

Nemaska Lithium Inc.

(NMX-V: C\$0.66)

March 14, 2016

BUY, High Risk

Dundee target: C\$1.00

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Plan Nord Quebec Government Funding Prepares to Flow

NMX-V	New	Last
Rating	--	BUY
Target	--	C\$ 1.00
Risk	--	High
Projected Return	--	52%
DCF multiple	--	0.7x
2015 - 10% DCF Corporate Value	\$1.25 ▲	\$1.22
2014 - Cash and Debt	-\$0.01	-\$0.01
2014 - Additional Resource Value	\$0.11 ▼	\$0.12
NAV	\$1.35 ▲	\$1.32
P/NAV	0.49x ▼	0.50x

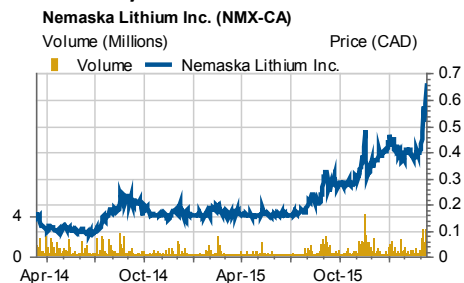
Company Data	
Last Price	\$0.66
52-week Range	\$0.66 - \$0.15
Market Cap (\$MM)	\$136.4
Enterprise Value (\$MM)	\$133.6
Shares Outstanding - Basic (MM)	206.6
Shares Outstanding - FD (MM)	235.6
Avg Volume - 100d (000 shares/day)	711.5
Cash (\$MM)	\$2.7
Debt (\$MM)	\$0.0
Working Capital (\$MM)	\$2.2

Forecast	2015A	2016E	2017E	LT
Spot LCE (US\$/t)	5,875	6,069	6,200	6,200
Spot Li-OH (US\$/t)	7,125	7,406	7,500	7,500

All Figures in C\$ Unless Otherwise Noted

Source: Company Reports, FactSet, Dundee Capital Markets

NMX: Price/Volume Chart



Source: Factset

Company Description

Nemaska Lithium is a Quebec-based developer focused on its 100%-owned Whabouchi Project. This high grade deposit hosts open-pit reserves of 20 Mt at 1.53% Li₂O. It has received main Federal and Provincial permits, and a First Nations IBA has been signed to allow full production. NMX aims to supply high quality lithium hydroxide and lithium carbonate to the fast growing Li-ion battery industry. Financing of its Phase 1 demonstration plant is nearing completion.

We urge investors to Buy Nemaska Lithium, our top Li pick. We maintain a C\$1.00/sh target after incorporating the Cree investment, Ressources Quebec pricing (completed at \$0.34/sh; we had assumed \$0.40/sh), and lower dilution for future financings. Our target is based on a 0.7x multiple applied to our 10%DCF. The Quebec Government is the latest institution to work diligently with NMX. It puts Plan Nord equity to work to help get the LiOH demo plant built. Local native communities are not only supportive, but are investing further to gain the benefit of getting in early, job training, employment and other business opportunities. The demo plant is now nearly fully financed. This plant will allow qualification, an important period of technical and financial de-risking. NMX should gain credibility with potential LiOH end users as construction nears and it can confirm a sample delivery schedule. With Cree support, RQ equity, and SDTC and QC grants; final signing of the Johnson Matthey deal should cover demo plant costs for three years: \$38 MM Capex and \$3 MM working cap.

Ressources Quebec's Plan Nord invests \$10 MM @ \$0.34/sh. Pricing was fixed at a 15% discount in mid-Nov when Johnson Matthey's MOU was signed. NMX has run 65% since, making today's public discount to market pricing announcement much more noticeable. Management stressed that they did not receive favoured treatment; price protection documents had locked in terms prior to the Li sector stocks taking off in 2016. RQ funding is expected to close on March 25th and will be kept in escrow until the JM deal is closed. NMX is concurrently working towards finalizing this non-dilutive and strategic funding arrangement.

