

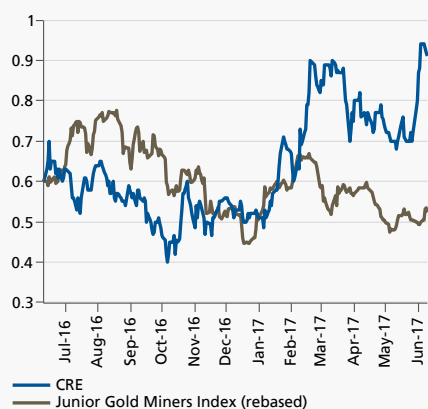
Canadian Equity Research

9 June 2017

SPECULATIVE BUY

PRICE TARGET	C\$1.30
Price (8-Jun)	C\$0.91
Ticker	CRE-TSXV; CRECF-OTCQX

52-Week Range (C\$):	0.39 - 0.95
Avg Daily Vol (000s) :	273.59
Shares Out. (M) :	148.0
Market Cap (C\$M):	134.7



Source: FactSet

Priced as of close of business 8 June 2017

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Company Update

Rose, a chip off the old Rock(wood)?

We maintain our SPECULATIVE BUY rating and C\$1.30 target price on Critical Elements (CRE) ahead of the expected feasibility study release and on the news of a new board appointee. We also recently completed a site tour of the Rose project.

A blooming relationship

Critical Elements announced this week the appointment of former Rockwood Lithium CFO Dr. Marcus Brune to the board of directors. Dr. Brune has many years of corporate finance experience in the lithium space and adds to Critical Elements' already qualified ensemble of mining and chemical processing experts.

During his time with Rockwood, Dr. Brune oversaw various M&A and corporate finance roles until his appointment to CFO in 2011. He and Critical Elements' President Steffen Haber helped guide the acquisition of Rockwood Lithium by Albemarle (ALB-NYSE | Not Rated) for \$6.2 billion in January 2015. Prior to joining Rockwood, Dr. Brune worked as a strategy consultant for McKinsey.

Critical Elements looks to leverage Dr. Brune's deep knowledge of the lithium industry to aide in upcoming project advancement. With only ~148 million shares outstanding, German chemical distributor Helm on-board for offtake and potential financing, and the support of Quebec Inc., Critical Elements has a number of options for how it will finance the Rose project moving forward.

Stopping to smell the roses

Around the same time as Dr. Brune's nomination to the board, Canaccord Genuity was kicking rocks 20km north of Nemiscau, Quebec at Critical Elements' Rose project. Highlights from the trip include:

- Lots of evidence of diamond drilling with very clean drill pads and clearly marked collars (Figure 1).
- Hydro direct to the site (Figure 2).
- Clearly definable large tabular pegmatite, which is bright white and contrasts the surrounding country rock and will make for easy mining (Figure 3).
- Very well developed, easily identifiable spodumene crystals within grab samples and on outcrop (Figure 4).
- Crystal size is small suggesting that crystallization was likely very quick, lending to Rose's extremely low impurity levels.

The next expected major potential catalysts for Critical Elements are the delivery of the Rose spodumene concentrator feasibility study expected in Q2/17 and project permitting in H2/17. In our modeling, we stage development to produce low iron, low impurity spodumene concentrate in Phase 1 commencing Q1/20, followed by battery grade lithium carbonate production in Phase 2 commencing 2022.

Critical Elements is trading at 0.11x P/NAV(5%) as compared to the 0.33x mean for covered exploration and development companies.

From drill to mill: On track at Rose

There is evidence of activity as dozer trails scour the surface and muddy ruts tell of a winter drill campaign seasons past. Many of the collars are easily accessible and are well marked with casing caps (Figure 1). Standing atop a ridge and looking north, company CEO Jean-Sébastien Lavallée describes the future pit, which will span 1.6km in length and 1km in width and will extend down some 250m at its deepest point. A hydro line bisects the land where the pit will be and will be diverted at CRE's cost. Further into site and about 1km from the hydro line, a bright white outcrop surrounded by broken rock (Figure 3) starkly contrasts the rich green background of the northern forest and grey country rock in which it lies. A closer look reveals a homogenous tabular pegmatite dyke dipping very gently to the northeast with small but well-developed spodumene crystals (Figure 4). The size of the spodumene crystals is likely due to a quick formation period that also lends to the fact this deposit is extremely low in impurities, especially iron.

A 50-tonne sample has been taken and shipped to Finland for processing. As we reviewed in previous notes, most recently [Critical Recoveries](#) (May 30, 2017), Critical Elements has exceeded expectations in all respects relating to metallurgy.

We model low impurity spodumene concentrate production by Q1/20 in Phase I of the project. Phase II is expected to begin in 2022 with the production of high quality battery grade lithium carbonate. The entire project is expected to run for 17 years and produce around 20kt lithium carbonate per annum with no additions to the current resource. We note, however, that Critical Elements' Rose project does show significant exploration upside and scalability with the discovery of several satellite pegmatites offering the potential to add to the current resource base.

Figure 1: Drill hole casing with casing cap



Source: Company Reports, Canaccord Genuity estimates

Figure 2: Hydro line bisecting future pit location looking, view north



Source: Canaccord Genuity

Figure 3: Rose pegmatite outcrop



Source: Canaccord Genuity

Figure 4: Rose up close; spodumene crystals



Source: Canaccord Genuity

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: June 09, 2017, 11:16 ET

Date and time of production: June 09, 2017, 11:16 ET

Target Price / Valuation Methodology:

Critical Elements Corporation - CRE

We apply the Canaccord Genuity price deck featuring a long-term benchmark lithium carbonate price of US\$10,568/t and discount cash flows at a 15% WACC to produce a project NAV of \$371 million or \$0.82 per share on a fully funded basis (450M shares). After net corporate adjustments of \$0.52/sh, we apply a 1.0x multiple to our corporate NAVPS to generate a target NAVPS of \$1.35, supporting a rounded target price of C\$1.30.

Risks to achieving Target Price / Valuation:

Critical Elements Corporation - CRE

In addition to the usual permitting risks associated with mining projects in Québec, the current iteration of the proposed open pit lies directly beneath a transmission line belonging to Hydro-Québec. The success of this project will depend on the cooperation of the utility company with the relocation of the powerline. Access to the capital required to advance and develop the Rose project is another key source of risk. Critical Elements' valuation is most sensitive to lithium pricing, followed by variations in the Canadian dollar, capital expenditure and operating costs. As we have noted, we expect a nadir in lithium pricing in 2018 and 2019 due to potential supply excesses. Should the demand growth expected fail to materialize or more supply materialize, our lithium pricing model and Critical Elements' valuation may be vulnerable.

Distribution of Ratings:

Global Stock Ratings (as of 06/09/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	578	60.91%	39.79%
Hold	273	28.77%	19.78%
Sell	27	2.85%	14.81%
Speculative Buy	71	7.48%	70.42%
	949*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Critical Elements Corporation Rating History as of 06/08/2017**Online Disclosures**

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