BELL POTTER

Speculative
See key risks on page 8. Speculative securities may not be suitable for Retail clients.

3 January 2017

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Galaxy Resources Ltd (GXY)

Shipments resumed and higher lithium prices agreed

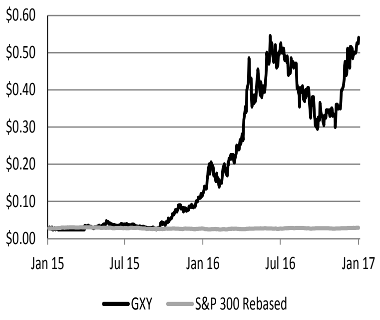
Recommendation
Buy (unchanged)
Price
$0.535
Valuation
$0.71 (previously $0.58)
Risk
Speculative

Expected Return	
Capital growth	33%
Dividend yield	0%
Total expected return	33%
Company Data & Ratios	
Enterprise value	$1,032m
Market cap	$980m
Issued capital	1,832.5m
Free float	89%
Avg. daily val. (52wk)	$5.4m
12 month price range	$0.12 - $0.58
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.43	0.30	0.12
Absolute (%)	25.6	83.1	350.0
Rel market (%)	20.6	77.7	342.5

Absolute Price



SOURCE: IRESS

Mt Cattlin production ramping up after major refurbishment

Lithium concentrate production at GXY's Mt Cattlin mine in WA is ramping up following the major plant refurbishment and expansion that now sees the company able to deliver a higher quality spodumene (lithium) concentrate at an expanded rate of at least 160kt per annum. Based on recovery rates of around 50%, GXY is guiding for production of 160kt of concentrate in 2017 but the company is working to lift recovery rates while retaining the higher quality of the concentrate that has been achieved since production resumed and it is confident of achieving grades of around 6% Li_2O.

Shortage of new material sees higher prices agreed for 2017

GXY recently negotiated a price for new deliveries of lithium concentrate in 2017 that is potentially over 50% higher than the price for the 2016 deliveries, most of which have been deferred from 2016 and will now be delivered in the early part of 2017 at the old price of US$600/t, the first such shipment having just been made. The new contract price is for 120kt of concentrate from Mt Cattlin for delivery in 2017 at a base price of US$830/t for material grading 5.5% Li_2O with grade escalators up to a price of US$905/t for material grading 6.0% Li_2O. Lithium prices have remained very strong because of continuing strong demand from Chinese battery manufacturers in the face of extremely tight supply with little new lithium concentrate coming onto the market.

Investment thesis – Spec. Buy, valn. $0.71/sh (prev. $0.58)

GXY has resumed lithium production at an expanded rate at its upgraded Mt Cattlin operation in W.A. while readying its high quality Sal de Vida brine project in Argentina for near term development, confirming GXY is one of the most attractive companies in the lithium sector. The strong lithium demand is reflected in GXY's recent increased pricing outcome, which should see GXY generate even stronger earnings and operating cash flow to assist with developing its projects. Our 12-month forward, risk-weighted and equity diluted NPV-related valuation of GXY has been increased by 22% to $0.71/share, reflecting the higher concentrate grades and much higher lithium prices for new 2017 deliveries. Our Speculative Buy recommendation is retained.

Earnings Forecast

Year ending December	2016e	2017e	2018e	2019e
Sales (A$m)	9	184	239	310
EBITDA (A$m)	(14)	96	137	181
NPAT (reported) (A$m)	52	66	81	84
NPAT (adjusted) (A$m)	(24)	66	81	84
EPS (adjusted) (¢ps)	(2)	3	4	4
EPS growth (%)	na	na	19%	4%
PER (x)	na	16.5	13.9	13.4
FCF Yield (%)	na	na	na	15%
EV/EBITDA (x)	na	7.5	5.3	4.0
Dividend (¢ps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-15%	21%	20%	17%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Renewed, higher output and lithium prices

Mt Cattlin lithium production back on at greatly improved rate

GXY's Mt Cattlin operation near Ravensthorpe in WA (Figure 1) has recently resumed improved lithium concentrate production after completing a major plant refurbishment that included extensive modifications to greatly enhance its efficiencies and enable expanded production of higher quality concentrates. Operations at Mt Cattlin are continuing to ramp up to the planned capacity of at least 160ktpa of spodumene concentrate at a minimum grade of 5.5% Li_2O (with expectation of reaching around 6% Li_2O so as to capture higher pricing). The first shipment of lithium concentrate from the refurbished plant has just been made from the port of Esperance.

