

## ORBITE ALUMINAE INC. – SPEC. BUY

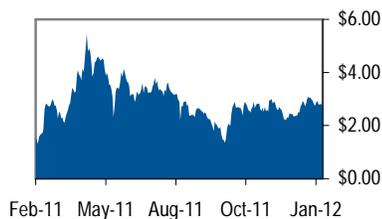


ORT-TSX	\$2.23
TARGET:	\$9.00
PROJ. RETURN:	304%
VALUATION:	1x NAV

**Share Data**

Basic Shares O/S (mm)	168.7
Fully Diluted (mm)	199.5
Market Cap (basic) (\$mm)	376.2
Enterprise Value (\$mm)	308.3
Net Debt (\$mm)	-68.0
Dividend	0.0
Yield	N/A

**Next Reporting Date** **March**

**Short-term Technical Target**

\$2.20, next support level. ORT is weak in the short-term.

**Corporate Profile**

Orbite Aluminae Inc. is hybrid resource and processing technology company engaged in commercializing its patented technology to extract metallurgical alumina, high-purity alumina and other by-products from its Gaspé region clay stone deposit.

**Upcoming Events**

Completion of Roche's audit of the PEA.

Commencement of conversion of Cap Chat facility to exclusive high purity alumina model. Feasibility Study, and start of commercial operations of high purity plant.

**Agreement with largest Aluminum Producer****EVENT – MOU with RUSAL for JV on First SGA Plant in Quebec**

UC RUSAL and Orbite Aluminae sign memorandum of understanding pursuant to which the parties are going to invest into a joint venture (JV) to be established and that would realize the first SGA production facility contemplated by Orbite.

**IMPACT – A Critical Validating Milestone for Orbite & its Process**

The announcement is a major de-risking event for Orbite. RUSAL is the world's largest producer of aluminum and accounted for 9% of the world's production of aluminum and alumina in 2011.

RUSAL will contribute not just capital resources to the JV, but Orbite will also have access to RUSAL's wealth of experience, services and technologies. These will be critical advantages as Orbite moves toward construction of the first SGA facility.

**Potential for M&A and Follow-on Agreements with other Aluminum Majors:** The press release contains some very interesting comments from Mr. Vladislav Soloviev, a senior executive at RUSAL, who points out his company's technical team has visited Orbite's pilot plant in Cap-Chat. The technical team concluded that "we have high regards with respect to the potential of this new technology." Mr. Soloviev also comments, "The alternative technology is important for alumina production in Russia and its development will allow the strengthening of RUSAL's vertical integration".

While the RUSAL/Orbite agreement is confined to this first JV, this announcement could mark an initiative of RUSAL to move towards an outright acquisition of Orbite to have exclusive access to the technology. Furthermore, it could also instill a sense of urgency with the other major aluminum producers with which Orbite is negotiating alumina supply agreements. The deal sends a strong signal to these other aluminum producers (Rio Tinto Alcan, Alcoa, Norske Hydro, etc.), that a giant in the industry has completed extensive due diligence on Orbite's technology and is excited with its prospects. We would not be surprised to see similar JV agreements, or sales agreements with these aluminum companies over the short to medium term.

**A LOOK AHEAD – A Successful Audit May Allow CTO to Lift**

Today's RUSAL news is particularly welcome as Orbite has come up against unfortunate circumstances with respect to its cease trade order (CTO). Results of Roche's audit should be completed in the near-term and may allow for shares to resume trading. Today's news should help mitigate the negative impact of the CTO.

		FYE Dec 31	Q1/10A	Q2/10A	Q3/10A	Q4/10A	2010A	Q1/11A	Q2/11A	Q3/11A	Q4/11E	2011E	2012E
Met. Alumina Sales	\$ million	-	-	-	-	-	-	-	-	-	-	-	-
HP Alumina Sales	\$ million	-	-	-	-	-	-	-	-	-	-	-	60
<b>Earnings</b>			<b>Q1/10A</b>	<b>Q2/10A</b>	<b>Q3/10A</b>	<b>Q4/10A</b>	<b>2010A</b>	<b>Q1/11A</b>	<b>Q2/11A</b>	<b>Q3/11A</b>	<b>Q4/11E</b>	<b>2011E</b>	<b>2012E</b>
EPS	\$/sh		(\$0.00)	(\$0.00)	(\$0.02)	(\$0.02)	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	\$0.20
P/EPS	multiple		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14.9x
CFPS			(\$0.00)	(\$0.00)	(\$0.02)	(\$0.00)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.20
P/CFPS			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14.5x

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## MORE DETAILS AND INSIGHT INTO RUSAL AGREEMENT

**Summary of Orbite conference call:** This morning, Orbite hosted a sell-side analyst call providing more details on the agreement with RUSAL, the key points are below:

