased resources

Area of 1,900Ha has been allocated to the camp and evaporation ponds

Flow rates up to 38l/s

upper halite unit, a middle clay unit and a lower sand and gravel unit have been identified. Samples of drill core and cuttings are being processed for porosity and permeability measurements to be used in an updated resource estimate to be released in 1H17.

The exploration programme also scheduled a 400m deep rotary hole to evaluate deeper sediments and assess the potential for additional brine resources. The hole was terminated at 360m due to drilling issues but not before confirming that high grade lithium is present over a 336m interval and remains open at depth. This is significant from in terms of available brine volumes.

FIGURE 8: NEWCO TENEMENT MAP

A well drilled on the “old code” Cocina tenement was completed and pump test results initially released in Dec’16. The well P4 was drilled down to a depth of 180 and intersected an upper brine aquifer from surface to 66m depth, comprising salt (halite), clay, silt, sand, and minor gravel units. From 66m to 180m depths, a
more porous aquifer exists, comprising a mix of mainly sand and gravel.
A 30-day pump test on the production well (P4) has been completed. The well was drilled to a depth of 180m and tested flow rates from the porous aquifer (sand and gravel) existing from 66m to 180m. Flow rates recorded over 30 days averaged 251/s at a grade of 945mg/l, confirming expectations. This excludes flows from the high-grade upper halite aquifer. Previous announcements have estimated this flow rates from both aquifers to be around 38l/s at higher grades.

**Project Comparison**

**FIGURE 9: PROJECT CHARACTERISTICS**

<table>
<thead>
<tr>
<th></th>
<th>Salar de Maricunga&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Salar de Atacama&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Salar de Centenario&lt;sup&gt;4&lt;/sup&gt;</th>
<th>Salar Del Hombre Muerto&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Salar de Olaroz&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Salar de Cauchari&lt;sup&gt;3&lt;/sup&gt;</th>
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<tr>
<td><strong>Country</strong></td>
<td>Chile</td>
<td>Chile</td>
<td>Argentina</td>
<td>Argentina</td>
<td>Argentina</td>
<td>Argentina</td>
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<tr>
<td><strong>Owner</strong></td>
<td>LPI/MSB/LI3</td>
<td>SQM/Albermarle</td>
<td>LPI/Eramet</td>
<td>FMC/Lithium One</td>
<td>Orocobre/Toyota</td>
<td>Orocobre/SQM/Lithium Americas</td>
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<tr>
<td><strong>Lithium (g/l)</strong></td>
<td>1.25</td>
<td>1.84</td>
<td>0.56</td>
<td>0.74</td>
<td>0.69</td>
<td>0.59</td>
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<tr>
<td><strong>Potassium (g/l)</strong></td>
<td>8.97</td>
<td>22.63</td>
<td>5.11</td>
<td>7.40</td>
<td>5.73</td>
<td>4.85</td>
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<tr>
<td><strong>Magnesium (g/l)</strong></td>
<td>8.28</td>
<td>11.74</td>
<td>3.26</td>
<td>1.02</td>
<td>1.66</td>
<td>1.42</td>
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<tr>
<td><strong>Mg/Li</strong></td>
<td>6.63</td>
<td>6.40</td>
<td>5.87</td>
<td>1.40</td>
<td>2.40</td>
<td>2.43</td>
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<td><strong>K/Li</strong></td>
<td>7.18</td>
<td>12.33</td>
<td>9.20</td>
<td>9.96</td>
<td>8.30</td>
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<tr>
<td><strong>K/Mg</strong></td>
<td>1.06</td>
<td>1.93</td>
<td>1.57</td>
<td>7.26</td>
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<td><strong>Altitude (m)</strong></td>
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<td>2300</td>
<td>3900</td>
<td>4000</td>
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<tr>
<td><strong>Precipitation (mm/yr)</strong></td>
<td>125</td>
<td>15</td>
<td>100</td>
<td>100</td>
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<td>100</td>
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<tr>
<td><strong>Evaporation Rate (mm/yr)</strong></td>
<td>2400</td>
<td>3200</td>
<td>2600</td>
<td>2710</td>
<td>2600</td>
<td>2600</td>
</tr>
</tbody>
</table>