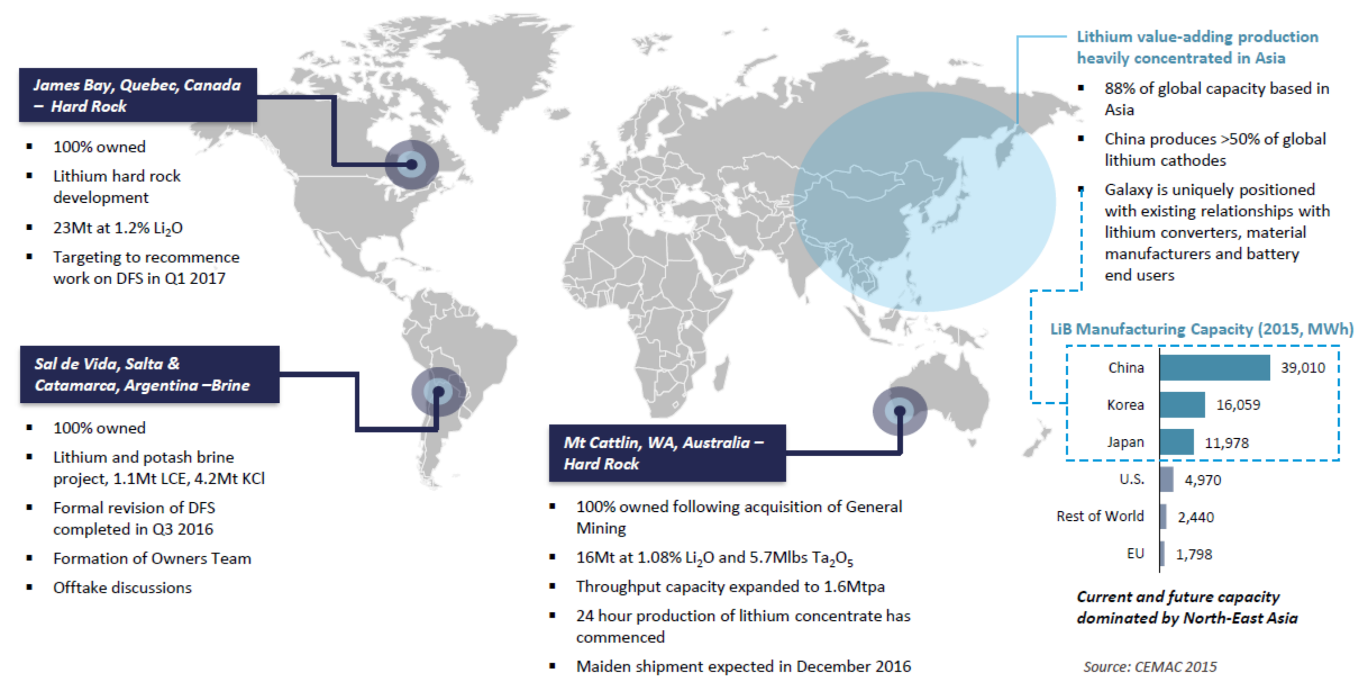
Sal de Vida and James Bay give GXY an impressive development pipeline

The 100% owned Sal de Vida and James Bay projects (Figure 1) give GXY a very impressive lithium development pipeline.

Sal de Vida is one of the world's most advanced lithium brine development projects and is being readied for development after the recent completion of a revision of its Definitive Feasibility Study (DFS) and formation of an owner's team. Discussions with offtakers and potential strategic end users for the planned production of around 25ktpa of battery grade lithium carbonate and 95ktpa of potash from Sal de Vida are underway as a prelude to a potential development decision on the Project in 2017. Sal de Vida, which is fully permitted and is located on the same salar in Argentina as FMC's Fenix operations, is expected to be a conventional evaporation ponds and processing operation with a very competitive cost position from having one of the world's best brine chemistry and impurity profiles with its brine planned to be processed using some minor variations to the processing steps used by industry giants SQM and Albidon whereas FMC has a quite different processing technology.

The James Bay Project is at an advanced stage of study with the DFS due to be resumed in the first quarter of 2017.

Figure 1 - Map showing location of GXY's lithium projects with inset of summary of 2015 lithium battery data



SOURCE: GALAXY RESOURCES LTD

Stronger new production to be sold at much higher prices

The forecast improved production rate at Mt Cattlin comes at a very fortuitous time as it will mean additional material can be sold under new contract terms for the majority of the planned output in 2017 following GXY's recent successful price negotiations, following completion of the remaining 2016 sales (being the bulk of the 45kt that was contracted for delivery in 2016 but not delivered when the plant upgrade was undertaken) to be delivered under terms of the 2016 pricing (US600/t) in the first few months of 2017. Under the new pricing arrangements for the bulk of production in 2017, which is to be sold to Chinese customers after the 2016 deliveries are completed, the company will receive up to US$905/t for 120kt of lithium concentrate grading 6% Li_2O. The pricing arrangements just agreed to have grade-related escalators whereby the concentrate has a base price of US$830/t for 5.5% Li_2O with an additional US$15/t for every 0.1% Li_2O over 5.5%.

GXY is currently discussing additional longer term arrangements with its existing customers beyond 2017 and it is also considering options to diversify its customer base. The significantly higher than expected contract pricing arrangements for 2017 reflect the tight market conditions for lithium. As its refurbished treatment plant at Mt Cattlin ramps up to targeted production rates, the company is confident of producing higher quality concentrates at around 6% Li_2O, with initial production from the refurbished plant averaging between 5.8% and 6.4% Li_2O. The offtake arrangements under the new contract will be settled by GXY's partner, Mitsubishi Corporation.

Higher recovery rates at Mt Cattlin may provide additional supply

The company's current production guidance for 2017 of 160kt of spodumene concentrate from Mt Cattlin assumes a recovery rate of 50%. GXY is continuing to work at lifting the recovery rate over time and is confident of getting the recovery rate to a significantly higher level, which we understand is around 70%. Besides producing a higher quality concentrate (which partly comes from reducing the mica content), the higher the recovery rate is, the more material there is for additional sales. With initial concentrate grades averaging around 6% Li_2O, the metallurgical team at Mt Cattlin are now working on a number of initiatives with the objective of increasing recovery rates and production throughput to deliver higher production of concentrate to provide additional supply to meet customer demand. While we have confidence that GXY will be able to lift its production rates significantly over the next year or so, we have conservatively assumed the company produces around 160kt of concentrate in 2017 but that it lifts output, while maintaining good concentrate quality, to around 200kt by 2019.

GXY should be able to realize very good prices on additional sales

We have also assumed that GXY is able to sell all additional material (over the notional 160ktpa) rate at the same prices as for its major customers. With spot sales of lithium concentrate in the latter part of 2016 being reported at prices of up to US$1,000/t, we believe our pricing assumptions are conservative because we believe the dearth of new lithium concentrate supply and continued firm demand for lithium products means the market for concentrate is still very tight and so we believe there is scope for the company to achieve very satisfactory pricing for any additional sales it can secure over the next year or so.

China leads growth in lithium demand

Chinese becoming leaders in transport electrification flows into strong lithium demand for batteries used in multiple sectors

China's demand for lithium for use in a wide range of transport applications is set to dwarf the growth in demand for lithium from new lithium battery gigafactories. Adoption of lithium battery technology across a number of applications and transport sectors will drive the future of electric vehicles. Some of the major applications and uses include:

- Light personnel transportation – for two-wheeled motorbikes and scooters and for three-wheeled hybrid vehicles such as Smart-sized electric cars;
- Heavy transportation applications – including public trains and buses; and
- Logistics industry – high torque requirement areas such as forklifts, scissor lifts and transport buggies.

China is at the forefront of the electric vehicle revolution

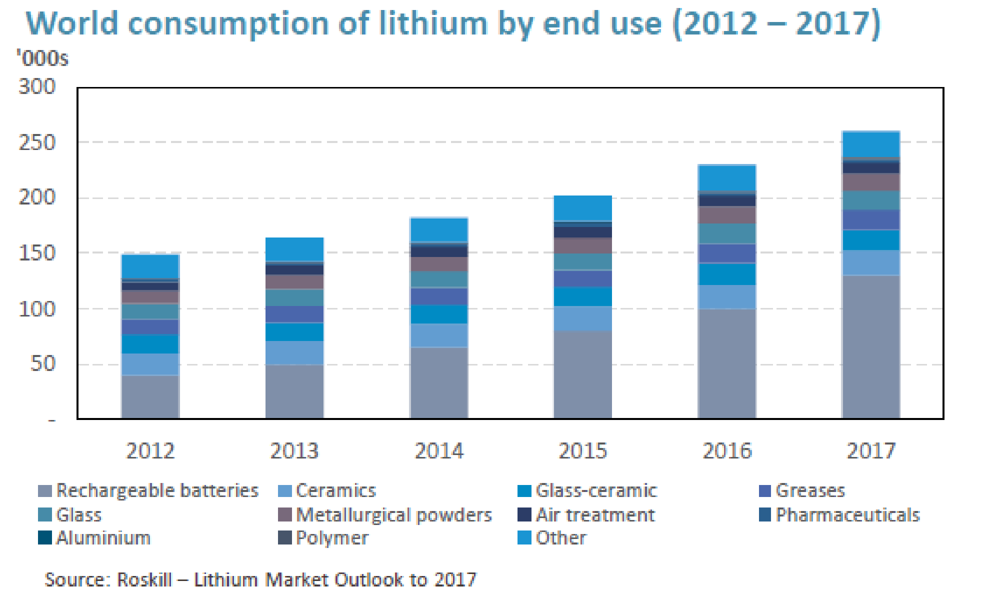
China is leading the way in the area of electric vehicles with its adoption of wide ranging applications that sees it adopting targets and policies including the following:

- Targeting to have 5 million electric vehicles by 2020;
- Aiming for up to 50% of government fleet vehicles to be new energy vehicles;
- Pushing "green" technologies that include targeting to have 4.8 million charging stations and city transportation fleets of 200,000 electric buses; and
- Driving the continued conversion of the more than 200m electric bikes from lead acid batteries to lithium batteries.

Rechargeable batteries continue to drive stronger lithium demand growth

Growth in rechargeable batteries continues to increase at a strong rate, which is continuing to drive stronger lithium demand growth (Figure 2).

Figure 2 – World lithium consumption by end use (2012 – 2015) and forecasts (2016 – 2017)



SOURCE: GALAXY RESOURCES LTD

Increased valuations reflect higher Mt Cattlin prices

We have revised our earnings forecasts to include the impact of the recent lithium concentrate pricing arrangements for new deliveries in 2017, resulting in earnings per share upgrades of 223% for FY17, 113% for FY18, and 100% for FY19 (Table 1).

We have also revised our valuations (Table 3 over page), which are based on our 12-month forward NPV valuation, resulting in an increase of 22% to $0.71 per share for GXY, reflecting the net effect of the assumption of higher concentrate grades at Mt Cattlin and the impact of the 2017 contract pricing for Mt Cattlin and dilution from the exercise of options and issue of warrants and performance shares.

Table 1 - Summary of revised production, prices and earnings forecasts and valuations

	Previous			New			Change		
Year ending 31 December	2017e	2018e	2019e	**2017e**	**2018e**	**2019e**	2017e	2018e	2019e
Prices & currency									
Lithium concentrate (US$/t)	656	673	650	**831**	**911**	**650**	27%	35%	0%
Lithium carbonate (US$/t)	9,975	10,723	9,750	**9,975**	**10,723**	**9,750**	0%	0%	0%
Tantalum concentrate (US$/kg)	132	133	135	**132**	**133**	**135**	0%	0%	0%
Potash (MOP) (US$/t)	224	229	240	**224**	**229**	**240**	0%	0%	0%
US$/A$	0.75	0.75	0.75	**0.75**	**0.75**	**0.75**	0%	0%	0%
Equity production & costs									
Spodumene concentrate (kt)	124	200	215	**157**	**187**	**197**	27%	-7%	-8%
Average concentrate grade (Li_2O)	5.4%	5.5%	5.5%	**5.8%**	**5.9%**	**6.0%**	8%	7%	9%
Tantalum concentrate (t)	86	126	126	**85**	**108**	**108**	-2%	-14%	-14%
All in sustaining costs (after by products) (A$/t)	402	353	339	**417**	**391**	**382**	4%	11%	13%
All in sustaining costs (after by products) (US$/t)	300	265	254	**310**	**294**	**286**	3%	11%	13%
Earnings									
Revenue ($m)	120	197	269	**184**	**239**	**310**	53%	21%	15%
EBITDA ($m)	48	94	139	**96**	**137**	**181**	101%	46%	30%
EBIT ($m)	35	82	87	**83**	**124**	**128**	136%	51%	47%
NPAT (adjusted) ($m)	20	39	44	**66**	**81**	**84**	223%	107%	93%
EPS (adjusted) (cps)	1	2	2	**3**	**4**	**4**	224%	113%	100%
PER (x)	34	19.0	16.7	**17**	**14**	**13**	na	-27%	-20%
EPS Growth (%)	na	84%	12%	**na**	**19%**	**4%**	na	-78%	-64%
DPS (reported) (cps)	0.0	0.0	0.0	**0**	**0**	**0**	nc	nc	nc
Yield	0.0%	0.0%	0.0%	**0%**	**0%**	**0%**	nc	nc	nc
Net debt/equity	112%	124%	84%	**92%**	**82%**	**40%**	-18%	-34%	-53%
Valuation ($/sh)	0.58			**0.71**			22%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

We regard valuation estimates based on risk-weighted NPV-related forecasts as the best guide to the long term value of GXY.