- 1) **Percentage ownership of JV:** RUSAL targets owning a 25% stake in the SGA joint venture. Because the GENIVAR PEA outlines a total of \$500 million, this means that RUSAL's contribution will be a total \$125 million.
- 2) **RUSAL's contribution:** RUSAL's contribution will be mostly in the form of cash, and the estimate is that the value of their contributed IP, know-how, handling and transportation services is deemed to have a value of approximately \$25 million to the JV. This would mean that RUSAL will invest approximately \$100 million of cash requirements in the build-out. RUSAL's experience in treating, manipulating, and transporting finished alumina product will be critical contributions to Orbite.
- 3) **The bigger picture:** RUSAL has larger expansion plans within for Quebec with respect to the aluminum industry, and it is quite possible that they participate in the financing and operation of additional alumina production facilities in the province, in partnership with Orbite.
- 4) **Raising the urgency for other companies to deal with Orbite:** Orbite continues to be in discussions with other alumina and aluminum companies, and the deal with RUSAL could increase the urgency for these other parties to act.
- 5) **Russia limitations:** Under the agreement, RUSAL is not permitted to import alumina feedstock into Russia for processing there using Orbite's technology. Similarly, it is not permitted to sell the alumina produced in Russia, outside of Russia. Consequently, Orbite retains the rights to sign additional licensing agreements with RUSAL in the future at market rates.
- 6) **Timing of a firm agreement:** the MOU was guided to be upgraded to a definitive agreement within the "next few weeks."
- 7) **Rare earth licensing potential:** REE were not included in the licensing agreement or the SGA joint venture agreement. However, RUSAL is interested in the rare earth potential of the technology. Orbite is also advancing rare earth negotiations with other interested parties.
- 8) **Standstill agreement on RUSAL acquiring Orbite:** The question was asked on the conference call whether a standstill agreement between the companies had been structured. However, Orbite management has said this aspect of the agreement is confidential.
- 9) **Additional revenue streams for Orbite:** On the conference call, it was indicated that the upcoming Feasibility Study being completed by GENIVAR would incorporate a "spun-off" corporation that Orbite would create to have ownership of the Grand Vallee clay feedstock. This corporation would sell the clay feedstock to the Orbite/RUSAL SGA joint-venture, and thus Orbite would exclusively capture the gross margin on the sales of this feedstock. Separately, Orbite will generate an additional revenue stream through fixed consulting payments for plants that RUSAL builds in Russia that use Orbite's technology. Financial guidance of these payments were not provided on the conference call, and we suspect specifics on this matter have yet to be finalized.

**Licensing valuation analysis once again topical:** In a previous research note we summarized an analysis we completed of how much Orbite's technology could be worth if the Company is successful in securing license agreements. In that research note published on July 21, 2011, we calculated that individual licensing agreements for bauxite-based alumina production plants could be worth approximately \$1.80 of NPV per Orbite share. Given the fact that RUSAL is the largest aluminum producer in the world, this "blue-sky" valuation analysis becomes topical once again. Based on the terms of the MOU, there is a cross licensing provision where Orbite and RUSAL will cross-license their technologies free of charge on a non-exclusive basis in Canada (in the case of Orbite) and in Russia. In this scenario, Orbite would not receive royalties for alumina plants built by RUSAL that are located in Russia. However, Orbite retains the rights to licensing agreements with RUSAL outside of Russia, where most of the world's aluminous ore deposits exist.

**The six terms of the non-binding JV are as follows:**

1. The first SGA Plant is expected to be deployed into 3 distinct incremental phases of production capacity and RUSAL's possible investment into the first phase of the project will be 25 million Canadian dollars over time with the right to participate in the following phases;
2. To supplement Orbite's personnel and local workforce, RUSAL will provide specialists and know-how in connection with the design, construction and operation of the JV SGA Plant;
3. Both Orbite and RUSAL will license their pre-existing technologies to the JV;
4. Orbite and RUSAL will cross-license their pre-existing technologies on a non-exclusive basis such that they will be entitled to use the other party's pre-existing alumina extraction technologies in Canada (in the case of Orbite) and in Russia (in the case of RUSAL) free of charge, and both Orbite and RUSAL will be granted certain licensing rights in connection with the technology that will be developed jointly in the course of the joint-venture;
5. RUSAL and Orbite will discuss licensing rare earth elements and rare metals extraction technologies at a later time;
6. Orbite will supply the raw material to the SGA Plant. The JV will also undertake necessary tests of RUSAL raw materials at the SGA plant and the required adaptation of technology to said raw materials.

**RISKS TO TARGET**

The main risks include commodity price risk, technology risk, commercialization risk, and resource development and mining risks.

**RELEVANT DISCLOSURES APPLICABLE TO: ORBITE ALUMINAE INC.**

1. On a recent analyst tour, Matt Gowing visited the operations of Orbite Aluminae Inc. Transportation costs related to the visit were paid in part the by issuer.
2. Within the last 3 years, Mackie Research Capital Corporation has received compensation for investment backing and related services from the subject issuer.

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