(2) NI 43-101 report prepared for Orocobre Ltd, dated 13 May, 2011  
(3) NI 43-101 report prepared for Lithium Americas Corp, dated 11 July, 2012  
(4) S area – from Lacs preliminary resource estimate (which is outside of LPI tenements) dated Jan/Feb 2012  
(5) Peter Ehren presentation at LBM Conference, dated 20-22 May, 2014

**Source: Company Reports**

The MLP displays some striking characteristics when compared to other salars in South America. We summarise some of the more important facts and characteristics and refer the reader to the figure below.

- There are only 5 known salars globally with a lithium brine grade above 1,000mg/l.
- 3 of the 5 highest-grade salars are in Chile.
- Based on available public data Maricunga ranks as the 4th highest lithium grade salar in the world, and the second highest lithium grade (1250mg/l) of the major salars in South America.
- Magnesium grade is below the Atacama deposit, with a similar Mg/Li ratio.
- High potash by-product resulting in improved project economics.
- Close to critical road & port infrastructure.
- A study in Aug ’16 by signumBOX ranked Maricunga as #7 salar of 37 brine deposits ranked worldwide.
- The Chilean Geological Survey has classified Maricunga as a Category 1 deposit (one of only four in Chile).

**Maricunga displays some remarkable characteristics**
FIGURE 10: GLOBAL SALT LAKE LITHIUM GRADES

Source: Company Reports
Other Assets

Greenbushes Project (100%)

LPI holds granted exploration tenements extending over 400km² in the Greenbushes region of southern Western Australia. They are adjacent to the world’s largest hard rock lithium mine, owned and operated by Tianqi / Talison. The Greenbushes area was first discovered as a resource of alluvial tin in the late 19th century. Subsequently, the source of the tin was recognized to be a series of pegmatites, which also contain tantalite and spodumene (lithium). The Talison hard rock mine was established in 1983, initially focused on tantalum production, however the primary product is now lithium. The most recent public lithium resource for the Talison mine was 119.4 Mt @ 2.42% Li₂O as at 30 September 2013. Talison was taken over by Chinese lithium producer Chengdu Tianqi in 2012.

Our tenement portfolio at Greenbushes comprises the Balingup project, a large tenement extending north and west of Talison’s mine and the Brockman Highway project, which is south of Talison’s mine and divided by the Brockman Highway. These granted exploration tenements are 100% owned by LPI.

FIGURE 11: GREENBUSHES PROJECT

Source: Company Reports
Pilgangoora Project (100%)

LPI exploration tenements cover 203km² across the Pilbara region of northern Western Australia. The Pilgangoora-Houston Creek Project is the largest of the three Pilbara tenements. Historically, the Pilgangoora area has been recognised for tin, tantalum, and gold mining.

Pilbara Minerals Ltd (ASX: PLS) Pilgangoora project contains one of the world’s largest spodumene (lithium pyroxene) resources and one of the largest tantalite resources. This globally significant project is set to become a low-cost supplier of lithium and tantalum. Altura Mining (ASX: AJM) have also defined a significant rare metal pegmatite resource in the Pilgangoora area. These two deposits lay just 2.5km and 3.5km east from LPI’s Pilgangoora-Houston Creek tenement. LPI’s exploration tenements are 100% owned by LPI. LPI aims to commence a 3000m RC drilling program in the first half of 2017 on its Pilgangoora tenement.

FIGURE 12: PILGANGOORA PROJECT

Source: Company Reports
Centenario Project

Through its Argentinean subsidiary, LPI holds a total of 6 granted tenements in the Centenario lithium brine salar within the Salta province of the Puna Plateau. In total, the 6 granted tenements cover an area of 61.52km². In addition, there is 1 further tenement in the grant review stage. The majority of the other tenements in the Centenario salar are owned by the Eramet Group, a public French mining & chemical company.

