

NEMASKA LITHIUM INC.

Project Update – Progress Slowed as Financing & Engineering Take Precedence

EVENT

Nemaska Lithium provided a project update for its 100%-owned Whabouchi Lithium Project in Quebec, Canada. The Company continues to pursue financing options to cover the \$375M shortfall announced in February. Construction at the Whabouchi Mine is continuing but at a slower pace with more flexibility to conserve cash. Detailed engineering continues on the Shawinigan chemical plant but construction will be put on hold to resume once additional financing is completed. A solution and revised timeline is expected in mid-May.

BOTTOM LINE

Negative – With no financing solution expected until May and development on both the Whabouchi Mine and Shawinigan process plant slowing, we have pushed out production start-up by two quarters and continue to assume a 100% equity solution at current market prices. As a result, our target price drops to \$0.60/shr from \$0.80/shr previously. Given the strong and growing demand for lithium hydroxide as a choice feedstock for new EV battery technology and the lack of new, permitted projects, we continue to expect Nemaska will successfully bridge the financing gap. Our BUY rating remains unchanged.

FOCUS POINTS

- **Additional Financing Needed:** In 2018 Nemaska completed project financing of \$1.1B in the form of debt, equity and streaming agreements but needs an additional ~\$375M to reach commercial production.
- **Whabouchi Project Development Slowing:** Construction at the Whabouchi Mine is continuing but at a slower pace with more flexibility to conserve cash. Detailed engineering continues on the Shawinigan chemical plant but construction will be put on hold to resume once additional financing is completed. A financing solution update and revised timeline is expected in mid-May.
- **Large Reserves:** The Whabouchi deposit has reserves of 36.7Mt grading 1.4% Li₂O; enough for an initial 33-years of mine life producing 215,000 tpa of 6.25% Li₂O concentrate. The encompassing 53.7Mt resource (MI&I) remains open allowing for future expansions and/or longer mine life.

Recommendation:

BUY

Symbol/Exchange: NMX-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: \$0.34
One-year target: \$0.60↓
Target return: 76%
52-week Range: \$0.27 - \$1.74

Financial Summary

Market Cap (\$M)	287.7
Cash & Equivalents (\$M)	371.2
Debt (\$M)	546.2
Basic Shares O/S (M)	846.1
Fully Diluted Shares O/S (M)	909.9
Avg. Weekly Volume (k)	2,119

	2018E	2019E	2020E	2021E
Sales				
Spod con (kt)	-	-	50,000	75,000
Li-OH (t)	-	-	-	5,803
Li ₂ CO ₃ (t)	-	-	-	2,872
Li-OH Cost (\$/t)	-	-	-	13,150
Li ₂ CO ₃ Cost (\$/t)	-	-	-	15,604
EPS	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.02)
CFPS	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.00)
Free CFPS	\$ (0.19)	\$ (0.14)	\$ (0.46)	\$ (0.06)



Company Profile: Nemaska Lithium Inc. is focused on building its 100% owned Whabouchi lithium project located in Quebec, Canada. The project is fully financed with first production expected by the end of 2019. At full production it should produce 23,000 tonnes of lithium hydroxide and 11,500 tonnes of lithium carbonate annually to supply the rapidly growing in lithium ion battery market.

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See disclosure and a description of our recommendation structure at the end of this report.

PROJECT UPDATE

Cost to Complete Assessment: Recall that in February, 2019 Nemaska Lithium reported that in advance of accessing the second stream drawdown (US\$75M) and proceeds from bond issue (US\$350M), a cost to complete reassessment was performed on its Whabouchi Lithium Project. The reassessment concluded that an additional \$375M would be required to complete construction and meet the drawdown conditions provided in the streaming agreement with Orion Mine Finance and the senior secured bonds that closed on April 12, 2018 and May 30, 2018 respectively. The \$375M reassessment came in above the \$1.1B of project financing (debt, equity and streaming) finalized in 2018.

