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VALUATION

Recommendation	
Stock Price	$1.35
1 Yr Target Price	$1.60
Company Valuation (A$/share)	$2.48
Market Risk	Low
Liquidity Risk	Medium
Development Risk	Medium

Source: MPS Research

CAPITAL STRUCTURE

ASX Code	ORE
Market Cap*	$102.0m
Ordinary Shares	73.8m
Unlisted Options	1.8m

**fully diluted* *Source: ORE*

COMPANY DETAILS

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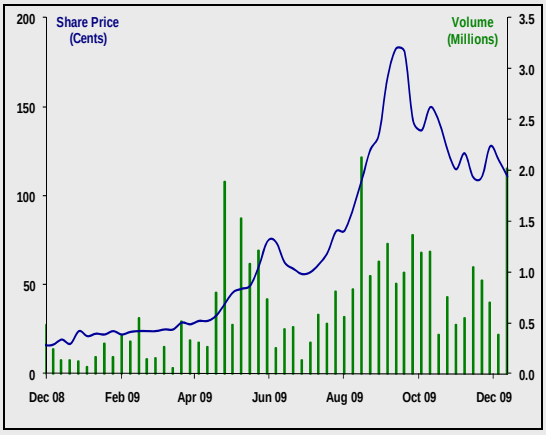
Source: ORE

1 YEAR PRICE CHART



Source: IRESS

Orocobre Limited

An Emerging Lithium/Potash Producer

- ***Orocobre Ltd (ORE) has acquired around 42,250 hectares (ha) of land at its Olaroz Project, increasing its total holdings to 64,250 ha.***
- ***This new land acquisition increases the likelihood of a resource upgrade and provides improved development options.***
- ***MPS expects that this will allow an increase in annual production from the previous estimate of 15kt p.a. to 20kt p.a. of Li_2CO_3.***
- ***MPS has increased the capital cost estimate from US$90m to US$107m and the A$/US$ exchange rate from 0.75 to 0.90.***
- ***As a result, the previous NPV valuation of the Olaroz Project has increased from A$1.35/share to A$2.48/share (10% discount rate).***
- ***MPS has increased its 1-year price target from A$1.20 to A$1.60.***
- ***Definitive Feasibility Study (DFS) is on track and completion is anticipated for mid-2010.***
- ***Production is still expected to commence in late 2011.***

ORE has acquired around 42,250 ha of land at its Salar de Olaroz Lithium-Potash Project. The acquisitions cover land that is located around the existing project and increase ORE's tenement holding to 64,250. Importantly, the tenements ORE has acquired are located directly adjacent to Olaroz's resource area. The four main packages of land are called The Los Andes Group, Mercedes III, Viento Blanco and Cateo 498-B-2006.

The Los Andes Group is made up of a series of tenements to the west of Olaroz's current resource area (see illustration 2 on the following page). As a result of this acquisition in particular, ORE has increased its development options. The previous restriction on the annual production capacity was the amount of suitable land for solar ponds, which allow the concentration of the brine solution through evaporation.

Changes to MPS' Model

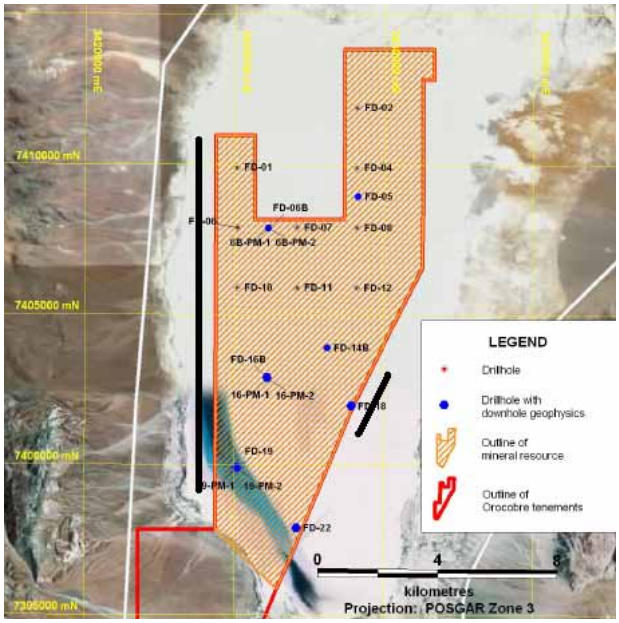
MPS believes that this new package of land will allow ORE to increase its annual production to 20,000 tonnes (20kt) of Lithium Carbonate (Li_2CO_3) per annum (p.a.). As such, MPS has changed this assumption in its model, increasing estimated annual production from 15kt p.a. to 20kt p.a. of Li_2CO_3 and from 36kt p.a. to 48kt p.a. of Potash.