The site is approximately 165km west of the city of Salta, the provincial capital, and 180km east of the Chilean border. The Centenario salar is approximately 60km in length, with its long axis trending approximately north-south. The salar is in the same province as other lithium brine operators such as Orocobre, FMC, and Western Lithium.

FIGURE 13: CENTENARIO PROJECT
Directors and Management

Board of Directors

David Hannon – Non-Executive Chairman (B.Econ)

Mr. Hannon commenced his commercial career as a stockbroker / investment banker in 1985. He later became a director of a private investment bank specialising in venture capital with a focus on the mining sector. Mr. Hannon has operated a private investment group, Chifley Investor Group Pty Ltd for over 15 years. Mr Hannon’s other listed mining company experience involves being a founding director of Atlas Iron Ltd in 2004. He remained a member of the Atlas board for 10 years while it maintained its position as a member of the ASX100 Index with a market capitalisation of over AUD2B. Throughout this period Mr. Hannon held various positions including Chairmen of the Audit Committee and Chairman of the Nominations and Remunerations Committee. While Atlas embarked upon an iron ore growth strategy of its Pilbara assets it became the fourth largest iron ore producer in Australia.

Martin C Holland - Managing Director / Chief Executive Officer

Mr Holland has 11 years’ management experience focusing on the mining exploration sector. Previously he was CEO of gold explorer Stratum Metals Limited from 2010 to 2014, which listed on the ASX in 2011. Mr Holland is Chairman of Sydney based private investment company, Holland International Pty Limited, which has strong working relationships with leading institutions and banks across Australia and the Asia Pacific region.

Reccared (Ricky) P Fertig - Non-Executive Director

Mr Fertig is a senior executive with 30 years’ international commercial experience across the property, healthcare and mining services sector. Mr Fertig is the Chief Executive Officer of Adrenna Property Group Limited, a property fund listed on the Johannesburg Stock Exchange. He was also chairman of Quyn International Outsource, a South African-based human resource group that has over 3,000 employees in Southern Africa, servicing the mining, construction and commercial industries; RMS Corporate Solutions, one of the leading property and facilities management companies in Southern Africa; and East Sydney Private Hospital in Sydney, Australia, which he co-founded.

Dr Luis Ignacio Silva P - Non-Executive Director and Latin America Regional Manager (PGeo, Ph.D., CEng)

Dr Silva has over 40 years’ experience in mining exploration and environmental studies, which includes the lithium sector over the last 10 years. He has managed projects in Chile and Panama and has additional experience in Argentina, Bolivia, Costa Rica and Peru. He was previously Deputy Manager of Geology at SERNA-GEOMIM (the Chilean Geological Survey) for two years, from February 2012 to April 2014. Prior to that he was the Exploration and General Manager for Talison’s Salares-7 lithium project from December 2009 to December 2011. He has worked with some of the largest mining companies in the world, including Talison Lithium Limited, Freeport McMoran Gold Corporation, Amex Gold de Chile Ltda., Barrick-IGCI, Lundin, Minera Homestake Chile S.A, Conzinc Rio Tinto Australia Limited, Pegasus Minera de Chile S.A., Chilean Nuclear Energy Commission and Shell-Billiton S.A.

Andrew G Phillips - Executive Director, Company Secretary and Chief Financial Officer (B.B.S. - Applied Management)

Mr Phillips has over 25 years’ international commercial experience. He is currently
Company Secretary (and previously CFO) for Sequoia Financial Group Limited, and is an Independent Director for ASX listed Companies: Richfield International Ltd, Longreach Oil Ltd and Southern Cross Exploration NL. Mr Phillips also currently serves as a director of a number of Australian proprietary registered companies along with acting for a number of overseas entities as their local director or public officer.

