

Spotlight Research

Millennial Lithium

November 16, 2020

Basic Materials/Global

Price 15.11.20*	1.48
Year high/low	1.84/0.69
Currency	CAD
CAD/EUR	1.55
GDR rate	n.a.
Shares outstanding eoy in mn	83.23
Market capitalisation (total shares) in EUR mn	79.3
Free float	65.0%
Free float in EUR mn	51.5
Avg. daily turnover (12 m) in EUR mn	0.02
Index	TSX
ISIN code	CA60040W1059
Bloomberg	ML CN
Reuters	MLV
www.millenniallithium.com	

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Analyst: Oleg Galbur
Tel.: +43 1 51520 - 714
e-mail: galbur@rcb.at

Published by: Raiffeisen Centrobank AG,
A-1010 Vienna, Tegetthofstrasse 1
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Getting closer to producing battery-grade lithium carbonate

Company Highlights & Investment Case

- Millennial Lithium (ML) is a Canadian listed company which owns and develops two mining projects located in the Argentinian portion of the "Lithium triangle" – one of the most prospective lithium extraction areas globally. The company is run by an experienced team with proved track records in the mining industry.
- The company's flagship project Pastos Grandes, which has recently received approval for the Environment Impact Assessment and has commissioned a carbonate pilot plant, is expected to generate sales from lithium extraction for nearly 40 years starting from the year 2023. Pastos Grandes is one of the most advanced lithium projects in Argentina, expected to produce 21,000 tons of battery-grade lithium carbonate annually in stage 1 and 24,000 tons in stage 2 – that is close to 8% of the current global demand.
- Demand for lithium is expected to skyrocket thanks to parabolic growth of electric vehicles production. According to IHS Markit, global lithium battery demand is expected to increase from 240 GWh in 2020e to 900 GWh in 2025e (30% CAGR) with the automotive industry accounting for 800 GWh (ca. 90%) of the global consumption in 2025e.

What's hot: recent developments

- In July 2020 ML received approval for the Environmental Impact Assessment (EIA) of its Pastos Grandes project, which makes it one of the most advanced lithium projects in the world. This marks the main environmental approval that is required for the construction and operations of the project and is a landmark decision for the planned lithium extraction.
- In October 2020 ML announced the commissioning of a lithium carbonate pilot plant at its Pastos Grandes project. The pilot plant is designed to produce up to 3 tons/month of battery-grade lithium carbonate. ML anticipates completion of the first batch of processing and production of battery-grade lithium carbonate in 4Q 2020.
- As of the end of August, ML remained well funded (CAD 13 mn of liquid funds) and continued its financing efforts to advance the development of its Pastos Grandes project despite the Covid-19 related restrictions.
- ML is currently working with several large financiers to secure funding for its Pastos Grandes project. The management hopes to sign a deal with a strategic investor in 1Q 2021e.

Income statement (CAD mn)	2/2019	2/2020	1H 20/21	Per share data (CAD)	2/2019	2/2020	1H 20/21
Operating costs	-12.4	-5.0	-2.0	Book value per share	0.97	0.92	0.90
Interest income/other	0.8	0.5	0.0	EPS	-0.14	-0.05	-0.04
Net result	-11.6	-4.4	-2.0	No of shares (mn)	82.6	83.3	83.3

Cash flow (CAD mn)	2/2019	2/2020	1H 20/21	Balance sheet (CAD mn)	2/2019	2/2020	1H 20/21
Operating cash flow	-5.2	-4.4	-1.9	Cash	38.1	21.8	13.0
Investing cash flow	-23.8	-12.8	-6.9	Other assets	40.8	49.0	55.6
Financing cash flow	30.9	0.9	0.0	Liabilities	2.7	0.7	0.4
Total cash flow	1.9	-16.3	-8.8	Equity	80.2	76.8	74.8

Source: Company, Raiffeisen Centrobank estimates; Past performance is not a reliable indicator for future results.