Our assumptions for the development of Sal de Vida are based on, but are slightly different from, the data presented by GXY in its revised DFS of August 2016. We have mostly adopted slightly more cautious assumptions for the project to reflect the experiences (delays in ramp-up and initial costs) of Orocobre with its Olaroz Project (also in northern Argentina). Our assumptions still show that GXY's Sal de Vida Project should be a very economically attractive project with high NPV and IRR and short pay-back from low operating costs and an attractive cash operating margin.

Cash reserves should begin to build strongly as Mt Cattlin sales contribute

We estimate that based on its cash reserves of $9.3m at 30 September 2016, and assuming GXY expended its budget of $2.25m on exploration and administration in the December 2016 quarter, the company would have had cash reserves of around $7m at the end of December 2016 after the budgeted expenditure of $19.5m for completion of the Mt Cattlin expansion and commencement of production in the December quarter of 2016. We have assumed that GXY obtained additional funding for most of that Mt Cattlin expenditure from its offtake partners as part of the arrangement for the Mt Cattlin plant upgrade and concentrate sales. As such we believe GXY is in a good financial position as it now starts to earn growing income from lithium sales accelerating over 2017 as production ramps up to targeted levels, and particularly after sales begin under the terms of the new contract arrangements. We have assumed the company will probably need to raise additional equity capital in the next year to augment the expected debt finance likely to be obtained for a potential development of Sal de Vida (assuming a positive development decision).

Additional equity to be raised as part of funding for Sal de Vida' development

We have assumed that the pre-production capital cost of the initial stage of the Sal de Vida' development is around US$385m and that this can be funded on a debt to equity/internal sources ratio of about 70:30. We have assumed that as part of the funding arrangement, the company raises net additional equity capital of about $85M during 2017. We have assumed the additional capital is at the current share price (Table 2) even though there could be favourable outcomes from exploration at Mt Catlin and the development studies on Sal de Vida and the potential impact of higher lithium prices that may lead to a share price re-rating by the time that capital is actually sought.

Table 2 - Forecast additional equity to be raised in next year (2017)

Year to December	2017e
Net amount to be raised[1] ($ m)	85
Share price assumed ($)	0.525
Number of shares to be issued (m)	171.3
Total number of shares on issue at year end (m)	2,003.9

SOURCE: BELL POTTER SECURITIES NOTE 1. AFTER CAPITAL RAISING COSTS

Valuations have been risk adjusted to reflect their uncertainty

We have incorporated a risk adjusted discount factors of 25% on the DCF-based valuation of the company's Sal de Vida Lithium Project and 55% for the James Bay Project respectively to determine an overall valuation for the whole company (Table 3). GXY also owns several minor gold exploration interests. Our **valuations are equity diluted to account for potential additional shares issued in 2017 (Table 2)**.

Our equity diluted valuation for GXY of $0.71 per share has been increased by 22% and is based on the 12-months forward equity diluted valuation (Table 3).

Table 3 – Equity diluted risk-weighted NPV-based valuations of GXY

	Now		+12 months		+24 months	
Assets	**$m**	**$ per share[1,2]**	**$m**	**$ per share[1,2]**	**$m**	**$ per share1,2**
Mineral Interests – Mt Cattlin	690	0.33	765	0.36	728	0.35
- Sal de Vida	713	0.34	785	0.37	1,174	0.56
- James Bay	255	0.12	255	0.12	255	0.12
- Other	4	0.00	4	0.00	4	0.00
- Total	1,662	0.79	1,808	0.86	2,161	1.02
Corporate	(43)	(0.02)	(42)	(0.02)	(38)	(0.02)
Enterprise Value	**1,619**	**0.77**	**1,766**	**0.84**	**2,123**	**1.01**
Net cash[3]	21	0.01	(274)	(0.13)	(311)	(0.15)
Total	**1,640**	**0.78**	**1,493**	**0.71**	**1,812**	**0.86**

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF ROUNDING AND DILUTION EFFECTS.
2. BASED ON FULLY EQUITY DILUTED SHARE CAPITAL OF 2,109.0M SHARES THAT INCLUDES AN ASSUMED CAPITAL RAISING IN 2017
3. INCLUDES EFFECT OF OPTIONS EXERCISE

Galaxy Resources Limited (GXY)

Company description

GXY is a Perth based lithium production company with an experienced management team that has a track record of successful involvement across the whole spectrum of lithium sector activities ranging from exploration and development of deposits to spodumene production, feasibility studies on a major lithium brine project and also previously with the production of high quality lithium end products in China.