Management

Murray Brooker - Technical Director and Exploration Manager (BSc Hons, MSc Geology, MSc Hydrogeology)

Mr Brooker is a Technical Director and Exploration Manager for LPI. Mr Brooker is a geologist specialising in lithium, with 20 years’ experience in lithium prospecting and exploration. He has led teams in Argentina, Chile and Australia throughout his career, and is a very well respected and connected lithium expert in South America. Most recently Mr Brooker was the JORC Competent Person to Orocobre Limited for their lithium brine project in Argentina along with completing the initial reports for the Argentinean Properties, which LPI has now acquired. Mr Brooker is a principal geoscientist with experience in managing groups of geoscientists, project management for development projects, conducting project evaluations, project generation, CP/QP reporting and interpretation of satellite imagery, geological and geophysical data. Projects he has worked on include regional and country scale project generation and targeting, advanced project assessments to feasibility level, evaluation of large tenement packages including existing prospects and successfully generating new prospects.

Stuart Peterson – Exploration Manager (BSc Geology & Earth Sciences)

Mr Peterson is an exploration geologist with over 12yrs experience in the field. He has gained hard-rock lithium experience in his previous role at Mineral Resources at their Mt Marion lithium project in Western Australia. In that role, Mr Peterson had direct exposure to all near-mine extensional drilling programs on their lithium-hosted pegmatite deposits (Spodumene/Kunzite). Prior to that, he has held Exploration Management roles with White Lion Enterprises and Spitfire Materials, plus geological positions with Murchison Metals, SinoSteel, and Epsilon Energy. He is a Member of AusIMM.
Shareholders

FIGURE 14: TOP SHAREHOLDERS

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<th>Rank</th>
<th>Name</th>
<th>Shares (m)</th>
<th>%</th>
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</thead>
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<tr>
<td>1.</td>
<td>Holland International Pty Ltd</td>
<td>21.0</td>
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<td>2.</td>
<td>Minera Salar Blanco Spa</td>
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<td>3.</td>
<td>Chifley Portfolios Pty Ltd</td>
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<td>4.</td>
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<td>J P Morgan Nominees Australia Ltd</td>
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<td>7.</td>
<td>BT Portfolio Services Ltd</td>
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<td>1.2</td>
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**Top Shareholders**

<table>
<thead>
<tr>
<th>Shares (m)</th>
<th>%</th>
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<tbody>
<tr>
<td>79.8</td>
<td>71.0</td>
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Source: Company Reports
The Lithium Market

Background

Lithium (chemical symbol: Li) is soft and silvery white and it is the least dense of the metals. It is highly reactive, does not occur freely in nature and is contained within stable minerals in a range of hard rock types or in solution in brine bodies within salt lakes (salars), in seawater or geothermal brines. The contained concentration of lithium is generally low and there are only a limited number of known resources where lithium can be economically extracted.

Lithium’s high electrochemical potential makes it the standard material for lithium-ion (high energy-density rechargeable) batteries. Lithium ion batteries generally have a very high efficiency, typically in the range of 95% - 98%. Nearly any discharge time from seconds to weeks can be realized, which makes them a flexible and universal storage technology.

Lithium can be processed to form a variety of different chemicals depending on its end use. Lithium carbonate represents approximately half of the total global consumption of lithium chemicals. The next most common chemical is lithium hydroxide, which represents 16% of total global consumption. Other forms of lithium consumed include lithium bromide, lithium chloride and lithium minerals. Uses are:

- As lithium carbonate, it’s a pharmaceutical. It’s been prescribed for conditions such as manic depression and bipolar disorder. It acts on the nervous system, and can modify your actions and behaviour.
- It is also used as an alloy mixed with aluminium, so that it can strengthen aircraft. This alloy can also be used for high-speed trains and high quality bicycle frames.
- Alloied with magnesium, it is used to make armour plating.
- It is used as lithium oxide in glass ceramics and special glasses.
- It is also used as a desiccant in air conditioning systems, as lithium bromide and lithium chloride.
- As lithium stearate (grease), it is used as an all-purpose lubricant although it is especially ideal for high temperatures.
- And as lithium hydride, it can store hydrogen so it can be used as fuel.