Company profile & market outlook in brief

Millennial Lithium is a Canadian listed mining sector company focused on developing the Pastos Grandes project in the Salta province of Argentina. The company's vision is to develop a brine-based lithium asset and launch low-cost production in one of the most attractive lithium mining areas worldwide.

Two mining projects – Pastos Grandes and Cauchari East

The company owns two mining projects strategically located in the Argentinian portion of the "Lithium Triangle" covering over 23k hectares. Pastos Grandes, the company's flagship project, covers 12.6k hectares of the Pastos Grandes Salar. The property is 388 km straight-line distant east-south-east of Antofagasta/Chile, the closest seaport and a gateway for product sales to Chinese battery producers. The second Cauchari East project covers over 11k hectares in the Cauchari Salar contiguous with Lithium America's Cauchari project and Orocobre's Olaroz mine.

Timeline of major events and financing since the year 2016

Below is the timeline of major events in the company's history:

- 2016.06 – name changed from Redhill Resources Corp. to **Millennial Lithium Corp.**, ticker changed to **ML on the TSX Venture Exchange**
- 2016.09 – closing of the financing (CAD 4.9 mn) and **Pastos Grandes Project acquisition**
- 2016.11 – **drilling commenced** at Pastos Grandes
- 2017.08 – **acquired 2.5k hectares of claims in Pastos Grandes for USD 7.5 mn**
- 2017.09 – raised **financing of CAD 11.5 mn** at CAD 1.25 per unit
- 2017.11 – completed **CAD 30 mn strategic investment with Golden Concord Group Limited (GCL)**, one of the largest integrated energy services providers in China specialising in clear energy and new energy. 12 mn shares were issued at CAD 2.50 per share.
- 2018.03 – **bought deal financing raised CAD 24.15 mn** at a price of CAD 3.50 per unit and **private placement to companies from GCL group of CAD 7.7 mn** at CAD 3.50 per unit
- 2018.04 – Millennial Lithium shares **qualified to trade on the OTCQX Best Market** in the US
- 2019.01 – test work **produces battery-grade lithium carbonate** from Pastos Grandes
- 2019.03 – **inauguration of an on-site permanent Project Centre**, including a 60-100 person camp, an on-site laboratory and a process pilot plant under construction
- 2019.06 – **submitted Environmental Impact Assessment (EIA)** to mining authorities of Salta Province for construction and operations of Pastos Grandes project
- 2019.07 – announced **positive Feasibility Study results** for the Pastos Grandes project
- 2019.10 – granting of **Federal Fiscal Stability Certificate** from the government of Argentina
- 2020.01 – granted four of the five **mining licences** on REMSA properties in Pastos Grandes
- 2020.07 – received approval for the Environmental Impact Assessment of the Pastos Grandes project
- 2020.10 – commissioning of the lithium carbonate pilot plant of the Pastos Grandes project

Mine life of 40 years with a 6-year ramp-up period to 24k tons per year

Pastos Grandes project

Pastos Grandes is one of the most advanced lithium projects in Argentina with an estimated production life of 40 years (starting in 2023) and a targeted annual production of up to 24kt of battery-grade lithium carbonate. The project has measured and indicated resources of 4.1 mn tons, while probable and proven reserves amount to 943kt of lithium carbonate equivalent. The project has a capex budget of USD 448 mn (in constant USD of 2Q 19), which is assumed to be spent in years 1 to 4 (2020-23), according to the feasibility study. The project is scheduled to operate at two different production rates. In the first stage, once production ramp-up has been accomplished, output should amount to 21kt of battery-grade lithium carbonate Li_2CO_3 per annum. After additional evaporation ponds are installed, production increases to 24kt of battery-grade Li_2CO_3 per annum. Assuming that sales are directed to Chinese producers they will be shipped via Antofagasta port in Chile (transport costs of USD 153/t).

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Production plan based on feasibility study (in tons per year)

	Stage 1 2023	Stage 1 2024	Stage 1 2025-2029	Stage 2 2030-2063	Total production
Li ₂ CO ₃ production - Battery grade	-	5,000	21,000	24,000	926,000
Li ₂ CO ₃ production - Technical grade	5,000	11,000	-	-	16,000
Li₂CO₃ production - Total	5,000	16,000	21,000	24,000	942,000

Source: Millennial Lithium

Positive cash flow expected starting from year 5 (2024)

The feasibility study of the Pastos Grandes project included cash flow estimates based on an LCE price of USD 13,000/t (above the current market price). It assumed negative cash flow in years 1-4 (2020-23), followed by positive cash flow starting from year 5 (2024). The project would be subject to a royalty tax of almost 2.5% of revenues and income tax of 34.75% (later the company secured more favourable terms in its Fiscal Stability Certificate). Cumulated after-tax cash flow was expected to turn positive already in the seventh year of operations (2026).

Key findings of the feasibility study

- NPV(8) after tax of the project of USD 1,030 mn for approx. 24,000 tons per year of battery-grade lithium carbonate production
- IRR after tax of 24.2%
- Initial CAPEX of USD 448 mn, deferred capex of USD 66 mn
- OPEX estimate of USD 3,388/tonne of LCE over the main mining stage
- Based on proven technology – brine extraction, solar evaporation and conventional lithium brine processing
- Mine life of 40 years with a 6-year ramp-up period to 24,000 tons per year

More details on the Pastos Grandes project can be found in our Spotlight Research published on April 2, 2020.

Market outlook

Demand for lithium expected to grow exponentially

The growing number of electric vehicles is regarded as the main driver behind long-term lithium demand. With approximately 70 kg of lithium carbonate equivalent needed to produce one car battery (the original 70 kWh Tesla Model S battery had 63 kg of lithium carbonate), demand for lithium is seen quadrupling over the next five years. IHS Markit estimated that the annual consumption of batteries could increase at a CAGR of 30% over 2020-2025e, while according to energy consultancy Wood Mackenzie, some USD 50 bn would have to be invested in lithium production over the next 15 years to meet battery demand if the world is to reach the targets of the Paris Climate Accord.

Price of lithium carbonate was pressured by new supply

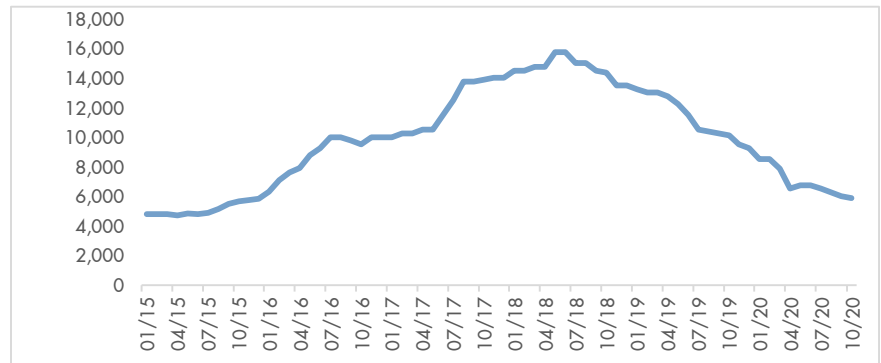
The prices of lithium carbonate equivalent started to grow in 2015 in anticipation of increased demand from lithium batteries producers for electric vehicles. It later fell as a result of new supply mainly from lithium producers based in Australia. We reckon that the Covid-19 pandemic could have also weighed on the global demand due to delayed launches of new electric car models (i.e. VW's ID.3) or slower production ramp-ups of existing models. However, we believe that in the medium to long term, the price of lithium should strongly benefit from a continuous electrification of the global car fleet.

Supply expectations have been revised downwards, demand forecasts upgraded

Demand estimates vary significantly due to the dynamic nature of the electric vehicles market. Albemarle Group forecasts were being revised upwards in the years 2015-2019 with the higher end of the forecast range even exceeding 1,000kt LCE in 2025. At the same time, supply expectations were revised downwards owing to delays. In 2012 expected supply for delivery in 2016 amounted to approx. 400kt LCE annually, while in 2016 actual supply reached only about 200kt LCE per annum. There has been a similar situation in 2020. While earlier supply expectations amounted to over 650kt, the actual supply forecast, as estimated by Orocobre Group at the beginning of 2020, amounts to less than 350kt this year.