Strategic investment. RQ, a subsidiary of Investissement Quebec, indicates strong potential for follow-on investments. Plan Nord could invest further equity, up to 20% interest when time comes to finance the full \$500 MM Whabouchi mine. IQ itself noted interest in issuing up to \$100 MM debt.

Cree investment provides further social license. A newly announced \$3 MM equity investment was arranged at similar terms RQ. It isn't contingent on closing of Johnson Matthey. Discussions were extensive. Cash should provide for working capital and further align the Cree with the project. They now own ~6% of NMX.

Federal, Provincial Grants flowing. Being used for longer lead items, both grants are contingent on (different) demo plant project milestones. \$2.1 MM of \$12.87 MM in SDTC grants was received. The next two tranches are deliverable upon JM deal signing, and completion of demo plant construction (in ~10 months). \$0.3 MM of \$3 MM in Quebec grants was received. Another \$0.45 MM is due by month end. It was conditional on determining the location of the plant.

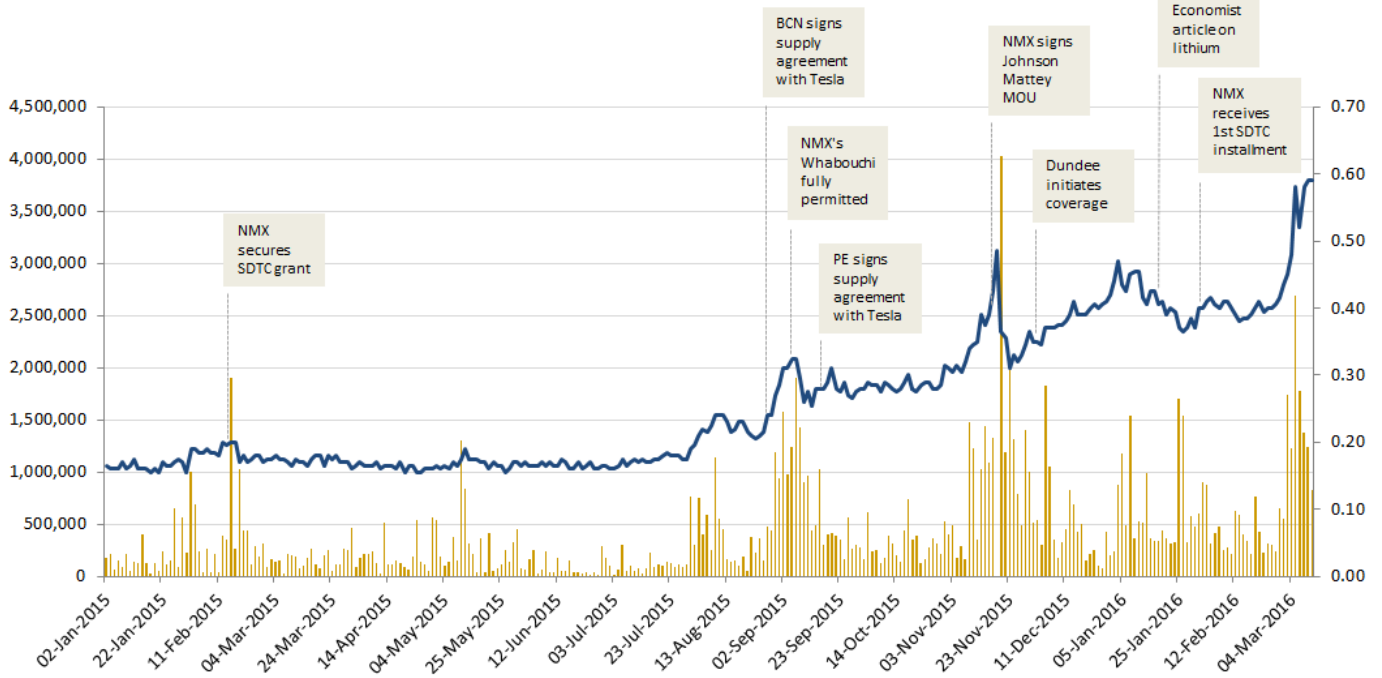
We continue to recommend Nemaska. Whabouchi project is fully permitted; the deposit is high grade with low impurities with the necessary characteristics to produce a clean con; production of LiOH is planned directly from con with low reagents and waste; lithium macro is strong, with LiOH prices above ~US\$8,000/t.

