

PALOS

CONTENTS

Weekly Commentary

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Critical Elements Lithium Corp.	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By Charles Marleau CIM[®] and William Mitchell CIM[®]

Critical Elements Lithium Corp.

Critical Elements Lithium (CRE: TSX) is an early-stage Canadian based exploration and mining company that aspires to become a material supplier of lithium to the electric vehicle (EV) and energy storage systems (ESS) industries. The company is currently focused on advancing the development of its 100% owned **Rose Lithium-Tantalum** (Rose) project which is located in the James Bay mining jurisdiction of Northern Quebec.

For CRE to advance the project, approvals from both the federal and provincial governments must be received. A favourable decision was received from the Federal Minister of Environment and Climate Change in August 2021. A provincial environmental and social impact assessment runs parallel to the federal process. All responses related to the questioning period have been submitted and a decision from the Quebec government should be forthcoming. The Quebec assessment is a joint process that includes the participation of the Cree Nation. In 2019, CRE had announced that a long-term agreement with the Cree nation (the Pikhutaau Agreement) ensured that economic benefits (employment), sustainable development, social benefits and respect for traditional activities would be enshrined.

An exploration program announced on April 6 included plans to expand the main Rose project by drilling satellite tests on lands in proximity to Rose as well as an extensive surface exploration using state-of-the art technologies. The objective is to identify potential new deposits. A positive decision and receipt of a certificate from the Quebec Minister of the Environment is the next big step in development.

In May, CRE announced positive results from a pilot project that explored the convertibility of spodumene concentrate (high purity lithium ore) into battery quality lithium hydroxide, a prerequisite material used in the production of Lithium-ion batteries. The study was conducted by **Metso Outotec**, a leading mining technology company with expertise in lithium processing, at their research facility in Finland. The study used samples from Rose and results indicated that the lithium hydroxide produced would be suitable for use in EV batteries.

On June 13, CRE announced a positive feasibility study for the Rose project. Results indicate an expected mine life of 17 years with an average production of 173 thousand tonnes (173k) of chemical grade spodumene concentrate (used in glass and ceramics), 51k tonnes of technical grade spodumene concentrate (used in Li-

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ion batteries), and 441k tonnes of tantalum concentrate (used in metallurgy processes and optical glass). The study was based on using low-risk, open-pit mining procedures as well as conventional lithium processing technology.

The Rose property, which is accessible by road via the Route du Nord and by air via the Nemiscau airport (50km), further benefits from access to low-carbon renewable energy supplied by Hydro-Quebec, a skilled labour pool, and the ability to operate 24/7/365. The project's economics are impressive with the study implying an 82.4% after-tax Internal Rate of Return and a 1.4-year after-tax payback period. Following the anticipated provincial government go ahead, mine and concentrator construction is anticipated to last 21 months with production by 2024. In the meantime, discussions with potential strategic partners, off-take agreements, and the financing of future development is ongoing.

From a corporate view, the company boasts a highly experienced management team led by Steffen Haber, President and former CEO of **Rockwood Lithium**, and Marcus Brune, Director and VP Finance, who also held executive positions at Rockwood. In 2015, Rockwood was acquired by U.S based **Albemarle Corp.** (ALB: NYSE) in a Plan of Merger valued at USD\$6.2 billion. Albemarle is among the largest global suppliers of lithium and the largest in the Americas with lithium accounting for 40% of company revenues. Other members of the management team possess decades of combined experience in large scale mining projects and management has "skin in the game", holding approximately 5% of CRE shares.

Internal combustion engines account for roughly a quarter of greenhouse gas emission. Governments around the world are clearly implementing climate friendly policies which include the advancement and incentivization of rapid EV adoption. For the transition to be successful massive amounts of lithium will be needed to produce the EV batteries that are necessary to meet accelerating demand. In Canada, recent announcements by corporations and governments alike are proof that a comprehensive Li-ion battery industry is highly desirable, even necessary. Massive amounts of suitable grade, supply chain secure, critical metals will be required for EV transition to be successful. We are confident that companies like Critical Elements are well positioned to capitalize.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.41	-12.75%
Palos Equity Income Fund - RRSP	PAL101	\$6.35	-12.06%
Palos Merchant Fund L.P. (Dec 31, 2021) ²	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$13.22	-30.15%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.40	-18.27%
S&P TSX Composite (Total Return with dividends reinvested)			-9.00%
S&P 500 (Total Return with dividends reinvested)			-17.32%
S&P TSX Venture (Total Return with dividends reinvested)			-31.05%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.13%
Canadian Government 10-Year			3.33%
Crude Oil Spot			US \$107.62
Gold Spot			US \$1,826.50
US Gov't10-Year/Moody BAA Corp. Spread			220 bps
USD/CAD Exchange Rate Spot			US \$0.7756

¹ Period ending June 24th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca