

# Investor's Digest

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## SHARES SET TO SOAR AND SET TO ROAR

# Neo Lithium is the new gasoline

It is a little known fact that in 1929, lithium citrate was a key ingredient in the soft drink 7Up. Why? Well, it was used as a mood stabilizer, which back then was marketed as a hang-over cure.

For investors whose portfolios are feeling a little hungover, lithium and lithium investments have come to your rescue. Although much has changed regarding the uses, recent investor appetite for lithium equities remains resilient while the outlook looks absolutely marvelous. But has anyone stopped to ask why?

The fundamentals for lithium are key to its strength. On the surface, this may sound like a platitude, but as you fish around a little deeper, there are several important reasons why the smart money is following.

Utility, price, supply and demand are but a few. The lithium market is small, with total demand of a mere 200,000 tonnes per annum. However, growth is forecast to double within a decade while very little supply is expected to come on stream.

So what is driving this growth? Batteries and the electric car - it's a massive market. Lithium is crucial in the production of lithium batteries and battery-grade lithium carbonate. Lithium prices, around US\$8,000 a tonne, are expected to follow demand, rising in step as the world embraces what Goldman Sachs refers to as the world's "new gasoline".

Future demand is everywhere you look and prices are widely forecast to follow the rise



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in demand.

We have all heard warnings that past performance is not indicative of future success. But let's be honest: we all look for "winners" to invest in, since history does somehow seem to repeat itself and often.

Solid reputations like that of PowerOne Capital Management and its managing director, Pat DiCapo are built on a history of success, including \$250-million market cap **Lithium Americas Corp.** (LAC-TSX, \$0.96). But for now, let's look at something a little more recent.

In the summer of 2015, Mr. DiCapo, PowerOne and several key associates took **GoldMoney Inc.** (XAU-TSX, \$5) public at 90 cents per share. Soon after, investors were handsomely rewarded as the company's shares shot up to \$9 a share. Will history repeat itself with another massive win for DiCapo and the PowerOne team?

In PowerOne's stable there is a company called Neo Lithium Corp. and I believe it will be a winner too.

Looking to the immediate future, Neo Lithium, set to trade in July 2016 under the symbol NLC on the TSX Venture Exchange, should prove to be the next triumph in PowerOne's portfolio.

### Neo Lithium - people, project and financing

For this particular investment opportunity, we begin with Waldo Perez, the president and CEO

of Neo Lithium. He is responsible for leading the team that discovered the Tres Quebrados Lithium project, the company's flagship high-grade lithium discovery in Argentina, which is now the talk of the town.

From the sky, Tres Quebrados looks similar to a small northern Canadian lake where you might get lucky and catch a large six-pound bass. But instead you actually find something much different than bass, lithium brine.

For Perez, luck was not a trophy fish but a trophy discovery. What made this discovery truly meaningful for all participants is that it contained some of the highest lithium grades ever recorded, reading upwards of 4,000 milligrams of lithium per litre, with an average of approximately 900 milligrams per litre based on preliminary testing.

To give this figure context, I am told by Perez that his average is significantly higher than typical grades in the region, making this discovery an extra special catch!

"What we discovered is if you were looking for a lake of oil and you found a lake of oil. This is what we have here, except that it's brine. We were lucky this one was simply missed. Now it is ours and we own it 100 per cent outright - it's an unprecedented position to be in." says Mr. Perez.

The area of focus is not small, measuring approximately 160 square kilometres within a total 300-square-kilometre stake, located only 250 kilometres from the Chilean port of Caldera.

With size and location already in its favour, yet another factor that gives Tres Quebrados the

perfect trifecta is project chemistry. For Tres Quebrados, project chemistry directly leads to reduced costs.

Mr. Perez explains, "Here, our chemistry is clean. What I mean by this is when we look to process, we will not need to add large quantities of reagents which would make us unlike many other lithium projects. Clean. Which is quite rare but they do exist. The chemistry is still early for us, but at Tres Quebrados it is already very encouraging."

Given the past success of Mr. Perez, who was credited for the discovery of the Cauchari lithium deposit, owned by Lithium Americas, I will be certain to follow his lead at Neo Lithium. Like Lithium Americas, which was financed by DiCapo's PowerOne as well, Mr. Perez has a war chest of some \$18 million to advance Tres Quebrados, which I expect he will do very skilfully and successfully.

### Comparables are key in valuation

As market participants, the best indication of value is often a good peer comparison. **Lithium X Energy Corp.** (LIX-TSX, \$1.74), which made its debut on the TSX Venture in late November 2015, seems to be the closest peer comparison when you consider the acumen of market participants and project quality. With a market cap of approximately \$135 million, the indicated value for Neo Lithium, which would have approximately 65 million shares outstanding, comes out to approximately \$2.10 per share.

While having just completed a financing of \$11.7 million at \$1 per share, it appears Neo Lithium shares should rise to meet peers. It is very well-financed and holds more than \$18 million in its treasury, while being backed by strong market participants and led by a team of seasoned professionals with past successes.

Growing up I was often told the cheapest way is the most expensive way. Well, more than 20

years of investing in the resource sector has proven the saying right more than once. Quality is always worth paying for.

Many would suggest the lithium equity space is getting expensive. However, like all highly successful deals, having all of the right transaction components is most important; those being the project, the management, financing and the supply and demand fundamentals. Now you have Neo Lithium – but it does

come at a price.

Price aside for a moment, it is rare when we see what I would describe as a perfect confluence. It makes for an uncommon and great opportunity. Neo Lithium is one of those exceptional companies supported by a quality project and good management that's financed by seasoned bankers and reinforced by key fundamentals.

Battery demand is right in front of us and will be for the

foreseeable future. So if a premium does exist with Neo Lithium, given its project quality, an \$18-million treasury, its key management expertise and PowerOne's past performance all certainly make this opportunity more than worth paying for.

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