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Figure 1: Annotated share price chart for Nemaska Lithium, Jan 2015 to present



Source: Company Reports, The Economist, Dundee Capital Markets

NEMASKA LITHIUM INC.				NMX-T		C\$ 0.66
Rating	BUY	C\$ Target	\$1.00	Shares O/S (MM)	206.6	
Risk*	High	C\$ Close	\$0.66	Float (MM)	180.6	
				Fully Diluted Shares (MM)	235.57	
12-month return	52%			Basic Mkt. Capitalization (\$MM)	136.37	

All figures in C\$, unless stated otherwise

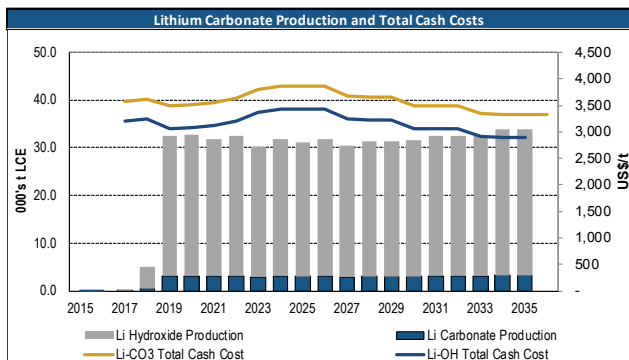
EVALUATION DATA					
Year-end Jun.	2014A	2015A	2016E	2017E	
EPS	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	
P/E		N/A	N/A	N/A	
CFPS before changes in WC	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	
P/CF		N/A	N/A	N/A	
market cap/reserve t				\$180.2	
enterprise value/reserve t				\$176.6	
market cap/resource t				\$108.20	
enterprise value/resource t				\$106.04	
ASSUMPTIONS					
Li Carbonate	US\$/t	5,750	5,875	6,069	6,200
Li Hydroxide	US\$/t	7,125	7,125	7,406	7,500
Exchange	US\$/C\$	0.85	0.75	0.73	0.78
Dundee Modelled Reserves and Other Mineralization (MM t)					
RESERVES & RESOURCES					
(as of May-14)					
	Ownership	Tonnes MM t	Li2O Grade %	Contained Li2CO3 (LCE) 100% Basis 000's tonnes	NMX Share
Proven and Probable Reserves					
Whabouchi	100%	20.0	1.5%	757	757
Total Reserves		20.0	1.5%	757	757
Measured and Indicated Resources (including reserves)					
Whabouchi	100%	28.0	1.6%	1,085	1,085
Total M&I Resources		28.0	1.6%	1,085	1,085
Inferred Resources					
Whabouchi	100%	4.7	1.5%	175	175
				0	0
				0	0
Total Inferred Resources		4.7	1.5%	175	175
TOTAL RESOURCE		32.7	1.6%	1,260	1,260

WHABOUCHI PRODUCTION ESTIMATES (kt)					
Year-end Jun.	2017E	2018E	2019E	2020E	2021E
Li Hydroxide	0.3	4.7	29.3	29.5	28.7
Li Carbonate	0.0	0.5	3.2	3.2	3.1
Sub total	0	5	32	33	32

WHABOUCHI TOTAL CASH COST ESTIMATES (US\$/t)					
Year-end Jun.	2017E	2018E	2019E	2020E	2021E
Li Hydroxide	3,209	3,252	3,069	3,076	3,117
Li Carbonate	3,567	3,609	3,499	3,507	3,547
Wt. Ave.	N/A	3,287	3,111	3,118	3,159

