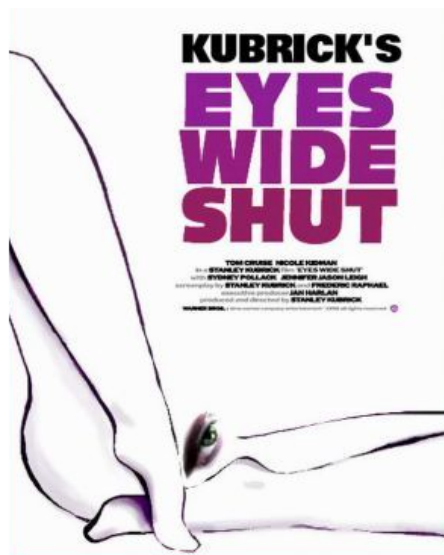


**Lithium Bull, July 17, 2017: Rock On, Hard Rock**

I've been thinking a lot lately about an Australian darling named **Kidman**. I know many have fantasized about digging deep into a lithium white body beneath a beautiful golden crown. And I understand that high strip ratios, in certain circumstances, can produce a big hit and make a lot of money.

Click here: <https://www.youtube.com/watch?v=fLZkl5R2Xpk>

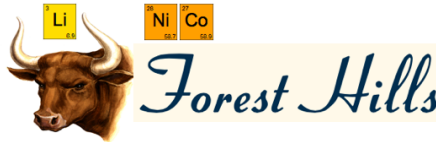


Say No to Wodgina DSO.

Say Yay to 40 K Shades of (refined) Earl Grey?!

**Hurt So Good**

Click Here: <https://www.youtube.com/watch?v=4dOsbsuhYGQ>



## Have We Seen This Movie Before?

**Eyes Wide Shut:** *"a person refuses to see something in plain view, because of preconceived notions of what this something should look like"*

I was overwhelmed with Déjà Vu when I saw big **SQM** and **Kidman Resources** JV headlines last week. A history repeat? Or history rhyme?

As a long-time advisor to **Lithium Americas**/Western Lithium over seven years through the SQM "Definitive Joint Venture" March 28<sup>th</sup> 2016, I had a close-up view of the day-to-day, play-by-play over the Halloween to pre-Easter four-month period that brought that deal to fruition.

**Takeaway:** SQM has very aggressive and persuasive charms. Unassuming CEO Patricio de Solminac -- chemical engineer and top of his University of Chicago MBA class, 20+ year SQM lifer who rose through the ranks -- is a Lithium Rock Star; leading, and supported by, a cohesive band of equal operating and negotiating talent who know the lithium business and their place within it. They are tough negotiators, but reliable partners with high integrity. They have a keen sense about politics - local and geopolitical. And, of course, are well practiced in Oligopolistic Incumbent Behavior.

I have only a distant connection to KDR – I've had a call with the CEO once and learned about his background through Google searching. Unlike many Aussie CEOs, KDR has not seemed to make the rounds much in North America or the conference circuit. But I speak to many shareholders, sell-side analysts and other senior lithium executives who have observed Kidman to varying degrees or are close to SQM. And I do a fair bit of my own tea-leave reading of ASX announcements and broker notes to form a view. I don't get much sense that those in Oz have much perspective of SQM or Chilean politics. At the very least, SQM's profile will now rise Down Under.

Astute Kidman fans, like Lithium Americas fans, understand that there is unlikely any better strategic operating partner than SQM, especially for lithium junior management teams that possess few operating skills themselves. Technical skills are far more important than money - though this would be SQM's first foray into hard rock. **Mineral Resources**, at this stage, has the most hard-rock knowhow. Over the past 15 months, however, despite all evidence to the contrary, LAC has experienced a big worry and market undervaluation on skepticism that: 1. SQM was using the investment purely for its negotiations at home with CORFO; 2. SQM would squeeze LAC on capex, gain more than 50% control; 3. SQM would "ice" or slow play the project.

KDR chatter on Hot Copper alongside "sell on the news" downside volume, reflects similar sentiment.