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Price of lithium carbonate (LCE) in USD/t



Source: Bloomberg

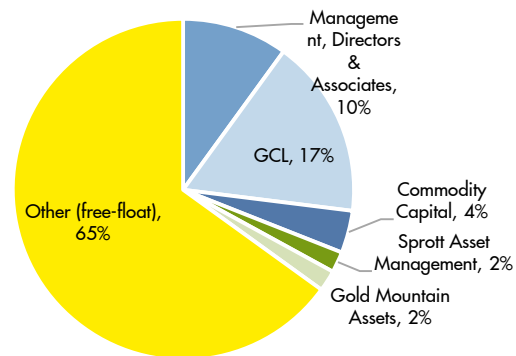
Corporate governance

Millennial Lithium is listed on the TSX Venture Exchange (Canada), OTCQB (USA) and Frankfurt Stock Exchange (Germany) and has a well-diversified investor base. Its managers, directors and associates own 10% of the shares, whereas the largest shareholder GCL group holds a 17% stake.

The largest shareholder - GCL group

The China-based group GCL is one of the world's largest manufacturers of high-quality photovoltaic materials. It is an integrated energy group specialising in green, efficient and new energy. GCL owns a stake of 17% in Millennial Lithium via its subsidiary Million Surge Holdings Limited and associated entities.

Shareholder structure



Source: Millennial Lithium

Shares, warrants and options

The number of shares issued and outstanding amounts to 83.3 mn. There are also about 6.8 mn PP warrants and 8.0 mn stock options with exercise prices ranging from CAD 1.45 to CAD 2.95 and with expiration dates in the years 2021-2023. The total number of shares, fully diluted, amounts to 100.1 mn.

Management – high-calibre successful players in the industry

The management team is headed by Farhad Abasov, who joined the company in 2017. Mr. Abasov founded and managed several mining projects with successful exits. He was the CEO of Allana Potash that was sold to Israel Chemicals for USD 170 mn (2015), co-founder of Potash One that was acquired by German K+S for USD 430 mn (2010) and has experience as an Executive Chairman of Rodinia Lithium that developed lithium brine projects in Argentina (2016). The Chief Operating Officer Iain Scarr gathered almost 30 years of industry experience at Rio Tinto and later led feasibility studies on lithium brine projects in Argentina.

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The CFO Max Missiuk has experience in a number of publicly listed resource and venture companies including Allana Potash Corp. Peter J. MacLean is SVP responsible for Technical Services. Dr. MacLean has over 30 years of exploration and development experience in North America, South America and Africa. Peter Ehren, Process Consultant, has been involved in lithium brines for more than 20 years, including projects for SQM and Orocobre in South America. Dr. Vijay Mehta, Advisory Board member, has 45 years of R&D experience and contributes expert insights on lithium processing technologies.

Sustainability

The company has an active CSR programme with the village of Pastos Grandes including construction of a community centre and a fresh water well to provide clean water for local consumption. The on-site camp at Pastos Grandes is powered by a state-of-the-art hybrid solar power system that should reduce CO₂ output and maximise the renewable energy saturation of the company's commercial operations.