NET ASSET VALUE	0% NAV	C\$/share	10% NAV	C\$/share
	(C\$MM)		(C\$MM)	
Corporate DCF (10%)	1,794	3.72	603	1.25
Cash and Debt	-6	-0.01	-6	-0.01
Exploration & unmodelled Resources	54	0.11	54	0.11
Total	1,843	3.82	652	1.35
Dundee DCF Target Multiple				0.7x
Share Price Target				C\$ 1.00

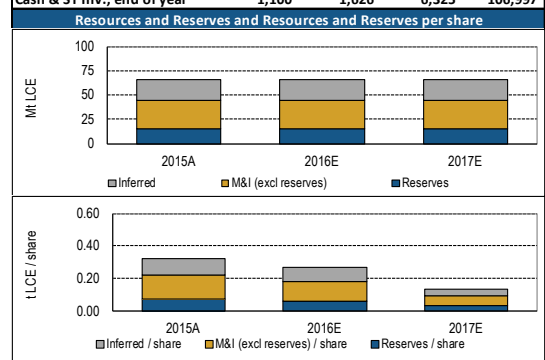
NAV & Price Target Sensitivity to Long-term Lithium Hydroxide Price Assumption					
NAV (C\$/share)	6,000	7,000	8,000	9,000	10,000
0% Discount	2.51	3.36	4.21	5.06	5.92
5% Discount	1.41	1.86	2.31	2.76	3.21
10% Discount	0.94	1.21	1.49	1.76	2.04
15% Discount	0.71	0.90	1.09	1.27	1.46



BALANCE SHEET				
Year-end Jun.	2014A	2015A	2016E	Q2/16
Assets				
Cash & ST Investments	1,100	1,626	6,325	2,721
Other Current Assets	875	400	379	379
Current Assets	1,975	2,026	6,704	3,100
Mineral Properties	2,451	2,631	93,143	2,634
Other non-current Assets	22,511	24,551	26,181	26,181
Total Assets	26,937	29,208	126,028	31,915
Liabilities				
Current Liabilities	813	633	2,930	930
Capital lease / LT Debt	2,027	10,000	106,125	-
Other non-current Liabilities		2,076	2,115	2,115
Total Liabilities	2,839	12,709	111,170	3,045
Capital Stock	48,392	53,336	141,390	57,277
Retained/Deficit	(24,294)	(26,837)	(30,407)	(28,407)
Total Shareholder Equity	24,098	26,499	110,983	28,870

EARNINGS SUMMARY				
	2014A	2015A	2016E	2017E
Revenue				
Lithium	-	-	-	2,556
Other Revenue	107	20	6	494
Total Revenue	107	20	6	3,051
Lithium costs	-	-	-	1,226
Other Costs	1,930	992	946	-
DD&A	-	-	5	54
Exploration	-	-	-	-
S, G&A	953	891	2,590	5,295
EBIT	(2,776)	(1,862)	(3,535)	(3,524)
FX Gain	-	-	-	-
Interest	-	-	(2)	(1,000)
Writedown of min. properties	-	-	-	-
EBT	(2,776)	(1,862)	(3,537)	(4,524)
less Tax	81	-	-	-
Net Income (reported)	(2,857)	(1,862)	(3,537)	(4,524)
Average shares (MM)	137.0	204.1	246.7	482.2

STATEMENT OF CASH FLOWS				
	2014A	2015A	2016E	2017E
Net Income (000's\$)				
D, D&A	(2,857)	(2,028)	(3,537)	(4,524)
Future income taxes	-	-	-	-
Writedown of min. properties	-	-	-	-
FX Gain	-	-	-	-
Change in working capital	(67)	222	236	-
Other Operating	1,539	349	660	-
Total Operating CF	(1,385)	(1,457)	(2,636)	(4,470)
Short term investments				
Mineral Properties	(3)	-	(92,021)	(246,657)
Acquisitions	-	-	-	-
Increase in Investments	-	-	-	-
Other Investing	(4,528)	(2,013)	3	-
Total Investing CF	(4,531)	(2,013)	(92,019)	(246,657)
Equity financing	4,570	4,515	87,394	251,800
Debt Issue	-	-	12,000	100,000
Debt Repayment	-	-	-	(2,000)
Other financing	-	(534)	-	2,000
Total Financing CF	4,570	3,981	99,394	351,800
Foreign Exchange effect	-	-	-	-
Change in cash	(1,346)	511	4,740	100,672
Cash & ST Inv., end of year	1,100	1,626	6,325	106,997



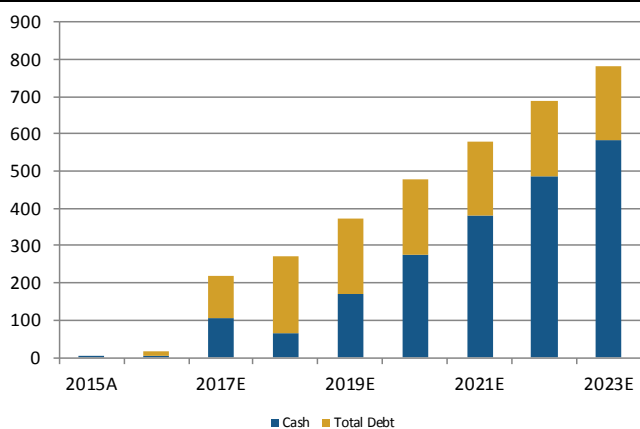
Nemaska Lithium Inc.

Net Asset Valuation at Dundee Price Deck (C\$)

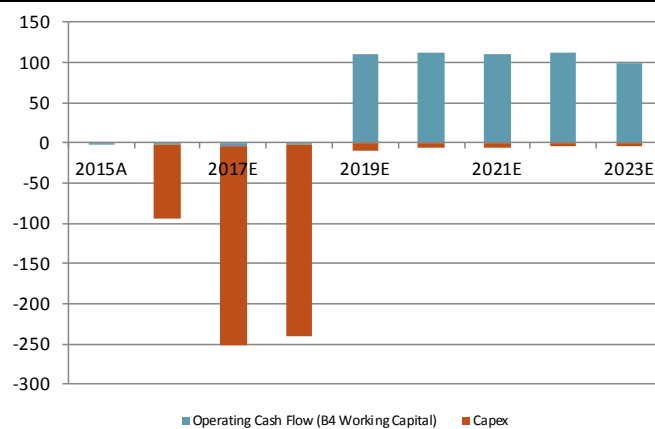
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
Mining Assets									
Whabouchi (100%)	10%	593	1.23	2,296	4.76	1,159	2.40	285	0.59
Total Mining Assets		593	1.23	2,296	4.76	1,159	2.40	285	0.59
Other Assets & Expenses									
Cash		6	0.01	6	0.01	6	0.01	6	0.01
Debt		(12)	(0.02)	(12)	-0.02	(12)	-0.02	(12)	(0.02)
Resources		54	0.11	54	0.11	54	0.11	54	0.11
Exploration, G&A, Other	10%	10	0.02	(502)	-1.04	(197)	-0.41	144	0.30
Net Other Assets		59	0.12	(453)	-0.94	(149)	-0.31	193	0.40
Net Asset Value		652	1.35	1,843	3.82	1,010	2.09	478	0.99
Share Price			0.66		0.66		0.66		0.66
P/NAV			0.49x		0.17x		0.32x		0.67x

Financial Forecasts at Dundee Price Deck (MM C\$)