Perhaps out of my own ignorance, or being distant and out-of-the-know, or having watched LAC stock meander for so long, my inclination is one of caution -- "wait and see". Local politics are now an even more acute consideration for SQM having seen CORFO squeeze ALB's "excess profits" above \$10K LCE price, and as SQM is accelerating the depletion of their Atacama quota. A November general election is in just four short months with "The People's Lithium" a topic of political discourse.

Eyes Wide Shut? Or Eyes Wide Open? Time will tell.

### **Ain't that America - Never Too Early to Attract a Strategic?**

I attended a John Mellencamp concert in Forest Hills Stadium the night KDR put out their JV announcement and resumed trading after halt. Much as I tried to avoid a flurry of emails, texts and ticker symbol watching, it was not possible when using the same lithium-fueled device to take audio, video and selfies.

...Feeling nostalgic for a traditional Kodak Moment

*"Oh yeah, life goes on, long after thrill of living is gone."*



-- Jack & Diane

I have sometimes used KDR as a simple analogue as to what value can be created simply through delineating a high-quality resource in a proven lithium jurisdiction with low sovereign risk.



It is now clear that the lithium majors are watching EVERY project, no matter how early.

Some interesting data points in the below summary of my post on LinkedIn last week sharing the announcement that a long-time good friend of mine Keith Phillips has joined **Piedmont Lithium Project (WCP)** as CEO.

3,600 views, 20 likes and, helpfully, one comment.



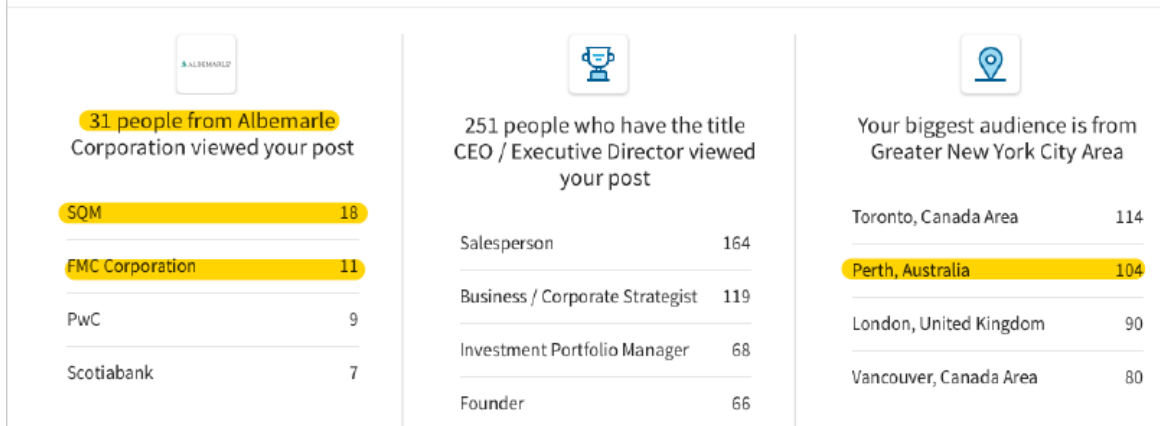
And look at the biggest viewers!

Flattering that 60 people at the old “Big 3,” two of which have their lithium headquarters a short taxi ride away.

And more than 100 already watching in Perth, Western Australia, the hard rock lithium capital of the world.

Keith Phillips, world class resource investment banker, appointed CEO of Piedmont Lithium (WCP), another important step forward in bringing lithium mining back to North Carolina! <https://lnkd.in/dTQWkJ2>

3,588 views 20 likes 1 comment

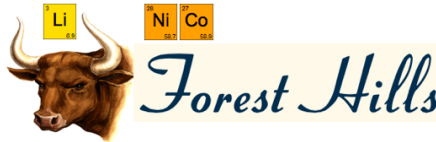


I’d be interested to hear an update from Luke Kissam and John Mitchell on **Albemarle’s** upcoming quarterly call August 8 about their drilling activity at King’s Mountain, North Carolina.

If rock concerts can come back to Forest Hills after shutting down in the 1980’s, why can’t lithium mining, in the North Carolina heart where the industry was created and operated for forty years?

