

Usha Resources scoops up lithium salar close to the only producing U.S. lithium mine, Albemarle

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Lithium remains the fuel of the green revolution. Goldman Sachs adheres to this thesis in its latest Battery Metals research report (May 24, 2022). However, the investment bank's analysts predict that the lithium price bubble could burst in the short term given the growing supply. Compared to today's spot price, the experts still forecast the price to drop by a third to \$16.372/t by 2023, which would still be above 2020 levels. Goldman identifies inflationary trends in investment costs as the biggest challenge facing the industry. For lithium explorers, the air could become rather thin in the future, and those who are only now entering the lithium business will have to present particularly good reasons and an outstanding project to win over the market. This is exactly the case with Usha Resources (TSX:USHA,FRA:JO0).

The company, which launched in 2019 as a nickel and gold explorer with projects in Ontario (nickel) and Arizona (gold), just a few weeks ago, in late April, acquired the drill-ready Jackpot Lake lithium brine project in Nevada - an hour and a half drive northeast of Las Vegas and just four hours drive southeast of Albemarle's flagship Silver Peak project, which happens to be the only producing lithium mine in the US and has been producing since 1966. If that's not a transformative deal for Usha.

It begs the question, how is it that a lithium salar just outside Las Vegas, and right off the highway at that, hasn't been auctioned off to the highest bidder or even developed long ago? The answer: Usha's management had to invest one and a half years of persuasion in talks with the private seller to finally win the bid - at remarkably reasonable conditions. For the 140 claims with a total area of 11.3 km², Usha paid 75,000 CAD in cash and 500,000 CAD in shares (at 0.30 CAD). Another CAD 450,000 in shares is due within 12 months to a maximum of 1,875,000 shares as management has smartly based the remaining share payments on its stock performance with fewer shares issued the higher the stock price goes. The private seller retains a 1 percent gross royalty, with the company having the right to buy back half (a 0.5 percent royalty) for CAD 1 million. That's where we've seen a lot of more expensive deals in the recent past, even in less politically safe geographies. But Usha is going one better: the company has announced that it will spin off its nickel assets into a new company. Shareholders are to receive a 20% stock dividend on a new, highly structured nickel spinout that has a historic resource of 5.5 million tons.

New to the Lithium Peer Group

The U.S. lithium acquisition has catapulted Usha Resources overnight into a new peer group of lithium companies, a fact that may have escaped many investors if only because "lithium" is not in the company's name. Only gradually is the stock market beginning to realize how significant the deal actually is. Usha has used the past weeks to raise fresh capital in several tranches at 0.30 CAD. Currently, Usha is trading at CAD 0.35, which nevertheless represents a market value of less than CAD 10 million. Neighbor Acme Lithium (CSE: ACME) is already receiving more than CAD 50 million valuation for its Nevada lithium brine project at a similar stage. To be sure, Acme already has a drilling permit. Usha has yet to apply for that permit, but the valuation gap between the companies suggests only one thing, that either one is valued too high, or the other is valued dramatically too low.

We learned this much from talking to management: Usha has already received a half-dozen offers to resell the project at a multiple of the purchase price since acquiring Jackpot (which was once simply called "dry lake"). But that's not the plan. Usha would rather develop the salar himself. If all goes according to plan, the company could release a first resource this year, and with a budget of less than CAD 400,000. By the company's own calculations, three drill holes would be enough to define an initial resource, three "straws" to stick into the sole-bearing strata of the salar.

The target zone itself is 5 x 2 km in size and about 380 meters thick. There are 129 core samples with an average lithium value of 175 ppm with a maximum value of 550 ppm, comparable to the Albemarle values next door. Geophysical data also indicates a closed basin with a highly enriched brine.

Strong Usha team & good structure

Usha Resources' CEO is 34-year-old geologist Deepak Varshney, who took the company public as a nickel company in 2019. Another member of the well-known Varshney family sits supportively on the board of directors. The Varshney Group has made a name for itself in Canada and the U.S. as a venture financier. Accordingly, Deepak combines geological knowledge with a strong commercial interest and affinity for the financial markets. His technical team includes Andrew Tims, who was a senior geologist on the exploration team that increased the Rainy River resource from 600,000 to 6 million ounces Au. Other lithium experts with local expertise are currently being brought in as consultants.

Prior to the financing, there were 25.5M shares outstanding, strategic shareholders (management, partners, etc.) hold ~70+%, which will shift once the financing is completed. Prior to financing, there were only 3.45M warrants, most of which are in friendly hands: ~1.3M @ \$0.30, ~250k @ \$0.35, ~1.85M @ \$0.45.

First bonus: Nicobat Nickel Project

Usha Resources will spin off its nickel project into a separate vehicle at a ratio of 5 to 1, so shareholders will receive a 20% dividend before the record date. The structure of the SpinCo will be similar to USHA, so that when the SpinCo financing is completed (in which USHA shareholders can also participate), there will be approximately 15 million shares outstanding. After all, the project has a historic nickel resource of ~5.3 million tonnes at a grade of ~0.24%, similar to Canada Nickel's project, but also has a 64-meter hole from surface at 1%+ Ni, including 10 meters at 2%+ Ni that will be further explored in the next phase of work.

Second bonus: Lost Basin gold-copper project

The third Usha project is a gold-copper project in northern Arizona. This project is to remain in Usha Resources and is anything but redundant ballast. The project is adjacent to Gold Basin Resources' (TSXV:GXX) property. GXX is a Discovery Group company whose portfolio includes(d) Great Bear Resources, which was just sold to Kinross for \$1.8 billion. GXX drilled 10,000 meters last year and will drill another 10,000 meters this year. The Usha prospect has the same geology and historical grades (e.g., 26 meters at 1.7 g/t Au) as its neighbor. Geologists have already developed high priority targets. These include a vein structure that extends for hundreds of meters at up to 45.4 g/t Au. Usha also intends to be active on this project with drill holes later this year.

Bottom line: there is no doubt that most lithium stocks have consolidated and the process could continue. The recent Goldman Sachs report has put an additional damper on the exuberance that has prevailed in the lithium sector until recently. Measured against these market dynamics, Usha Resources is a late bloomer. Six months ago, the timing would have been better, the market would have been hotter, and financing would have been easier - though the purchase price would likely have been higher. What remains in the end is the quality of the project with the location advantage in Nevada and the team's ability to systematically develop the project. We believe that Usha Resources is excellently positioned in every respect. From an investor perspective, nickel and gold come on top as a hedge.

Once the word gets out about the lithium acquisition to a wide audience, it should lead to a revaluation of Usha Resources' stock. After all, unlike metal exploration, the path to a lithium brine resource is much shorter and easier. If Usha Resources actually manages to deliver a first inferred resource by the end of the year, this will certainly be reflected in the valuation. The stock market value of its neighbor Acme Lithium gives an idea that a lot of upside exists. A good lithium brine resource in the heart of Nevada will always find an interested buyer in the future. The work plan for the coming months is set for Usha: permit application, drill permit, drilling, resource calculation. With each of these milestones, the company should become more valuable. We look forward to accompanying Usha on its journey.

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