GXY's assets comprise three wholly owned major lithium production and development projects – the Mt Cattlin spodumene mining and processing operation in WA; the flagship project is to be the Sal de Vida Project, which is a planned major new lithium brine development in Argentina; and the James Bay Project is an advanced spodumene deposit in Canada.

Mt Cattlin has been expanded to become one of the largest spodumene producers with ore processing capacity of 1.6Mtpa that is expected to yield around 215ktpa of spodumene concentrate and about 126tpa of tantalum concentrate when production reaches targeted levels following a period of ramp-up after resumption of operations in late 2016.

A recently completed revised DFS of the Sal de Vida Project showed that it is capable of becoming a major low cost lithium carbonate producer based on very extensive lithium brine resources and reserves that include by-product potash (KCl) and which could be in production by about mid-2019. Sal de Vida is capable of becoming a long life operation producing around 25ktpa of high quality lithium carbonate for the battery market along with around 95ktpa of potash.

The James Bay Project has a significant lithium resource in the form of spodumene that is to be further evaluated and subject to more complete feasibility studies as a potential North American source of supply.

Investment Thesis – Speculative Buy, Valuation $0.71/sh (previously $0. 58)

GXY has resumed lithium production at an expanded rate at its upgraded Mt Cattlin operation in W.A. while readying its high quality Sal de Vida brine project in Argentina for near term development, confirming GXY is one of the most attractive companies in the lithium sector. The strong lithium demand is reflected in GXY's recent increased pricing outcome, which should see GXY generate even stronger earnings and operating cash flow to assist with developing its projects. Our 12-month forward, risk-weighted and equity diluted NPV-related valuation of GXY has been increased by 22% to $0.71/share, reflecting the higher concentrate grades and much higher lithium prices for new 2017 deliveries. Our Speculative Buy recommendation is retained.

Valuation: Assessed at $0.71 per share

Our valuation of GXY is based on the 12-month forward risk-weighted DCF-based valuations of the Mt Cattlin operation and the potential development of significant lithium carbonate and potash production from the Sal de Vida Brine Project beginning in about FY19 and a potential open pit operation at the James Bay Project. Our valuations have been equity diluted for a potential equity raising in the next year or so to assist with the expected funding then for the likely development of the Sal de Vida Lithium Project and exploration and potential development studies on the James Bay deposit.

Risks of investment

The key risks for resources investments include, but are not limited to:

- **Commodity price volatility:** Unlike the well-developed and extensive markets for gold and base metals, there are no formal terminal markets for lithium or lithium products. The pricing for lithium products is almost exclusively determined by private negotiation between producer and end user, in contrast to most other mineral and metallic commodities. As with most mineral commodity prices, prices for lithium products are generally denominated in US dollars, so their translation into Australian dollars can be affected by wide fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Lack of funding:** While GXY has resumed lithium production at Mt Cattlin at a time of strong lithium prices, which should see the company generating strong operating cash flows when that operation reaches its targeted production rate, GXY's development projects will require significant additional funding, much of which could be expected to come from debt funding. Access to adequate debt and equity funding will be required for these developing operations until they reach the stage where they are self-funding.
- **Adverse changes to business conditions from changed government policy:** While GXY's current operations are in the very politically and socially stable jurisdiction of WA, where there are very well-known and accepted and transparent legal and regulatory frameworks that support mineral exploration, mining and processing, the company's pursuit of additional lithium production involves international jurisdictions. Changes to business conditions and government policies even in Australian jurisdictions, can occur and may have an adverse impact on the effectiveness of, and returns from, GXY's operations. Various stages of the routine regulatory approvals process and interaction with local communities around mining operations can sometimes suffer unforeseen delays that may result in adverse financial outcomes.
- **Metallurgical issues:** While the metallurgical recovery of hard rock lithium (spodumene) is based on relatively straight forward gravity techniques, the achievement of relatively high recoveries of lithium and associated by-products requires specific and very good quality metallurgical processing equipment, which is why the company is currently upgrading its processing plant at Ravensthorpe. Similarly, while the recovery of lithium from brines is relatively well understood and equipment for such plants is generally available "off the shelf" and the testwork on Sal de Vida as disclosed in the two DFSs indicates acceptably high recoveries can be achieved, there may be an additional need to modify the recovery attributes of the mineralisation to be treated at Sal de Vida and any future mineralisation discovered by the company at its projects.
- **Lack of exploration success:** While lithium mineralisation is not as rare as many other mineral commodities, and GXY has already successfully identified very significant Mineral Resources and Reserves, it is quite rare to find lithium in commercial quantities. As with other mineral deposits, geological complexities may arise with lithium deposits including extensive local and complex structural faulting and dislocation and mineralising overprints that may require extensive drilling programs to resolve, the resolution of which may inhibit the future definition of adequate resources and reserves.
- **Weather impacts:** Some of GXY's projects are located in areas that can have severe weather events, which may adversely impact the company's operations at times. The company is planning to develop a brine-based operation at significant altitude in Argentina which relies on evaporation and may be adversely affected climatic events.
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