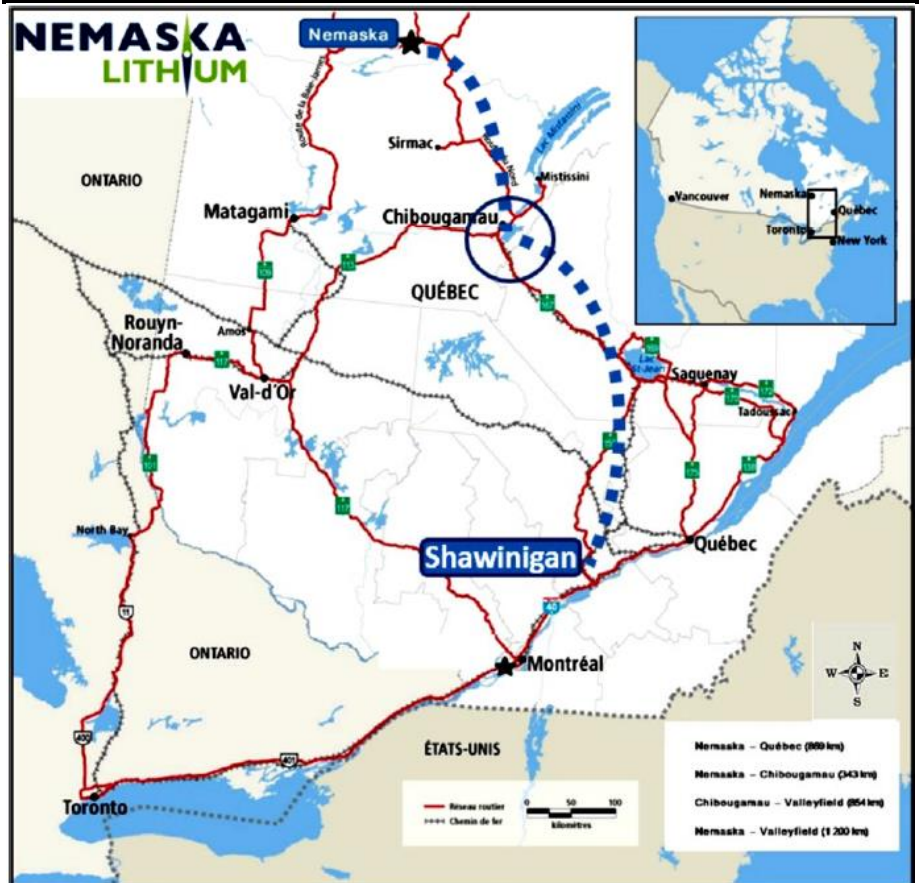
Financing Plan Still TBD: Nemaska has mandated Clarksons Platou Securities and National Bank Financial to lead “a dual-track financing action plan” investigating both a potential equity raise and M&A opportunities to carry the project through the production stage. This initiative is part of the review of strategic alternatives available to Nemaska which is currently underway with the assistance of the Special Committee comprised of independent members of the Board of Directors. As of December 31, 2018, a total of \$138.4M has been incurred for the Whabouchi mine, along with \$67.3M for the Shawinigan electrochemical plant. The company currently has \$275M of unrestricted cash and equivalents on hand and can continue to on a more conservative construction schedule but will need to close the funding gap over the next few months to remain inside of bond covenants.



Timeline Slipping: Today, Nemaska noted that it will be optimizing the use of its cash on hand. As such, mine construction will continue but at a slower rate and for the Shawinigan plant, detailed engineering will continue as planned but construction will be put on hold and resume once the additional financing is completed. Increasing the level of detailed engineering should contribute to reducing construction and commissioning risks for the commercial plant, in addition to bringing more certainty in the bidding process. Additionally, management changes include Robert Beaulieu, Vice-President, Operations, who is taking the helm of construction activities for both the Whabouchi mine and the Shawinigan electrochemical plant. He will be supported by Ronald Bougie, who is joining Nemaska Lithium as Vice President, Engineering and Construction.

WHABOUCHI LITHIUM PROJECT OVERVIEW

The scope of Nemaska’s 100%-owned Whabouchi Lithium Project located in Quebec, Canada remains unchanged. The Whabouchi lithium-pegmatite deposit will be mined to produce a 6.25% spodumene concentrate and shipped by truck about 300 km to the town of Chibougamau where it will be transferred to rail for a further 555 km journey to its electrochemical plant at Shawinigan (Exhibit 1). At Shawinigan, Nemaska will use its patented process to produce ~23ktpa of lithium hydroxide (LiOH-H₂O) and ~11.5ktpa of lithium carbonate (Li₂CO₃) annually.

Exhibit 1: Nemaska Lithium Logistics Map

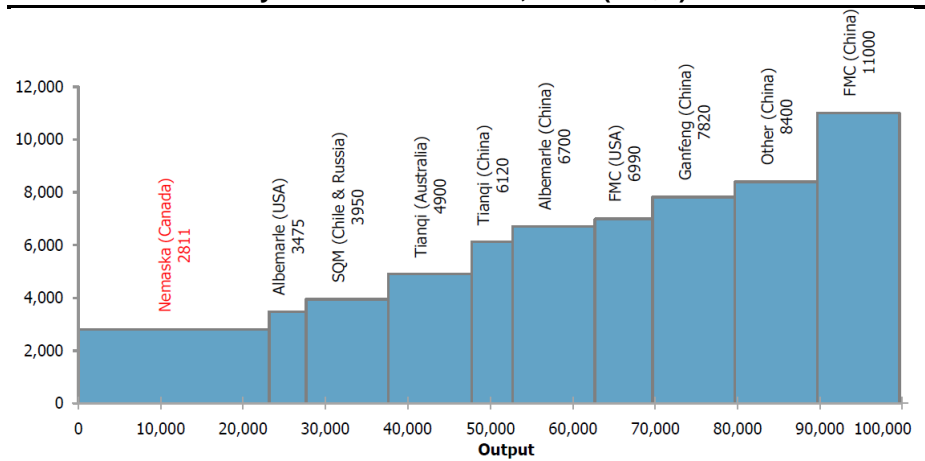


Whabouchi	Chibougamau	Shawinigan	
~300 km from Whabouchi to Chibougamau		~555 km from Chibougamau to Shawinigan	
<p>Concentrator</p>  <ul style="list-style-type: none"> Producing 6.25% (Li₂O) spodumene concentrate from the mine and processing plant at mine site in Nemaska. Mine is in close proximity to road connecting to Chibougamau. 	<p>Truck</p>  <ul style="list-style-type: none"> About 600 tonnes of concentrate will be transported ~300 km daily from Whabouchi to Chibougamau by truck on the all season gravel road, Route du Nord. Concentrate is loaded onto the rail cars at Chibougamau. 	<p>Train</p>  <ul style="list-style-type: none"> It is expected that deliveries with up to 18-100 tonnes per railcar will be shipped every two to three days to the plant in Shawinigan about 555km on the CN railway. 	<p>Plant</p>  <ul style="list-style-type: none"> Lithium carbonate and hydroxide to be sold FCA Shawinigan and can be shipped by rail, road or sea.

Source: Nemaska Lithium

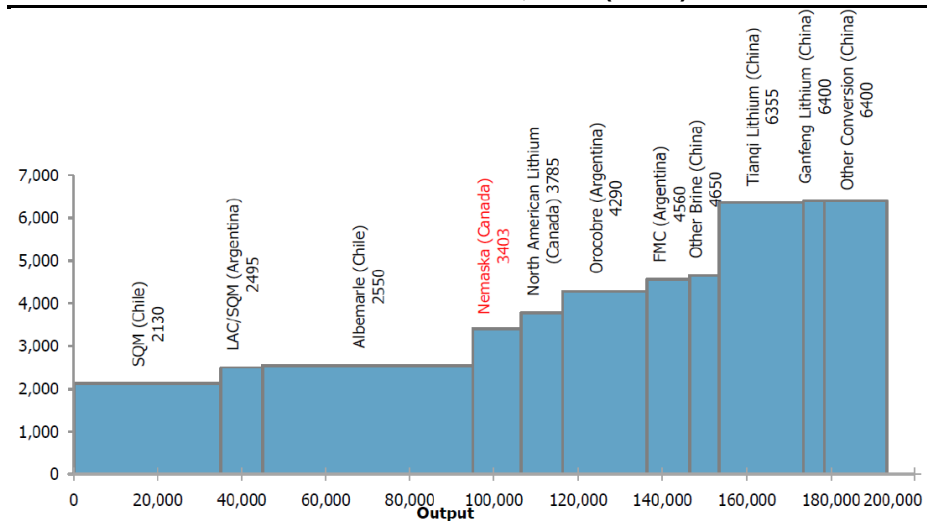
Nemaska has proven its patented process to produce lithium hydroxide and lithium carbonate directly from spodumene at its demonstration plant and secured off-take agreements for ~90% of production. The plant is designed to vary the production of lithium hydroxide from 50 to 100 % of the total Li units produced and of lithium carbonate powder from 0 to 50 % of the total Li units produced. This flexibility will allow Nemaska to better meet the demands of various customers that have a preference for lithium carbonate or lithium hydroxide in manufacturing lithium ion batteries. Nemaska’s process is cleaner and cheaper than other producers largely benefitting from its low cost concentrate from Whabouchi and access to low-cost electricity at Shawinigan. Based on the feasibility study, Nemaska will be at the low-cost end of the lithium hydroxide cost curve at US\$2,811/tonne and mid-range on the lithium carbonate cost curve at US\$3,403/tonne (Exhibits 2 and 3).

Exhibit 2. Lithium Hydroxide Cost Curve, 2021 (US\$/t)



Source: Nemaska Lithium, Roskill, 2018

Exhibit 3. Lithium Carbonate Cost Curve, 2021 (US\$/t)



Source: Nemaska Lithium, Roskill, 2018

VALUATION AND TARGET

While Nemaska is exploring several sources of additional capital to cover the \$375M increase, we have factored in a 100% equity issue at \$0.35/share to be conservative. With today's announcement of a slowing development schedule we have pushed out first production by six months. Based on our valuation approach using both DCF NAV^{8%} and 2022e EV/EBITDA (previously 2021e), evenly weighted, we arrive at our blended 12-month target price of \$0.60/shr (previously \$0.80/shr).

Exhibit 4: Target Price Summary for Nemaska Lithium

Blended Target	Weight	C\$/Sh
NAV	50%	\$0.25
EV/EBITDA	50%	\$0.38
12M Target Price (Rounded)		\$0.60

Source: Cantor Fitzgerald, Factset, Company Reports

CONCLUSION

With no financing solution expected until May and development on both the Whabouchi Mine and Shawinigan process plant slowing, we have pushed out production start-up by two quarters and continue to assume a 100% equity solution at current market prices. As a result, our target price drops to \$0.60/shr from \$0.80/shr previously. Given the strong and growing demand for lithium hydroxide as a choice feedstock for new EV battery technology and the lack of new, permitted projects, we continue to expect Nemaska will successfully bridge the financing gap. However, the ultimate capital structure and impact to the construction timeline is uncertain. Our BUY rating remains unchanged.

SUMMARY

Nemaska Lithium - Summary Sheet					
Rating	BUY	Basic Shares (MM)	846.1	Cantor Fitzgerald	
Target Price	\$0.60	Diluted Shares (ITM / FD) (MM)	909.9	Matthew O'Keefe	
Share Price	\$0.35	Basic Mkt Cap (C\$MM)	296.1	416-849-5004	
Potential Return	71%	Enterprise Value (C\$MM)	471.1	matthew.o.keefe@cantor.com	

BALANCE SHEET					
C\$MM, Jun30.YE	2018A	2019E	2020E	2021E	2022E
Assets					
Cash	371.2	776.9	300.8	186.4	376.9
Other Current Assets	12.6	8.6	8.6	8.6	8.6
Current Assets	383.8	785.5	309.3	194.9	385.4
Non-current Assets	264.5	1,010.7	1,520.0	1,588.7	1,556.5
Total Assets	648.4	1,796.2	1,829.3	1,783.6	1,941.9
Liabilities					
Current Liabilities	19.7	46.4	46.4	46.4	46.4
Long Term Debt	-	577.5	676.2	676.2	676.2
Other Liabilities	28.7	235.9	235.9	235.9	235.9
Total Liabilities	48.4	859.8	958.5	958.5	958.5
Shareholder Equity	600	936	870	825	983

INCOME STATEMENT					
C\$MM, Jun30.YE	2018A	2019E	2020E	2021E	2022E
Total Revenue	-	-	49.5	219.6	527.2
Operating Costs	-	-	51.3	161.4	177.2
G&A	16.3	15.8	7.5	10.0	10.0
Exploration	-	-	-	-	-
Other	(32.5)	(31.6)	(102.3)	(307.5)	(338.9)
EBITDA	(16.3)	(15.8)	5.9	83.5	375.5
Depreciation	-	-	15.2	40.3	40.5
Unusual/Other Items	-	-	30.4	80.5	81.0
EBIT	(16.3)	(15.8)	(9.3)	43.2	335.0
Interest Expense	-	27.1	54.2	54.2	54.2
EBT	(15.3)	(39.3)	(63.5)	(11.0)	280.8
Taxes	-	-	-	34.7	122.5
Other	3.3	(4.6)	-	-	-
Net Income (Reported)	(12.1)	(43.9)	(63.5)	(45.7)	158.3
Net Income (Adjusted)	(12.1)	(43.9)	(63.5)	(45.7)	158.3
EPS (Adjusted) (\$/sh)	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ 0.08
Average shares (MM)	428.2	1,918.3	1,918.3	1,918.3	1,918.3