SWOT Analysis

Strengths/Opportunities

- Developing one of the most advanced lithium projects in the world with approved Environmental Impact Assessment, Fiscal Stability Certificate and commissioned lithium carbonate pilot plant
- Cash of CAD 13 mn secures continuation of development activity
- Low cost of lithium extraction with cash cost of USD 3.4k per tonne
- Pastos Grandes project has some of the best infrastructures in the Lithium Triangle
- Salta province rated as a top mining jurisdiction in Argentina by the Fraser Institute
- Global lithium demand expected to increase several times over the next five years
- Management, directors and associates own 10% of the shares
- Problems of global players with their lithium projects in Chile and uncertain outlook regarding the strategy of the Bolivian government improve the position of mining companies active in Argentina

Weaknesses/Threats

- Most of the company value is related to a single mining project
- Political risk in Argentina – although currently the mining sector operates in a stable environment
- Market risk in the long run: new technologies to store energy could be developed and gain popularity
- The company may face technical problems specific to location. However, as it is not the first investor to launch a project in Argentina it may learn from mistakes of its predecessors
- New financing needed before construction works begin in the Pastos Grandes project
- Risk of global recession may trigger delays in further financing. However, the company is prepared thanks to its high net cash position, contrary to some other projects in South America
- Demand for lithium hydroxide may grow quicker than for lithium carbonate, which requires an additional conversion step for brine-based production

Recent news-flow

Approval for the Environmental Impact Assessment

At the end of June 2020, Millennial Lithium received approval for the Environmental Impact Assessment (EIA) for the construction and operation of its Pastos Grandes project from the Environmental Mining Authorities in the Salta province, Argentina. This marks the main environmental approval that is required for the construction and operations of the project and is a landmark decision for the planned lithium extraction, which is scheduled to start in 2023.

Commissioning of the lithium carbonate pilot plant of the Pastos Grandes project

At the end of October 2020, Millennial Lithium announced that the commissioning of its lithium carbonate pilot plant at its flagship Pastos Grandes Project was underway. The pilot plant is a full flowsheet design for producing up to 3 tons per month (tpm) of battery-grade lithium carbonate. Pilot ponds, filled with brine pumped from the central part of the project and in operation since late 2018, are at the required concentration to provide lithium-rich brine concentrate to the pilot plant. The company's President and CEO said that despite the Covid-19 restrictions and minor delays, the Millennial team has advanced the lithium concentration ponds and the pilot plant to the production stage. The first output of battery-grade lithium carbonate is planned for 4Q 2020 marking another significant milestone for the company. Millennial remains well funded and continues its financing efforts to advance the development of the Pastos Grandes project.

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Financials

The company is focused on the development phase of two projects in Argentina and is not yet generating revenues. Nevertheless, Millennial Lithium is well-funded to continue expansion works before it obtains financing for the construction phase.

<i>Income Statement (in CAD mn)</i>	<i>2/2018</i>	<i>2/2019</i>	<i>2/2020</i>	<i>1H 20/21</i>
Advertising and related costs	-2.1	-1.1	-0.3	-0.1
Consulting fees	-1.4	-0.9	-0.5	-0.2
Investor relations	-0.0	-0.1	-0.8	-0.2
Management and director fees	-2.1	-2.0	-1.5	-1.0
Office and rent	-0.5	-0.5	-0.3	-0.1
Professional fees	-1.3	-0.7	-0.6	-0.2
Share-based compensation	-12.6	-6.1	0.0	-0.0
Travel and related	-0.6	-0.6	-0.5	-0.0
Other	-1.2	-0.3	-0.5	-0.2
Total costs	-21.8	-12.4	-5.0	-2.0
Interest income	0.0	0.8	0.5	0.0
Other	-0.2	0.0	0.0	0.0
Total loss for the period	-22.0	-11.6	-4.5	-2.0

<i>Balance Sheet (in CAD mn)</i>	<i>2/2018</i>	<i>2/2019</i>	<i>2/2020</i>	<i>1H 20/21</i>
Non-current assets	18.3	44.1	55.9	62.4
Property plant and equipment	0.0	3.3	6.4	6.4
Exploration and evaluation assets	18.3	40.8	49.0	55.6
Other assets	0.0	0.0	0.5	0.4
Current assets	37.5	38.8	22.0	13.1
Cash	36.2	38.1	21.8	13.0
Restricted cash	0.4	0.4	0.0	0.0
Other current assets	1.0	0.2	0.2	0.1
Total assets	55.9	82.8	77.9	75.5
Shareholders' equity	54.7	80.2	75.7	75.1
Share capital	123.0	152.1	153.1	155.1
Reserves	15.3	23.2	22.1	21.1
Deficit	-83.7	-95.2	-99.4	-101.0
Non-current liabilities	0.0	0.0	1.1	0.0
Current liabilities	1.2	2.7	1.1	0.3
Total liabilities & shareholders' equity	55.9	82.8	77.9	75.5