Industry has divided product specification into 3 broad categories:

- Industrial grade (≥96% Li) - glass, casting powders and greases.
- Technical grade (≥99.5% Li) - ceramics, greases and batteries.
- Battery grade (>99.5% Li) - high end battery cathode materials

Lithium and lithium compounds are often measured in terms of Lithium Carbonate Equivalent (LCE) but other measures such as lithium hydroxide (LiOH), lithium oxide (Li₂O) and lithium metal (Li) are also used. The following table summarises conversion factors between the compounds.
Demand

The consumption of lithium has experienced exceptional growth with the overall market more than doubling in just twelve years from 2000. Market demand for lithium products is largely driven by the increase in use of rechargeable batteries in portable electronic devices and electric transportation. Lithium-ion batteries provide power for cell phones, smartphones, tablets, laptop computers, power tools, and many other mobile consumer devices. Larger format lithium-ion batteries provide power for electric cars, scooters, electric bikes, buses, forklifts and other forms of transportation. New applications for lithium are emerging in the areas of grid energy storage, solar and nuclear energy generation, and other industrial uses.

Current demand is estimated at 160kt LCE with most market commentators expecting annual growth around 10%.

FIGURE 16: LITHIUM DEMAND

In the automotive sector, the advent of lithium-ion hybrids (HEV), plug-in hybrids (PHEV) and fully electric vehicles (EV) require large format batteries. These batteries will require kilos of lithium, rather than the grams used today in portable electronic applications.

Electric vehicles can be grouped into three main categories:

- Hybrid Electric Vehicles (HEV): Capable of storing charge (usually only in small amounts). Do not plug into an electric outlet, but instead are recharged by a separate internal combustion engine which is the principal power source (e.g. Toyota Prius). HEVs consume approximately 0.5-2.0 kg Li per vehicle.
- Plug-in Hybrid Electric Vehicles (PHEV): Have both electric and conventional motors, but are distinct from HEVs in that they can be
Electric Vehicles (EV): Fully electric vehicles that do not contain a combustion engine. Their battery packs and driving ranges between recharges tend to be much larger than other EVs since they do not have auxiliary power sources such as an internal combustion engine. Example: Tesla Model S. EVs consume approximately 10-20 kg Li per vehicle.

While portable consumer goods alone continue to provide impressive growth in demand for lithium batteries, the start of mass production of hybrid, plug-in hybrid and electric vehicles presents the most significant upside “step growth” potential for lithium demand.

Given the increasing political and consumer focus on environmental consciousness, auto manufacturers are striving to lower both carbon emissions and fuel consumption in transport applications. In 2013 alone the number of electric vehicle models grew from 11 to 17 with a wide range of consumer choices offered by all the major global automotive brands. Electric vehicle options range from the zippy-city-drive Nissan Leaf to the long-range sporty performance of the Tesla Model S.

Determining the future growth in electric vehicles is difficult to predict and there are a wide range of forecasts as to the number of electric vehicles that will be on the road within the next decade and the resultant additional potential lithium consumption requirement. However, there has been a large number of government incentive programs, globally, recently announced to advance the development, production and use of HEVs, PHEVs, and EVs. Despite near-term uncertainty as to the growth of lithium-ion batteries in the electric vehicle segment, we believe the increasing drive for lower carbon emissions by governments and consumers, significant investments by a number of parties globally in new battery technology for transport applications, and technology improvements within car manufacturers themselves, will provide significant future demand growth for lithium.

According to Goldman Sachs lithium demand for all EV applications could grow more than 11x by 2025, adding more than 310,000mt of LCE demand. This compares to current EV demand that represents only 27,000mt of LCE (17% of the current overall lithium market). In short, growth in EV applications alone could triple the size of the entire lithium market from 160kt today to 470kt by 2025.

Tesla exclusively makes electric cars powered by rechargeable batteries, and the company has just released its latest model – at a much lower price point than its previous models (US$35,000) – and already has 400,000 orders for the car. The company says it will build 500,000 cars a year by 2018, a massive ramp up from its existing production levels of 80,000 to 90,000 cars a year. By 2020, CEO Elon Musk says the company is aiming for one million cars.

Several others are rushing to compete with Tesla, and all will require rechargeable batteries. Many countries in Europe are leading the world in uptake of EVs using lithium-ion batteries, with EVs already totaling 22% of all new vehicle sales in Norway. Lithium-ion batteries are already being produced in Europe to meet this increasing demand, and production capacity in car-producing countries such as Germany is growing dramatically to keep up, with Daimler recently announcing a new €500M battery factory, and Volkswagen likely to soon follow suit. Samsung SDI has announced a lithium battery plant in Hungary, Nissan in the UK, Tesla a Gigafactory 2 in Europe whilst Jaguar Land Rover, Ford and BMW are studying a joint lithium battery factory in Europe. In addition to batteries for EV’s there is growing understanding that Europe’s drive towards increase use of renewables requires fixed energy storage and that lithium batteries can be an important component of this which will further increase battery and lithium demand. Battery producers will need more supply from safe, nearby jurisdictions. Sourcing lithium...
from Europe would also reduce the carbon footprint of the car production supply chain.

Supply

Commercial lithium production currently comes from two sources:

- Brines: lithium rich brines from salt lakes, or salars; and
- Minerals: pegmatite rock deposits containing lithium-bearing minerals.

The process of producing lithium from brines is generally much lower cost than that from hard rock minerals but capital costs tend to be higher.

Nearly one-half of the world’s lithium production comes from lithium brines in the Andes mountains region. In the mid-1990s, the development of these large-scale, low-cost brine resources in Chile and Argentina by SQM, Albermarle and FMC Global fundamentally changed global lithium supply. With its cost advantage over mineral-based production, brine producers lowered prices to gain market share, resulting in closure of mineral conversion plants in the USA, Russia and China.

Hard rock supply is dominated by Australia’s Greenbushes mine owned by Talison Lithium supplying close to 40% of market requirements. Talison is hardly an independent, being 49 percent-owned by Albermarle and 51 percent by China’s Tianqi Lithium, which takes an increasing amount of the mine’s output for processing in China. Talison has recently announced that it is proceeding with a lithium hydroxide plant in Western Australia supplied by concentrate from Greenbushes.

Current global production of lithium is also highly concentrated, both geographically and in corporate ownership. We estimate that about 85% of world production comes from Chile (Sociedad de Quimica Minera de Chile SA (SQM) and Albermarle), Argentina (FMC Corp), and Australia (Talison Lithium).

This oligopoly poses a real challenge for EV and battery producers. Interestingly Tesla seems to placing its faith in the new generation of producers. In Europe we would expect Daimler, VW and the like to also support new suppliers of lithium with particular focus on European producers, placing EUR in a strong position.

Pricing

There are a number of problems when looking at pricing. The first is the bewildering number of products that can be made from lithium, ranging from lithium stearate (industrial grease) to lithium fluoride (aluminum smelting) to butyllithium (organic compounds).

All are normally converted for pricing into lithium carbonate, largely used for battery manufacture.
If lithium is going to become an integral part of the global energy supply chain, its market opacity is a big problem.

But even then the picture is complex. There are different types of carbonate, with lower-grade material for the ceramics and glass industries, while higher-grade material is used in batteries. Nor are lithium-ion batteries themselves homogenous. There are five major types, each using a different lithium compound.

Lithium pricing is extraordinarily opaque.

……… but prices are on the rise.

The second problem with lithium pricing is that most trade is conducted between a small number of producers and their customers. There is no exchange trading, no terminal storage market and only an extremely limited spot market and prices vary by product, consumer and contract types. This means that price assessments from commentators rely on published trade volumes and trade values, or contacts within industry. This is made more difficult by the complexity of the lithium product chain.

Either way prices are on the rise. CRU reports that battery grade material is trading at more than USD20,000/t on the Chinese spot market. It is believed that new contract prices for battery grade material exceed USD7000/t. Prices for lithium concentrates used for conversion into chemicals are correlated to, and tend to follow the same trend as, lithium carbonate prices.
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