Under the previous assumptions, the cumulative production over the 20-year mine life amounted to 295kt of Li_2CO_3 and 708kt of Potash. Under the new assumption that production will ramp up to 20kt of Li_2CO_3 and 48kt of Potash by the fourth year of production, the cumulative production of Li_2CO_3 and Potash is 380kt and 912kt respectively. These cumulative production levels still seem small when compared to the project's inferred resource of 1.49Mt of Li_2CO_3 and 4.4Mt of Potash.

The Olaroz Project's Initial Resource

By comparing illustration 1 with 2, the initial inferred resource estimate area can be seen to be limited by the extent of its tenements. ORE's recent land acquisitions have increased its holdings of the central salt lake area (or 'salar nucleus') by 35% to 10,000 ha. MPS believes that these new salar nucleus areas along the western side and to the south-west of the existing resource area (indicated by the black lines in illustration 1) have the potential to increase ORE's resource substantially.

Illustration 1: Initial Resource Area



Source: ORE

Valuation Update

As a result of the increase in production, MPS has increased its capital cost estimate from US$90m to US$107m (+/- 30%). This increase mainly reflects the increased cost from building more solar ponds and increasing plant capacity. Other capital expenditure items, such as road upgrades, have not been affected.

Furthermore, to reflect the recent changes in currency markets, MPS has increased it's A$/US$ exchange rate assumption by 20%. MPS has also increased the Li_2CO_3 and Potash prices by 9% to better reflect the prices needed to keep the marginal hard-rock Li_2CO_3/Potash producers in the market over the coming years.

Main Assumptions of MPS' Updated Model

Li_2CO_3 Price (US$/t*)	6,000
Potash Price (US$/t)	600
Operating Costs** (US$/t*)	2,000
A$/US$ Exchange Rate	0.90
Project CAPEX (US$m)	107

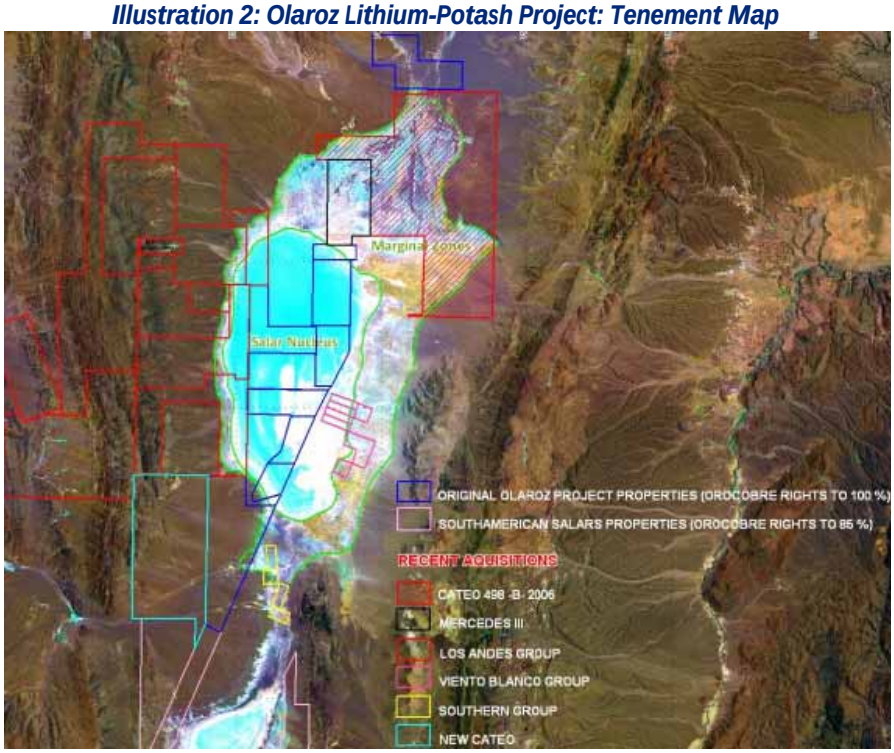
**per t of Li_2CO_3 **including Potash credits*

The company has indicated, in recent announcements, that it expects its operating costs to be lower than those estimated as part of the scoping study. While MPS' operating cost has decreased to US$2,000/t (from US$2,120), this is a result of the increase in Potash credits (from the increase in the Potash price) and not from a reduction in MPS' estimate of operating costs.