*“Ain’t that America, for you and me, ain’t that America, something to see, baby,  
ain’t that America, home of the free, yeah  
lithium white houses for you and me.” – Pink Houses*

Click here: <https://www.youtube.com/watch?v=qOfkpu6749w>



## SQM & Lithium Americas and SQM & Kidman

At the time SQM and LAC shocked the lithium industry and equity market with news on March 28, 2016, their **Definitive Joint Venture** was fully baked, with both companies singing from the same, coordinated hymn sheet.

**Santiago, Chile. March 28, 2016.-** Sociedad Química y Minera de Chile S.A. ("**SQM**") (NYSE: SQM; Santiago Stock Exchange: SQM-B, SQM-A) is pleased to announce a **definitive agreement to enter into a 50/50 joint venture with Lithium Americas Corp. ("Lithium Americas" or "LAC")** (TSX: WLC; OTCQX: WLCDF) to develop the Caucharí-Olaroz lithium project in Argentina.

This joint venture went into effect following a capital contribution of US\$25 million by SQM in exchange for a 50% ownership stake in Minera Exar, a wholly owned subsidiary of LAC. This amount includes US\$15 million to cover intercompany loans between Minera Exar and LAC; the remaining US\$10 million will be allocated to project development. **SQM and LAC** intend to immediately advance a work and engineering plan, which contemplates completion of an **updated definitive feasibility** study based on an existing study for Caucharí that was completed by Minera Exar in 2012. The updated study will evaluate economic feasibility for a project with a nameplate production capacity of approximately **40,000 metric tons per year of lithium carbonate equivalent**. Depending on the results of the study, the project may be executed in stages.

The surprise SQM/KDR announcements, in contrast, are still cooking, reflected in the different and somewhat confusing language contained within them. I break down what I think I understand about the state of play of this deal below.

But looking first to the Oligopolist's signaling, SQM has told Mr. Market in the past 3 months that it will add 105,000 incremental tons of actual lithium carbonate (not simply lithium carbonate "equivalent") over the next 4-5 years – 300%+ production growth from 50K today to 155K/year by 2022:

1. Caucharí-Olaroz, Argentina – 50,000 tons: **2017 investment: \$100M- Construction Funding**
2. Salar de Atacama, Chile – 15,000 tons: **2017 investment: \$50M – Construction Funding**
3. Mt. Holland/Earl Grey, Australia – 40,000 tons: **2017 investment: \$21.5M – Advancing Studies**

Meanwhile, political signaling to CORFO that SQM has not just Chile and not just Argentina, but now also low-risk Australia – 3 geographic options in which to invest meaningful capital and create high quality jobs to expand lithium production and be a leader in solving the scourge of climate change.



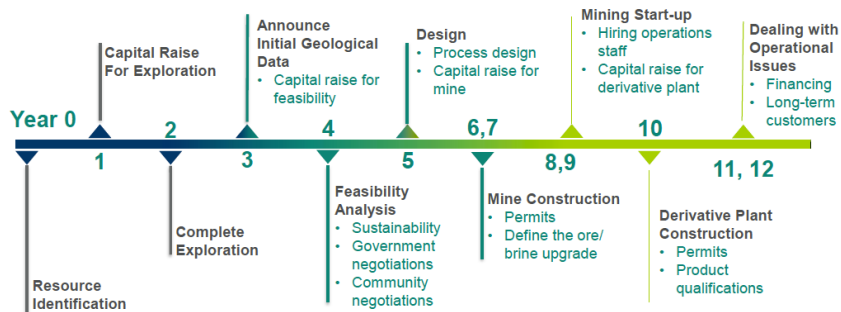
**Santiago, Chile, July 12, 2017** – Sociedad Química y Minera de Chile S.A. (“SQM” or the “Company”) (NYSE: SQM; Santiago Stock Exchange: SQM-A, SQM-B) is pleased to announce that following the recent announcement of the formation of a Joint Venture between SQM and Kidman Resources, **SQM will consolidate three complementary lithium production plants worldwide: the Salar de Atacama in Chile, the Salar de Caucharí in Argentina, and the Mount Holland Spodumene deposit in Australia.**

Mr. De Solminihac closed by saying, **“We are very enthusiastic about both the project and investing in Western Australia. There are plenty of examples of Australian mining companies investing in Chile; now a Chilean company is making a significant investment in the Australian market.”**



Albemarle would have us believe it takes 12 years to bring a project from discovery to production...

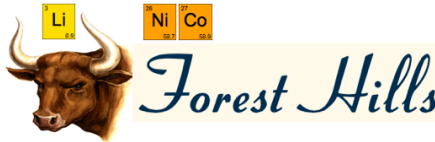
### It's Hard Work and Expensive to Bring on New Capacity



Including KDR's one-year drill program, SQM is now suggesting 40K tons of mined, concentrated and refined lithium carbonate can be done in five years, by 2021, with spodumene concentrate in only three years, by end 2019...

...if we are to believe SQM is genuinely interested in and has the bandwidth to commit significant financial and human resources into higher cost lithium mining and processing outside its core brine competence, 20 hours flight away from its more familiar and higher margin Chilean and Argentine existing operations and growth opportunities.





**Better Lucky than Smart**

Ten weeks ago I referenced Tom Petty's "The Waiting" to summarize slow capital allocation to fully fund Emerging Producers in lithium land.

Today, "You Got Lucky" springs to mind, as this Grandpa rocker – as my 8-year-old calls them -- heads to Forest Hills Stadium next week...

Click here: <https://www.youtube.com/watch?v=mtLpZWNyM0I>

The KDR narrative starts with a former stock broker, a bit down on his luck, looking for that archaic relic with no utility, and discovers instead white gold that can actually save the planet. At a defining moment in global lithium demand. Right place, right time.

I can imagine the exhilaration that KDR management must have felt when they received an offer from the world's most profitable lithium producer. The headlines for both SQM and KDR's press releases led to some Fake Breaking News like that into my inbox from Seeking Alpha...

*From: SA Breaking News Team*

***SQM buys 50% stake in Australian lithium project for \$110M***

*12:40 pm, Wed, Jul. 12, 2017*

For those examining the fine print of what SQM and KDR announced, within the broader macro agendas, there may be less, in the immediate term, than meets the eye to this deal, and many questions yet to be answered about it.

I can see the appeal of SQM's offer to KDR management, having just concluded a drawn-out law suit; observing **Pilbara's** drawn-out full funding; recognizing both their thin managerial and lithium mine development bench; confronting the daunting task of meeting "fast track" lithium production expectations set by prior statements; observing the difficulty other development projects have had sourcing traditional institutional funding in Europe and the US.

At the time SQM approached LAC, LAC was in a vulnerable position. Being squeezed by POSCO, USD 75M market cap, down 50% since WLC merger announcement, funded with \$5M line of credit from its largest shareholder, in a still early, lower lithium price environment, before many investors re-discovered lithium and Argentina under Macri. LAC had some leverage – a large, low cost, shovel ready, permitted, DFS-level project 300 clicks from Atacama and all SQM's engineering talent, and, of course, an alternative in POSCO – and their highly experienced deal team negotiated their relatively weak hand into a brilliant, but still vastly underappreciated, true 50:50 partnership with SQM.



In a number of ways, KDR's hand is a lot stronger – more cash, good valuation, definitive seller's market, despite its earlier stage – but the management seems less experienced in JVs of this type. Which is reflected in, despite the headlines, a highly conditional initial deal, which, if executed, looks to put SQM firmly as the driver of the bus, with details about project cost, timing and what capital/dilution may be required to KDR shareholders quite uncertain.

### The Bottom Line is in the Fine Print

Contrary to the Seeking Alpha headline above, SQM is not buying 50% of Earl Grey for USD 110M, which if it were, would equate to a 24% premium to the USD 177M equivalent market cap KDR was trading the day before the SQM announcement.

**Santiago, Chile, July 11, 2017** – Sociedad Química y Minera de Chile S.A. ("SQM" or the "Company") (NYSE: SQM; Santiago Stock Exchange: SQM-A, SQM-B) is pleased to announce that today Kidman Resources Limited ("Kidman") (Australian Securities Exchange: KDR) **has accepted an offer ("Offer") made by SQM**, setting out terms in which an affiliate of SQM will acquire 50% of the interest of the Mt. Holland lithium project in Western Australia ("Project"); both parties will form a 50/50 joint venture ("Joint Venture").

