



20 July 2020

Erratum: Lithium Australia business update

KEY POINTS

Focus on near-term cash flow

- **Soluna Australia expecting positive cash flow by Dec 20 Qtr:**
 - product approvals received, and
 - indications of strong demand for battery energy storage solutions from both retail and commercial sources.
- **Envirostream Australia revenue expected to grow significantly in FY2021:**
 - significant strengthening of commodity prices since March 2020;
 - new copper and aluminium recovery circuits commissioned as copper and aluminium prices improve;
 - stock levels being reduced as spent battery supplies diminish, and
 - focus on widening battery collection initiatives to strengthen revenue.

Reduction in outgoings

- **Reduced activity in capital-intensive business units affected by travel bans.**
- **Cash at 30 June 2020 – \$3.5 million, with significant R&D tax refunds over coming 6 months.**

Background

On [3 April 2020](#), Lithium Australia NL (ASX: LIT; 'Lithium Australia' or 'the Company'), together with its various subsidiaries (collectively 'the Group'), announced an initial strategy to deal with the volatility in business activities resulting from COVID-19. This bulletin outlines the Group's progress in maintaining operations in such an uncertain environment.

The Company notes that demand for many commodities in the battery-minerals space has bounced back strongly in recent times; indeed, prices for copper, nickel and steel have increased. However, the markets for lithium and cobalt in particular will likely take longer to recover. That said, demand for batteries remains strong and an increase in demand for all battery minerals is anticipated in the medium to longer term.

In view of ongoing trade constraints and market unpredictability, Lithium Australia is further reducing outgoings and maximising support for the business units closest to positive cash flow for the benefit of shareholders.

More details on each of the Company's business units, and how they are adapting to current events are set out at the end of this announcement.

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Maintaining safety during the pandemic

Issues surrounding COVID-19 continue to affect the Group. Although many employees continue to work from home, they can choose to phase in a return to office-based duties. The Company's head office is located in Perth, Western Australia, a state in which there is currently no community transmission of the virus and only a few cases of infection remain. To maintain these enviable statistics, state borders remain closed for the foreseeable future. Similarly, Australia's maritime borders and international air traffic are still strictly controlled, with again no easing of restrictions in sight. For some Group business units, these travel restrictions have made pursuing business as normal well-nigh impossible. All Company employees rigorously adhere best practice in hygiene and social distancing and will continue to meet the current challenges in a safe and responsible manner.

COVID-19 – the impact on business and financial markets

The Group's activities embrace Europe, Asia and Australia, all of which are affected by travel restrictions. Further, many service providers and other stakeholders involved in Company business have curtailed their operations. As a result, Lithium Australia is contemplating further reductions in activities that will not provide a positive near-term financial outcome.

While there has been a resurgence in both capital and commodity markets, the Company has adopted a cautious stance, given current and future uncertainty and the advent of what appears to be a second wave of COVID-19 outbreaks in many locations worldwide. Even within Australia, where COVID-19 was previously considered under control, community transmission of the virus in clusters in Melbourne, Victoria and, less alarmingly, in Sydney, New South Wales is accelerating.

Government assistance

Australia's federal and state governments are helping maintain employment levels. Their financial initiatives, which include the JobKeeper programme, PAYG subsidies and payroll tax relief, have benefited the Group. Further, the Company has received multiple government grants and expects significant R&D tax rebates over the next six months.

Comment from Lithium Australia MD Adrian Griffin

"Lithium Australia has taken significant measures to refocus its business on its revenue-generating battery recycling and battery sales businesses, which it expects will generate significant revenue during FY21. This focus will drive value for shareholders."

The Company has also reduced its cash burn for FY21, which unfortunately means some reduction in workforce numbers. However, we are striving to minimise direct impacts on employees. Funding has been refocused on the Group business units with the most capital efficiency, in an effort to drive value for shareholders."



Authorised for release by the Board.

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About Lithium Australia NL

Lithium Australia aims to create a circular battery economy, enhancing sustainability and energy security in the process. Recycling spent lithium-ion batteries ('LIBs') is intrinsic to this plan. While the Company is rationalising its portfolio of lithium projects/alliances, R&D on its proprietary lithium extraction processes is ongoing and its provision of battery energy-storage systems for the Australian market is imminent. Through resources, research and innovation, Lithium Australia seeks to vertically integrate lithium extraction, processing and recycling, providing investors with ethical, diversified exposure to the fast-growing battery and energy-metals sectors.

About Envirostream – battery recycling

Most spent LIBs end up in landfill, harming the environment. In Australia, Envirostream (a 90% subsidiary of the Company) is, as the nation's only recycler of mixed battery types, aiming to alleviate this.

Envirostream collects spent batteries from around Australia and sorts, shreds and separates out the various components at its Melbourne (Victoria) based recycling facility. Importantly, it can recover nearly all the components of spent LIBs, including cobalt, nickel, lithium and manganese in concentrate, as well as copper, aluminium and steel. Together, Lithium Australia and Envirostream have the technology to recover most of the valuable metals within not only spent LIBs but also spent nickel-metal-hydride and alkaline batteries, for use in the generation of new battery materials.

Currently, Envirostream leads the world with respect to mass yield of recyclable battery components (+90%); other operators generally recover less than 65% by weight.

Envirostream has now added more circuits at its plant to enhance the recovery of lithium, cobalt and nickel and produce more marketable copper and aluminum streams. Meanwhile, the zinc and manganese recovered from alkaline batteries are being trialled for use as micronutrients in fertiliser (see ASX announcements dated [22 May 2020](#) and [10 June 2020](#)).