New Tenements

- **The Los Andes Group** covers 3,600 ha of salar nucleus and margins, adjacent to the current resource area.
- **Mercedes III** covers 1,700 ha of salar margins prospective for mineralised brine solutions.
- **Viento Blanco**, located to the east of the resource area covers 900 ha of salar nucleus and margins.
- **The Los Andes Group** also covers large areas of land where a processing plant could be located,
- **The Los Andes Group** also provides access to the port of Antofagasta through Provincial Route 70 and Route 40 (a sealed road).

Illustration 2: Olaroz Lithium-Potash Project: Tenement Map



Source: ORE

Valuation Update – Continued

Given all of the assumptions previously outlined, MPS has calculated the following results for the NPV and internal rate of return (IRR) for the Olaroz project:

Olaroz Project NPV

Discount Rate	NPV (US$m)	NPV (A$m)	NPV (A$/share)*
8%	$312	$346	$3.00
10%	**$245**	**$272**	**$2.35**
12%	$193	$214	$1.86
IRR	**39%**		

**Assuming that ORE issues 40 million in new share capital to finance the project.*

Taking into account the value of the 21 million shares in Elementos Ltd (ASX: ELT) currently held by ORE (at the listing price of A$0.25/share) and MPS' estimate for ORE's cash at bank, MPS has calculated the value of ORE. The following table shows that MPS has calculated a total value for the company of A$287 million, which equates to a value of A$2.48/share.

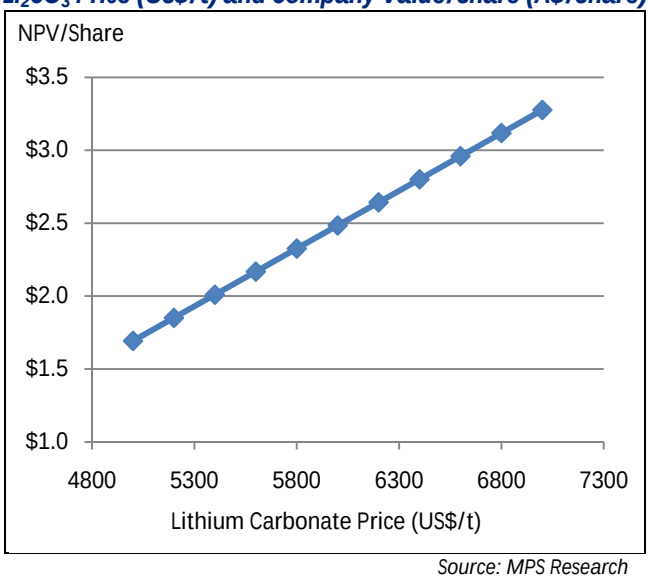
Company Valuation

	A$m	A$/share*
Olaroz NPV	$272	$2.35
Cash at bank	$10^	$0.09
ELT Shares	$5.25	$0.05
Total	**$287**	**$2.48**

^MPS estimate to include recent capital raising and expected cash outflow for Q4 09

It should be noted that MPS' NPV calculations do not take into account any value derived from ORE's salar exploration assets in north Argentina, since very little information has been released on these assets. So further developments with respect to these assets would act as a re-rating trigger for the company.

Li_2CO_3 Price (US$/t) and Company Value/Share (A$/Share)



Source: MPS Research

Valuation Update – DFS on track for mid-2010

ORE has recently announced that The Definitive Feasibility Study (DFS) is on track for completion in mid-2010. The company has also confirmed that, subject to regulatory approvals and finance, development is expected to commence in 2010 and production is expected to start in late 2011. MPS has assumed in its model that production will start in 2012 and thatz it will ramp up to full production (20kt p.a. of Li_2CO_3 and 48kt p.a. of Potash) in 2013.

Key elements of the DFS:

- **Pond processing test work**: including brine extraction, long-term solar evaporation and processing test work.
- **Drilling**: infill drilling to upgrade resource to "Measured and Indicated" categories.
- **Pump testing**: to develop a better understanding of the hydrogeological properties of ORE's resource.
- **Surface geophysical surveys**: to map basin shape and extent of brine pools.
- **Plant process route planning**, and
- **Economic analysis**

Valuation Update – Scope for further NPV increases

MPS believes that there is further scope to increase the Olaroz Project's NPV and that it lies in the following areas:

- The potential to lower operating costs from scoping study estimates (as the company expects).
- Increased resource size due to the 35% increase in salar nucleus from recent land acquisitions.
- Extension of the mine life due to higher than expected recoveries.

Major risks involved with the Olaroz project:

- A lower than expected Li_2CO_3 price, due to higher than expected supply or low demand (lithium-based battery demand) growth.
- Lower than expected recover rates: either in brine extraction or processing.

As mentioned above, MPS has not taken into account any value derived from ORE's salar exploration assets. So any major developments in that respect could increase the company valuation substantially.

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