The Offer is **subject to** SQM and Kidman agreeing on **formal documentation, reflecting the commercial terms outlined in the Offer**, on or before September 30, 2017.

Looks like SQM provided a detailed Term Sheet. KDR calls it a "binding letter agreement" setting out "broad terms" – not sure what that means, but I'm guessing there's some exclusivity period in which they will agree – or not – to sign a definitive agreement. Assuming it's signed, this agreement will spell out a sequence of milestones/conditions precedent for the JV within two years (or more), to be followed by staged payments by SQM to earn-in to 50% ownership of the Earl Grey mine. SQM will use some of the \$110M (not yet specified) to advance plans for a downstream refinery plant that KDR may or may not participate in up to 50%, but which KDR would have to fully finance whatever pro-rata share it takes.

KDR's announcement shows that, assuming they reach definitive JV agreement by end September, all SQM will provide is a USD 21.5 M convertible loan, which, presumably will be spent primarily on completion of Feasibility Studies, as per point 1 below. When the USD 30M payment is made is unclear, as is how much of the USD 110M represents payment to KDR vs. funding their half share of the project.

In the bear case – that they reach initial definitive agreement, but after spending USD 21.5M, SQM, in its complete, independent discretion as per point 3 in the conditions precedent below, can walk away for any reason at any point within 2 years, Kidman would be on the hook for paying the USD 21.5M back. Which it could do via equity conversion, at a 10-day Vwap before announcement. This equates to ~AUD 0.62 cents, or USD 150M market value, providing a 14% equity interest to SQM.

I believe this analysis from The Australian newspaper has it about right:



*"Kidman has agreed to sell a 50 per cent stake in Mt Holland (and the Earl Grey lithium deposit) to the New York-listed SQM for \$US30m upfront and \$US80m of stages funding payments. With Mt Holland, about 200km southwest of Kalgoorlie, becoming a 50-50 joint venture, **the \$US80m represents a \$US40m payment to Kidman and, when combined with the \$US30m upfront figure, a \$US70m sale of the half stake.** That said, SQM needs to spend the full \$US110m to earn the stake."*

Though it is unclear if that \$30M payment for the project-equity stake is "up front" or the final payment of the \$110M.

USD 70M for 50% values Kidman in total at USD 140M, about the same as the 10-day vwap calculation I did above, or about 58 cents, which is marginally above where KDR closed last Friday, 3 days after the market had digested the announcements. Markets may not always be as inefficient as I think. Of course, there's no Feasibility Study yet for Earl Grey, so we can only guess at the capex costs and expected production of the mine, but it seems unlikely that KDR won't need to raise some additional equity for the spodumene concentrate mine, so there will remain an overhang. I imagine these are the types of details that will be hashed out between now and the end September definitive agreement.



## Transaction Details

Kidman and SQM have entered into a **binding letter agreement** in relation to the proposed JV setting out the **broad terms** of the arrangement and **committing the parties to work towards negotiating and finalising definitive agreements.**

Under the letter agreement, in consideration for the acquisition of a 50% joint venture interest in the Mt Holland Lithium Project, SQM will make an initial cash payment of US\$30 million (A\$40 million) to Kidman and will also commit to sole funding an amount of US\$80 million (A\$106.67 million) to fund development costs in relation to the project. **This funding will be directed towards:**

1. completion of **Feasibility Studies** in respect of the **Mt Holland Lithium Project;**
2. the development phase of the mine and processing plant on site;
3. the construction phase of the mine, processing plant and associated infrastructure; and
4. **the design and study phase of the refinery plant.**

The binding letter agreement provides that completion of the acquisition and establishment of the JV will be subject to various **conditions precedent** customary for a transaction of this type, including:

1. approval of the acquisition by SQM under the *Foreign Acquisitions and Takeovers Act 1975*;
2. Ministerial approval to the transfer of the relevant tenements;
3. no event or events occurring which will, **in SQM's opinion,** have an adverse effect on the ability of the parties to proceed with the transaction or with the development of the project; and
4. any other necessary third-party approvals.