Galaxy Resources Ltd
as at 3 January 2017

Recommendation	Buy, Speculative
Price	$0.535
Valuation	$0.71

Table 4 - Financial summary

PROFIT AND LOSS

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	2019e
Revenue	$m	-	9	184	239	310
Operating expenses	$m	(9)	(23)	(87)	(102)	(129)
EBITDA	$m	**(9)**	**(14)**	**96**	**137**	**181**
Depreciation and amortisation	$m	(0)	(4)	(14)	(13)	(52)
EBIT	**$m**	**(9)**	**(18)**	**83**	**124**	**128**
Net interest	$m	(7)	(5)	(15)	(41)	(41)
PBT	$m	**(17)**	**(24)**	**68**	**83**	**87**
Tax expense	$m	-	-	-	-	-
Impairments/write-offs/other	$m	58	75	-	-	-
Minority interest	$m	1	1	2	2	3
NPAT (reported)	$m	**43**	**52**	**66**	**81**	**84**
Abnormal items	$m	(58)	(75)	-	-	-
NPAT (adjusted)	$m	**(16)**	**(24)**	**66**	**81**	**84**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16e
Revenue	$m	-	-	-	-	9
Expense	$m	(38)	(10)	1	(4)	(20)
EBITDA	$m	**(38)**	**(10)**	**1**	**(4)**	**(11)**
Depreciation	$m	-	(0)	(0)	(0)	(4)
EBIT	$m	(38)	(10)	1	(4)	(15)
Net interest expense	$m	11	(6)	(2)	(2)	(3)
PBT and minorities	$m	**(27)**	**(16)**	**(1)**	**(6)**	**(18)**
Tax (expense)/benefit	$m	-	-	-	-	-
Impairments/write-offs/other	$m	11	65	(5)	76	(1)
NPAT (reported)	$m	**(16)**	**49**	**(6)**	**70**	**(19)**
Abnormal items	$m	(11)	(64)	6	(75)	-
NPAT (adjusted)	$m	**(27)**	**(15)**	**(0)**	**(5)**	**(19)**

CASH FLOW

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	2019e
OPERATING CASHFLOW						
Receipts	$m	2	9	184	242	328
Payments	$m	(10)	(28)	(87)	(112)	(141)
Tax	$m	-	-	-	-	-
Net interest	$m	(13)	(5)	(7)	(3)	(17)
Other	$m	0	-	-	-	-
Operating cash flow	$m	**(20)**	**(23)**	**89**	**126**	**171**
INVESTING CASHFLOW						
Capex and exploration	$m	(2)	(25)	(397)	(137)	(10)
Other	$m	47	14	(8)	(38)	(24)
Investing cash flow	$m	**45**	**(11)**	**(405)**	**(175)**	**(34)**
FINANCING CASHFLOW						
Net equity proceeds	$m	(0)	2	85	-	-
Debt proceeds/(repayments)	$m	(37)	35	290	95	(75)
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**(37)**	**37**	**375**	**95**	**(75)**
Change in cash	$m	(12)	3	59	47	62

