

Goodbye August, you crappy unhappy month.

Goodbye August, you crappy unhappy month. Nothing good happened in August. Of all my friends and business associates, no one had anything good to say about that stupid month.

Among the people especially mad at August are investors in Canadian cobalt companies. After a strong 2017, the price of shares in those companies plummeted and August brought no relief. Let's look at a few Canadian names with their 12 month highs and lows.

- First Cobalt Corp.: following its three-way merger with CobaltTech and US Cobalt, FCC's shares have been hammered from a high of \$1.65 down to 26 cents in August, now clawing back to around 45 cents
- Cobalt Power peaked at a high of fifty cents in January/18 but mean vicious August brought it to its low of 4.5 cents
- Cruz Capital cruised all right, all the way down from \$0.41 to its August low of eight cents
- Mr. Market clobbered eCobalt Solutions, the company with the North American cobalt property nearest to production, tearing almost 75% from its market value, from \$2.10 per share down to its August low of \$0.54
- CBLT27, the cobalt streaming / holding company with 85 million shares outstanding, lost \$700M of market cap as it fell from \$14 to \$5.73. More on CBLT27 and a bizarre theft below
- Finally, let's not forget junior cobalt / gold / copper explorer CBLT Inc., which despite a stronger balance sheet and profitable M&A activity, fell from \$0.09 to three cents in August (Market note: I'm an insider at CBLT Inc.)

Stupid month.

But there are reasons other than August for the Canadian cobalt companies getting pounded. Let's start with the price of cobalt on the London Metal Exchange. Three years ago it languished around \$20,000 to \$25,000 per tonne. In 2017 it shot up to \$94,000 per ton, only to see 2018 bring it back to roughly \$60,000 per ton. While that is still a tremendous leap from 3 years ago, it has fallen a third from last year. The cobalt stocks have moved more or less in sync with the commodity price.

It's not just cobalt that has been pressured in this commodity lull: copper is down, gold is down, zinc is down, silver is down, the list goes on and on. Even darling lithium is having its challenges. The general commodity malaise has leaked capital out of the junior explorers.

Another leak of capital out of the juniors has flowed into Canadian cannabis and cryptocurrency stocks. The risk capital market is only so big, and a diversion of capital into other risk sectors means there is less for the junior explorers, including the cobalt ones. Less capital means less exploration capital, less working capital, and less flow of market funds, all of which add up to lower stock prices.

A problem that is endemic to this cobalt market is a lack of credibility specifically among the junior cobalt explorers. Many of them are new or repurposed companies trying to create an identity and find their way. Some of them deserve your attention, and some certainly do not. There have already been many re-stated or amended press releases that were initially not in compliance with either JORC or NI43-101. Every one of those recalled press releases hurts the credibility of all the cobalt juniors.

Another credibility problem arises from inventive new ways of reporting assay results. "Adjusted EBITDA" is a non-GAAP, non-

IFRS phrase that each user defines differently, which means it means whatever the reporting company wants it to mean. It's usually used by a business that has a strong top-third in its P&L, but is consuming much capital to get there. Many an operating loss has been 'adjusted' to a profit by playing with the underlying definitions.

"Cobalt equivalent", or CoEq, is this market's equivalent of Adjusted EBITDA. One company reported its cobalt results in "CoEq" by including non-economic trace showings of silver, gold and copper from its assay results. Then the company gave all those trace elements a dollar value, converted it somehow to a cobalt value, and voila! reported the final number as a higher "cobalt equivalent".

Yet another challenge is that cobalt is a bizarre metal. It's scattered around the globe in only a few mineable locations. One of those unique geologic settings is in the historic Gowganda / Cobalt silver and cobalt camp in northern Ontario, whose geologic history and mineralization still have not been satisfactorily explained. Until the agents of mineralization are better understood, larger companies see excessive risk and will be reluctant to invest large sums in that part of the world.

The majority of the world's cobalt comes from the Congo, where the 2016 Presidential Election still has not been held. It's also the birth place of ebola. The supply chain out of the Congo is always at risk.

Then there are problems unique to each company. First Cobalt, for example, is still suffering from the effects of merging with CobaltTech, whose shareholders have been according to market rumours banging away at the FCC bid. FCC's success in the field at Iron Creek, Idaho has not translated into market success, as even at these depressed prices those original CobaltTech shareholders are still in the money – hence the bid-banging.

CBLT27 had its own embarrassing company-specific issue this summer. In its quarterly filings, CBLT27 reported that roughly USD\$5M of cobalt had been stolen in July from its holdings, held at a third party's warehouse in Rotterdam. How do you steal 76 metric tonnes of physical cobalt? It boggles the mind. Can you hear the intro from *Mission: Impossible*? The property was insured and so CBLT27 won't suffer a financial loss apart from any deductible, but it will have an impact on its market perception.

One final reason that may explain why the Canadian cobalt stocks are down is that it is still a new market. It took investors a long time to understand the need for lithium. Lithium 1.0 ran its course, then Lithium 2.0 had its day, and we are in the valley before Lithium 3.0. As investors and more senior companies better understand lithium, so too will they understand the greater need for cobalt. The conventional project generation model should appear in cobalt, providing much needed financing to support many smaller projects in development.

What does all of that mean for investors? Going back to the great Sage of Omaha, be greedy when others are fearful. The cobalt stocks are out of favor but the long term fundamentals are extremely strong. Now is the time to buy the good ones. Do your research and buy at least three to spread your risk. Call the management of each company and actually ask about the assets, that work plan, the mistakes made to date, the plan for success going forward. When it turns, this market will turn hard and fast. Say hello to September.