As noted, Envirostream's plant is located in Melbourne, where lockdown measures have recently been renewed. It continues to operate as an 'essential service' but movement restrictions resulting from COVID-19 have adversely affected battery collection in the short term. In these circumstances, supply of feed material constitutes a business risk; however, the operation is still running at full staff levels, subject to regular monitoring.

Battery recycling R&D also continues apace and programmes for the recycling of LIB electrolytes, as well as automated battery sorting, are ongoing.



The Australian Battery Stewardship Council aims to introduce a nationwide system for spent-battery recovery during FY21. That scheme will implement a levy at the point of battery sale, with the funds generated used to subsidise battery collection and recycling. By commoditising spent batteries, the scheme provides a strong incentive for their collection and thus diversion from landfill. Once the scheme comes into effect, the volume of spent batteries Envirostream collects should increase significantly. Further, the Australian federal government is making grants available to stimulate the recycling industry as a whole.

Following significant investment, Envirostream is operating at commercial throughputs. Revenue growth is anticipated in the near future, with the Melbourne operation transitioning to positive cashflow during the second half of FY21.

Further, Envirostream has signed non-disclosure agreements with a number of potential partners for the establishment of recycling facilities in jurisdictions both within Australia and offshore.

About Soluna Au – battery-based energy storage

An incorporated joint venture formed to market LIB-based energy-storage systems in Australia (on both the residential and industrial fronts), Soluna Au is 50% owned by Lithium Australia. A recent important milestone for Soluna Au was having its products accredited for grid connection by the Clean Energy Council of Australia ([ASX release 16 Jun 2020](#)), paving the way for retail sales. The significance of this achievement for the Western Australian market in particular cannot be overestimated, since in that state distribution grid balance is hampered by the large amount of installed solar generation capacity and lack of available power storage. Annually, peak demand occurs in the summer (usually between 4.00 and 8.00 pm during prolonged heat waves), with air-conditioning accounting for up to a third of all power consumed. Grid demand could be markedly reduced by greater utilisation of energy-storage systems, and domestic installation of same is being encouraged by the state government to maintain the balance of energy distributed through its electricity grids.

Although global supply chains were disrupted in April and May, these are now at near-normal levels again. Soluna Au has energy-storage products in stock and will be resupplied on a regular basis to mitigate any future disruption.

For FY21, Soluna Au anticipates strong demand for its energy-storage systems and good sales growth, with the business expected to be cash-flow positive from the December quarter.



About VSPC – cathode-powder production

At its Brisbane (Queensland) research facility, VSPC Ltd ('VSPC') develops superior cathode materials for the production of LIBs. Its cathode powders having now been tested in commercial facilities in China and Japan, VSPC has in place a number of agreements to commercialise the production of those materials. For now, COVID-19 issues having slowed battery production and forced temporary closure of partner facilities utilised by VSPC, the commercialisation programme is curtailed.

That said, VSPC remains active in various research programmes, some partly funded by federal government grants, for the time being. Those programmes include:

- evaluation of low-cost reagent feed for the manufacture of LFP cathode powders, and
- development of rapid-charge batteries for use in transportation.

However, these activities too are being scaled back and VSPC's pilot plant will be placed on care and maintenance, although lab-scale development to optimise VSPC cathode materials is ongoing, with activity to be reviewed on a monthly basis.

About Lithium Australia's chemical business

Lithium Australia has maintained some of its R&D programmes for the extraction of lithium from primary sources such as lithium micas and spodumene. These activities have resulted in a patent application being published for SiLeach[®] – a process for recovery of lithium from micas – and legal protection by way of patent grant for LieNA[®] – a process for the recovery of lithium from off-specification spodumene concentrates (i.e. materials considered commercially unviable for 'conversion' into lithium chemicals by conventional means).

Spodumene is the principal mineral used as feed for the lithium chemical – and subsequently battery – industries. At present it is not uncommon for 30-50% of mined spodumene to be returned as waste to tailings as uncommercial (low-grade or contaminated) or unrecoverable (particle size too fine). LieNA[®], however, is not sensitive to impurities in the feed and thrives on fine particle size, making it an ideal means of improving the sustainability of spodumene for battery chemical production.

Although SiLeach[®] R&D activities are on hold, the Company's LieNA[®] process is the subject of a co-funded federal government research grant, under the aegis of the Co-operative Research Centres Projects (CRC-P) programme. The grant supports the establishment and operation of a pilot plant, that being the first stage in scaling up the process for commercialisation.

About Lithium Australia's raw materials division

In the past, Lithium Australia maintained a large exploration portfolio. This has now been substantially reduced to minimise expenditure. While prospective tenure has been retained within Australia, the Company has relinquished its involvement in a Mexican project, and exploration at Sadisdorf (Germany) is on hold. Currently, the Company is in joint-venture discussions with respect to various other properties, and announcements will be made if and when such agreements become binding.

ASX ANNOUNCEMENT



On 27 May 2020, the Company announced it had entered into an agreement to explore the Coates Mafic Intrusive Complex ('Coates'), located 29 kilometres southwest of the recent nickel-copper-platinum group elements discovery by Chalice Gold Mines Ltd (ASX: CHN) at Julimar. Coates, which exhibits similar geology, is known to host base- and precious-metal anomalies in soils overlying the mafic intrusion.

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