

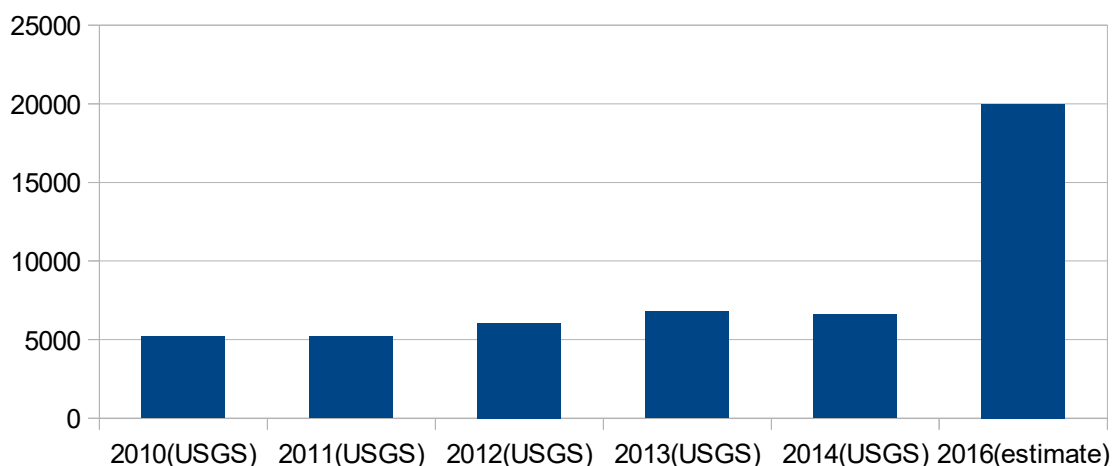
Special situation report - **Lithium**

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I would like to call investors' attentions to lithium. As long time investors know that I invested in lithium very early on. My favorite lithium play was Talison lithium, which was taken over by Chinese firm Tianqi in a bidding war with Rockwood. Later Rockwood itself was taken over in 2014. There were not any good pure plays left. RE went into bankruptcy as lithium price was very flat. However thing changed dramatically in the past month.

Lithium Carbonate Battery Grade

USD/ton



In the past few weeks, lithium price exploded in China. The actual prices are very hard to follow because they are changing every day. To my best estimate, the battery grade of LCE will likely be in the range of 15,000-25,000USD/ton, an increase of 150%-300% from the beginning of 2015!

There are multiple reasons for the recent explosion of lithium price. Lithium production suffers in 2015 due to the flooding and rains in Chile. In the mean time, lithium battery demands are exploding. For example, each Tesla uses more lithium than 10,000 cell phone. It is a classical demand “super-cycle” story.

What triggered the recent run of lithium. My sources told me that it began with the very Talison mine in Australia. After the Tianqi takeover, Tianqi owns 51% and Rockwood(now part of ALB) owns 49%. Recently Tianqi stopped selling raw spodumene to Chinese converters because the supply was so tight, Tianqi wants to convert themselves and make all the profits! ALB is still selling but they made the Chinese converters toll processors so they keep most of the profits. The Chinese consumers were forced to buy at the spot market. I heard the situation won't improve until Q2 of 2016 the earliest as the Chinese brine lithium mines are out of commission for the winter.

How about demand destruction? Lithium is only about 2% of the cost of lithium battery using 2015 price. Now it is about 5%. I believe it is sustainable for the battery uses. However, other applications like paint or lubricates, may see demand destruction in 2016. As long as lithium battery demands are high, I feel the price is sustainable.

How about the speculators manipulate the lithium price? Very possible. If so I think they picked a good time to jack up the lithium price. For lithium battery makers, they have no alternative. China has a huge smog problem. I heard strong policy responses are coming in 2016 that can lead to mandated electrical taxis etc. These electrical cars use 5,000 to 10,000 times more lithium than cell phones!



Got lithium? Chinese kids went to school in Beijing

The bottom line is that the recent lithium breakout could be something big about to happen and it could last a few years until lithium mines catch up with the demands. We are at the very beginning of the breakout and I encourage investors to load up lithium stocks ahead of Wall Street and Bay Street. When lithium is talked often on CNBC or BNN it is probably time to start booking profits. **Remember, it will be a boom-bust cycle, book profits when it is hot and don't be a bag holder.**

My favorite lithium plays are ALB, the world largest lithium producer after taking over Rockwood, SQM, the world second largest lithium producer, and SQM. ORE.ax/ORL.to, the emerging lithium producer. I also have a few other super risky juniors mentioned in my letter. ALB for example, 15% revenue comes from lithium. If lithium price double or triple, and if the rumor I heard that ALB made Chinese converters their toll processors is true, I can see its price in 2016 easily double the current estimate. These are earning estimate of ALB on yahoo, I am wondering what the stock will react when the analysts start to increase earning estimate?

Albemarle Corporation (ALB)-NYSE

EPS Trends		Current Qtr. Dec 15	Next Qtr. Mar 16	Current Year Dec 15	Next Year Dec 16
Current Estimate	0.83	0.88	3.74	3.97	
7 Days Ago	0.83	0.88	3.74	3.97	
30 Days Ago	0.83	0.91	3.74	4.00	
60 Days Ago	0.96	0.93	3.87	4.14	
90 Days Ago	0.96	0.92	3.84	4.13	

Interestingly, in 2014 ALB bought Rockwood lithium for 6.2 billion. Thanks to the bear market in commodities, the current market cap of ALB is still about 6.3 billion post merger. I expect ALB to take out the price when it bought Rockwood, about 70 dollar one and half years ago.

Orocobre is an interesting emerging play in lithium. Its brand new mine in Argentina can run at 17,500ton/year, making it one of the largest lithium mines on earth. It is owned 66.5% by Orocobre, 25% by Toyota and 8% by local government. Recently Argentina had a new election and the free market won. As a result, currency restriction was removed and 5% lithium export tax was removed as well. These should be very good news for Orocobre. However, the company has a history of raising money every year and it hasn't reached break even point yet (projected December, 2015). They may need to raise some money in 2016 to have a cushion. The best part of the Orocobre story is that they are a new startup and they can sell into the red hot spot market.

I followed Western Lithium for years. They have a fully funded (by Korean POSCO) lithium mine in Argentina set to produce lithium in 2017. The one in Nevada is about 2-3 years behind. I met WLC management a few years ago and followed the stock for years. It has a pattern of explosive moves. It went up a few hundred percent in very short time. They just closed the final trench of financing in which 20 day average share price was used. That led me to suspect the share price could be pushed lower in the past weeks. That creates a good buying opportunity.

These are my favorite lithium "major" plays. Again a few risky juniors discussed in my letters were not mentioned here. **After all, ALB partner Tianqi share price already tripled in China and Australian lithium companies like Galaxy already 5 folded in Australia. US and Canada will wake up, probably after the holidays.**