CASH FLOW STATEMENT					
C\$MM, Jun30.YE	2018A	2019E	2020E	2021E	2022E
Cash Flow from Operations					
Net Income	(12)	(44)	(63)	(45.7)	158.3
Non-Cash Items	6.5	2.7	15.2	40.3	40.5
WC changes	2.4	(3.8)	-	-	-
Total CF Operations	(6.4)	(41.0)	(48.3)	(5.4)	198.8
CF Operations(\$/sh)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.00)	\$ 0.10
Cash Flow from Investing					
Capital Expenditures	(74.5)	(223.7)	(827.2)	(111.5)	(8.3)
Other Investments	(54.8)	(256.9)	302.8	-	-
Total CF Investing	(129.3)	(480.6)	(524.4)	(111.5)	(8.3)
Cash Flow from Financing					
Debt Financing	-	454.3	-	-	-
Equity Financing	469.6	375.1	-	-	-
Options & Warrants	(12.1)	-	-	-	-
Financing Costs	(17.3)	93.0	98.7	-	-
Total CF Financing	440.3	922.4	98.7	-	-
Change In Cash	304.6	406.1	(474.0)	(116.9)	190.5
Free Cash Flow	(80.8)	(264.7)	(875.5)	(116.9)	190.5

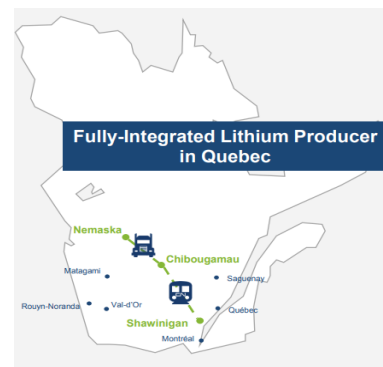
VALUATION DATA					
	2018A	2019E	2020E	2021E	2022E
P/E	NM	NM	NM	NM	4.2x
P/CF	NM	NM	NM	NM	3.4x
P/NAV	0.70x				
EV/EBITDA	NM	NM	79.9x	5.6x	1.3x
FCF Yield	NM	NM	NM	-39%	64%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Consensus data - Factset, Historical Data - Company Filings, Forecasts/estimates - Cantor Fitzgerald Canada

RESOURCE BREAKDOWN					
Project	Category	Tonnes Mt	Grade %	Li Metal 000t	LCE 000t
Whabouchi	P&P	36.7	1.40	513	1,268
	M&I	37.6	1.48	558	1,379
	Inferred	16.1	1.38	222	549

OPERATING STATISTICS						
		2018A	2019E	2020E	2021E	2022E
Sales						
Spodumene con (6.5%)	(t)	-	-	50,000	75,000	-
Lithium hydroxide	(t)	-	-	-	5,803	23,210
Lithium carbonate	(t)	-	-	-	2,872	11,488
Costs						
Lithium hydroxide	(\$/t)	-	-	-	13,150	3,711
Lithium carbonate	(\$/t)	-	-	-	15,604	4,403
LCE Prod. (Mt)	(t)	-	-	7,728	19,570	31,913
Cash costs	LCE (US\$/t)	-	-	3,548	4,703	3,256

KEY PROJECT SUMMARY (Cantor Model)		
Whabouchi Project - Whabouchi Mine and Shawinigan Electrochemical Plant		
Resource		
Category	P&P	
Reserves (Mt)	36.7	
Li content % Li	1.40	
Operation		
First Production	2020	
LOM (yrs)	33	
Li2O con (t/yr)	215,000	
LiOH-H2O (t/yr)	23,210	
Li2CO3 (t/yr)	11,488	
LiOH-H2O Cost (\$/t)	3,778	
Li2CO3 Cost (\$/t)	4,484	
Capital		
Capex (\$M)	1,250	
Sustaining (\$M)	610	
Economics		
LT LCE Price (US\$/t)	10,000	
NPV8%	\$1,073	
NPV10%	\$698	
IRR	16.3%	



NET ASSET VALUE				Target Price Breakdown			
Asset	Valuation (NAV (\$M))	\$/Share	NAV Valuation	Per share	Multiple	Value	
Whabouchi-Shawinigan							
Mine & Plant	DCF8%	1,073	\$0.56	Minesite	\$0.56	1.0x	\$0.56
Other		-	\$0.00	Financial	-\$0.07	1.0x	-\$0.07
Total Mining Assets		1,073	\$0.56	Total	\$0.49		\$0.49
Pro-forma Cash		431	\$0.22	EV/EBITDA (2022e)	4.0x		\$0.76
Pro-forma Debt		(478)	-\$0.25	Target Weightings			
G&A		(91)	-\$0.05	NAV	50%		\$0.24
Net Financial Assets		(138)	-\$0.07	EV/EBITDA	50%		\$0.38
Total		\$935	\$0.49	TARGET PRICE			\$0.60

INPUT PRICES					
	2018E	2019E	2020E	2021E	2022E
Key Commodities					
Spod con. (6.5%)	800	800	800	800	800
LiOH-H2O	14,000	14,000	14,000	14,000	14,000
Li2CO3	18,000	9,500	9,500	9,500	9,500
Key Currencies					
CDN:USD	0.76	0.76	0.76	0.76	0.76

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