As an advance on the proposed joint venture expenditure contribution, **SQM will provide a US\$21.5 million (A\$28.67 million) convertible loan facility to Kidman** following execution of the formal documentation to allow the project to continue to be advanced as quickly as possible until all outstanding conditions precedent to implementation of the JV have been satisfied. In the event these conditions precedent are not met within **2 years** from signing of the definitive documents, the parties may elect to extend the period for satisfaction of the conditions precedent or discontinue the JV. If the period for satisfaction of the conditions precedent is extended, SQM will provide further funding of US\$10 million (A\$13.33 million). **If the JV is discontinued, Kidman can satisfy its obligations to repay the convertible loan by the issue of KDR shares priced at a 10 day VWAP for the 10 trading days prior to the binding letter of agreement.**

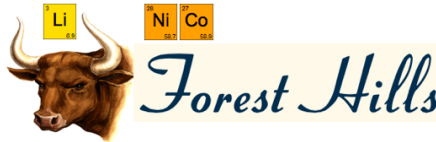


### Summary Observations

- LAC - no impact. Full steam ahead Minera Exar, 25K from 2019, 50K by 2021/22
- Oligopolist SQM now super bullish lithium – aggressively expanding to maintain its influence.

*“We believe it is **highly probable** that worldwide demand will **exceed 500,000 tons by 2025**. The use of lithium batteries in the automotive industry marks a trend that will **revolutionize global demand** in the coming years”*

- Overall brine supply may not advance fast enough by 2021/2022 in the face of unexpectedly large and fast demand growth. Need more hard rock. Perhaps.
- Kidman’s Earl Grey resource/ore body, though still early, has merit.
- Quality spodumene concentrate possible in 2019
  - Refreshing, long-term, considered development plan compared to Mineral Resources rushing DSO/Wodgina and Tawana “fast tracking” with spurious off-take and JV partners.
  - But at what capex, opex and production rate – 200K, 300K, 500K tons?
  - **My guess is USD 200-300M capex for mine only.**
- 40,000 tons in 2021 lithium carbonate and lithium hydroxide conversion – a 100% China-free mine-to-lithium-carbonate and lithium-hydroxide in WA -- is a powerful concept. But,
  - Building a spodumene refinery will take time.
  - Building a downstream lithium plant will take time.
  - SQM has no hard rock mining expertise or hard rock conversion expertise
  - SQM likes control - will unlikely outsource any design/engineering work
  - SQM may find it difficult to advance two greenfield projects concurrently - they don’t have that many people with expertise
  - Downstream refinery plant in Western Australia? - very significant Capex and opex – **I estimate USD 500M**, based on Tianqi’s USD 300M for 24K hydroxide refinery at - i.e., \$12.5K capital intensity per ton just for downstream plant
  - 2019 spodumene and 2021 carbonate should be considered squishy at this stage
- SQM seems to see more value in greenfield joint ventures, than M&A with existing producers
- SQM understands and utilizes the competitive advantage of its technical expertise
- Ideal investment conditions for SQM:
  - good ore body
  - weak or vulnerable management
  - low cost entry and staged capital expenditure
  - shrewd timing



- Chilean politics probably play some role in this surprise move – up for debate how much:
  - KDM watchers in Oz should learn more about SQM/Chile.
- By end September, it is likely SQM will buy a cheap USD 21.5M option while taking KDR off the market, perhaps spooking financiers of early-stage Oz names, engaging tit for tat with ALB (Chile brine + vertically integrated Oz hard rock), while enhancing its negotiating leverage at home.
  - SQM watchers should note KDR, but allocate more time to understand LAC/Minera Exar.

### Coming Soon, My Next Feature...

*The Good, The Bad and the Ugly*

Starring:

**The Good:** Altura/Neometals/Pilbara

**The Bad:** Alliance/Burwill

**The Ugly:** Tawana

<https://www.youtube.com/watch?v=5eMiKQX84kE>

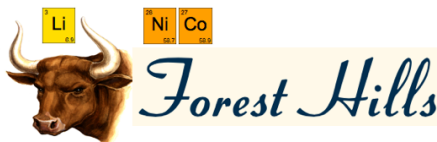
With special cameo appearance by GSR Capital

and other Ch(in)arlatans

### Charlatan – Webster's Definition:

one making usually showy pretenses to knowledge or ability

*a charlatan willing to do and say virtually anything to remain in the spotlight*



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