BALANCE SHEET

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	2019e
ASSETS						
Cash & short term investments	$m	5	7	55	112	174
Accounts receivable	$m	7	14	30	43	50
Inventory	$m	1	2	6	13	13
Mine development and PPE	$m	2	86	476	607	612
Exploration & evaluation	$m	124	123	130	136	141
Other	$m	2	8	5	5	5
Total assets	$m	**140**	**239**	**702**	**916**	**994**
LIABILITIES						
Accounts payable	$m	1	13	23	25	28
Borrowings	$m	28	58	348	443	368
Other	$m	7	7	14	46	110
Total liabilities	$m	**37**	**79**	**384**	**515**	**506**
SHAREHOLDER'S EQUITY						
Share capital	$m	459	461	551	551	551
Reserves	$m	(7)	(5)	(5)	(5)	(5)
Retained earnings	$m	(354)	(300)	(234)	(153)	(69)
Non-controlling interest	$m	4	5	7	9	12
Total equity	$m	**103**	**160**	**318**	**401**	**488**
Weighted average shares	m	1,103	1,414	1,959	2,001	2,001

FINANCIAL RATIOS

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	2019e
VALUATION						
NPAT (adjusted)	$m	(16)	(24)	66	81	84
Adjusted EPS	c/sh	(1)	(2)	3	4	4
EPS growth	%	na	na	na	19%	4%
PER	x	na	na	17x	14x	13x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(2)	(3)	(16)	(1)	8
FCF yield	%	na	na	na	na	15%
EV/EBITDA	x	na	na	7.5x	5.3x	4.0x
PROFITABILITY RATIOS						
EBITDA margin	%	na	na	53%	57%	58%
EBIT margin	%	na	na	45%	52%	41%
Return on assets	%	-11%	-10%	9%	9%	8%
Return on equity	%	-15%	-15%	21%	20%	17%
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	24	51	293	331	193
ND / E	%	23%	32%	92%	82%	40%
ND / (ND + E)	%	19%	24%	48%	45%	28%

ASSUMPTIONS - Prices

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	LT real
Spodumene concentrate	US$/t	475	625	831	911	650
Lithium carbonate	US$/t	6,000	9,500	9,975	10,723	9,750
Tantalum concentrate	US$/kg	149	130	132	133	135
Potash (MOP)	US$/t	290	220	224	229	240
CURRENCY						
USD/AUD	US$/A$	0.75	0.74	0.75	0.75	0.75

ASSUMPTIONS - Mineral Resources

Project and Resource Categories	Mt	Li_2O %	Ta_2O_5 ppm	Li_2O kt	Ta_2O_5 t	KCl Mt
Mt Cattlin (Measured, Indicated and Inferred)	16.4	1.08	157	178	2,575	
Sal de Vida (Measured, Indicated and Inferred)				2,928		11.9
James Bay (Indicated and Inferred)	22.2	1.28		283		
Total (Measured, Indicated and Inferred)	kt, t, Mt			3,389	2,575	11.9

ASSUMPTIONS - Production (equity %)

Year ending 31 December	Unit	2015a	2016e	2017e	2018e	2019e
Mt Cattlin						
Spodumene concentrate	kt		11	157	187	197
Tantalum concentrate	t		5	85	108	108
All in sustaining costs (after by products)	A$/t		1,415	417	391	382
	US$/t		1,071	310	294	286
Sal de Vida						
Lithium carbonate	kt					4
Potash (MOP)	kt					-
All in sustaining costs (after by products)	US$/t					4,694

ISSUED CAPITAL AND VALUATION

Issued capital	Unit	
Ordinary shares	m	1,832.5
Options, performance rights, exchangeable and special voting shares	m	107.1
Total	**m**	**1,939.7**

	Now		+ 12 months		+ 24 months	
Sum of parts valuation	**$m**	**$/sh[1]**	**$m**	**$/sh[1]**	**$m**	**$/sh[1]**
Lithium projects - Mt Cattlin	690	0.33	765	0.36	728	0.35
- Sal de Vida	713	0.34	785	0.37	1,174	0.56
- James Bay	255	0.12	255	0.12	255	0.12
Other exploration	4	0.00	4	0.00	4	0.00
Total projects	1,662	0.79	1,808	0.86	2,161	1.03
Corporate	(43)	(0.02)	(42)	(0.02)	(38)	(0.02)
Enterprise value	**1,619**	**0.77**	**1,766**	**0.84**	**2,123**	**1.01**
Net Cash/(Debt) including asumed equity, opts exe	(12)	(0.01)	(274)	(0.13)	(311)	(0.15)
Equity value	**1,607**	**0.76**	**1,493**	**0.71**	**1,812**	**0.86**

SIGNIFICANT SHAREHOLDERS

Shareholder	M Shares	Interest
Board and Management	123.4	6.7%
Paradice Investment Management	78.7	4.3%
Top 20 shareholders	650.9	35.5%

Note 1. May not add due to rounding and dilution effects; based on total diluting shares of 2,109.0m

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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