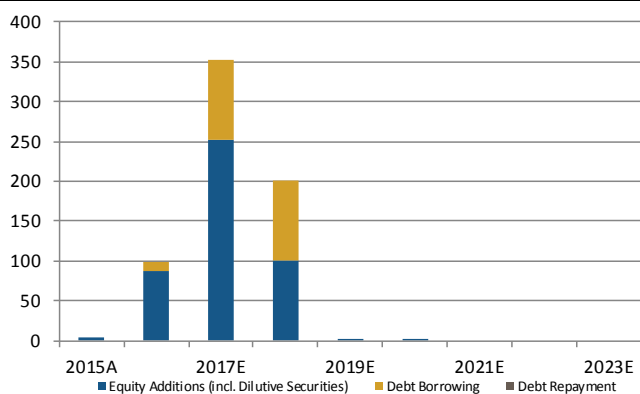
Cash and Debt



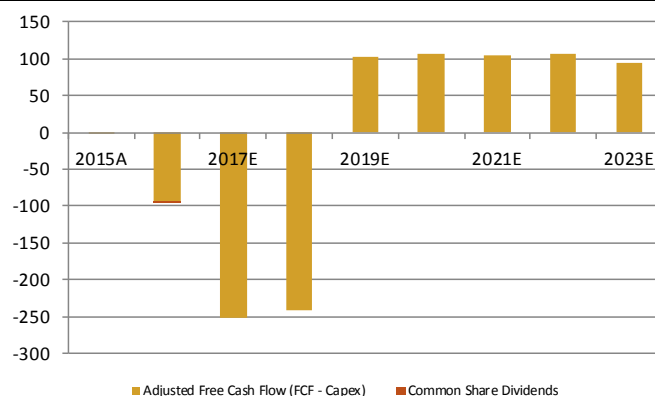
Operating Cash Flow and Capital Spending



Changes in Debt and Equity



Free Cash Flow and Common Share Dividends



Source: Company Reports, FactSet, Dundee Capital Markets

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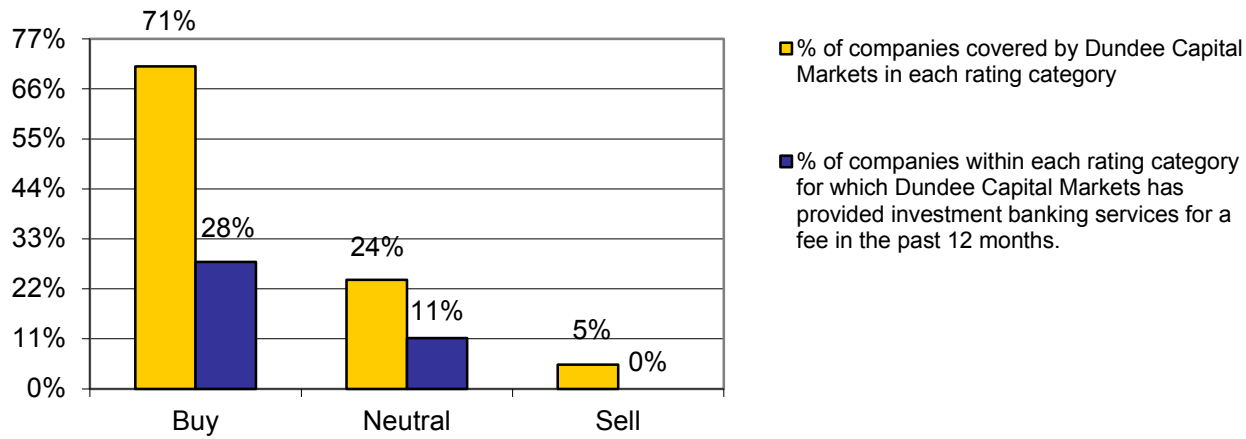
Medium and High Risk Ratings Methodology: Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price \leq \$3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks ($<$ \$300MM) are assumed to have less liquidity, and are, therefore, more subject to price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded $>$ 70% of its total shares outstanding it will be

considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock’s volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

Dundee Capital Markets Equity Research Ratings



As at December 31, 2015

Source: Dundee Capital Markets