<i>Cash Flow Statement (in CAD mn)</i>	<i>2/2018</i>	<i>2/2019</i>	<i>2/2020</i>	<i>1H 20/21</i>
Cash flow from operating activities	-8.5	-5.2	-4.4	-2.0
Cash flow from investing	-13.2	-23.8	-12.8	-6.8
Cash flow from financing	54.7	30.9	0.9	0.0
Total cash flow	33.1	1.9	-16.3	-8.9

Source: Millennial Lithium, Raiffeisen Centrobank

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Raiffeisen Centrobank AG, 1010 Vienna, Tegetthoffstrasse 1, Austria

T: +431 51520 0, F: +431 5134396, E: office(at)rcb.at

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Raiffeisen Centrobank AG - Your contacts A-1015 Vienna, Tegetthoffstrasse 1, Internet: <http://www.rcb.at>

Global Equity Sales

Tel.:+43/1515 20-0

Klaus della Torre (Global Head)

dellatorre@rcb.at

Equity Sales

Klaus della Torre (Head)

dellatorre@rcb.at

Michal Dabrowski

michal.dabrowski1@raiffeisen.pl

Reinhard Haushofer

haushofer@rcb.at

Simon Huber

simon.huber@rcb.at

Sebastien Leon

leon@rcb.at

Tomislav Pasalic

pasalic@rcb.at

Tomasz Sachajko

tomasz.sachajko@raiffeisen.pl

Electronic Sales Trading

Günter Englhart (Head)

ext. englhart@rcb.at
472

Tanja Braunsberger
braunsberger@rcb.at

ext. Adrian Ene
472 ene@rcb.at

Wojciech Kolacz
ext. 436 kolacz@rcb.at

Cedric Monnier
ext. 477 monnier@rcb.at

Oliver Schuster
ext. 494 schuster@rcb.at

Theodor Till
ext. 437 till@rcb.at

Christof Wallner
ext. 435 wallner@rcb.at

ext. 436

ext. 268

Company Research AT

Austria

Bernd Maurer (Head)

maurer@rcb.at

ext. 464

Oleg Galbur
galbur@rcb.at

ext. 463

Jakub Krawczyk
krawczyk@rcb.at

ext. 436

Markus Remis
remis@rcb.at

ext. 466

Teresa Schinwald
schinwald@rcb.at

ext. 458

Jovan Sikimic
sikimic@rcb.at

ext. 498

Oliver Simkovic
simkovic@rcb.at

ext. 457

Tel.:+43/1515 20-0

ext. 706

Silvija Kranjec
silvija.kranjec@rba.hr

ext. 714

Ana Turudic
ana.turudic@rba.hr

ext. 711

Romania Tel.:+40/21306-0
Andreea Cristina Ciubotaru ext. 1239
andreea-cristina.ciubotaru@raiffeisen.ro

ext. 718

Russia Tel.:+7/495 221
Sergey Libin ext. 9838
sergey.libin@raiffeisen.ru

ext. 709

Egor Makeev ext. 9851
ext. 713 egor.makeev@raiffeisen.ru

Andrey Polischuk ext. 9849
ext. 726 andrey.polischuk@raiffeisen.ru

Mikhail Solodov ext. 9852
mikhail.solodov@raiffeisen.ru

Sergey Garamita ext. 9842
sergey.garamita@raiffeisen.ru

US Equity Sales

Tel.:+1/212-600-2588

Stefan Gabriele (Head)

stefan.gabriele@rbimusa.com

Stefan Niton

stefan.niton@rbimusa.com

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