



Century Lithium Corp. (TSXV: LCE)

Project viability in question at current lithium price environment; downgrade to SELL

Author: Couloir Research Team November 11, 2024
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Investment Highlights

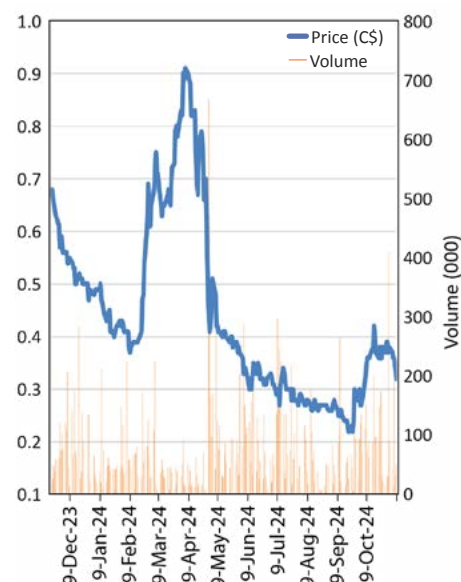
- ◆ **Century Lithium Corp. (TSXV: LCE, OTCQX: CYDVF, FRA: C1Z) (“LCE,” or “Company,” formerly called Cypress Development Corp)** has further progressed on initiatives previously covered, including production of battery-grade lithium carbonate (Li₂CO₃) at its pilot plant and advancing to permitting at its Angel Island Mine Project.
- ◆ **Successful production of battery-grade lithium carbonate:** Century Lithium has announced the successful production of battery-grade lithium carbonate (Li₂CO₃) at its Angel Island pilot plant. The lithium carbonate produced achieved a high purity level of 99.5%, meeting battery-grade standards. Notably, Century Lithium has now demonstrated complete end-to-end processing capability, converting lithium claystone into battery-grade lithium carbonate within its pilot plant.
- ◆ **Next steps – environmental studies and permitting:** Century Lithium is making steady progress with its environmental permitting efforts. The company has developed an initial hydrologic model and an operational plan and is working on securing water sources nearer to the project site to reduce logistical challenges.
- ◆ **Project economics unviable at current lithium prices:** Based on our analysis (on Pg 3), we believe Century Lithium faces heightened challenges in achieving profitability at the current lithium carbonate prices. Our DCF suggests a negative NAV at a price of US\$15,000 per tonne and a discount rate of 12%.
- ◆ **Based on our analysis, we downgrade the stock to SELL driven by concerns around project’s unviability at the current lithium prices. We will revisit our thesis should there be an improvement in lithium carbonate prices.**

Key financial data (FYE Dec. 31, C\$)	2023	Q2-2024
Cash	\$ 14,369,089	\$ 10,285,367
Working capital	\$ 14,070,914	\$ 9,469,774
Mineral assets	\$ 33,860,853	\$ 38,452,759
Total assets	\$ 55,674,460	\$ 54,831,104
Net income (loss) for the 3M	\$ (1,409,177)	\$ (644,793)
EPS for the 3M	\$ (0.01)	\$ (0.00)

Current Price (C\$)*	\$0.32
Fair Value	N/A
Projected Upside	N/A
Action Rating	SELL
Perceived Risk	HIGH
Shares Outstanding	148,744,548
Market Cap. (C\$)	\$46,854,533
P/B	0.87
YoY Return	-50.77%
YoY TSXV Return	18.31%

* Note: all \$ amounts are C\$ unless otherwise stated

TSXV: LCE price and volume history



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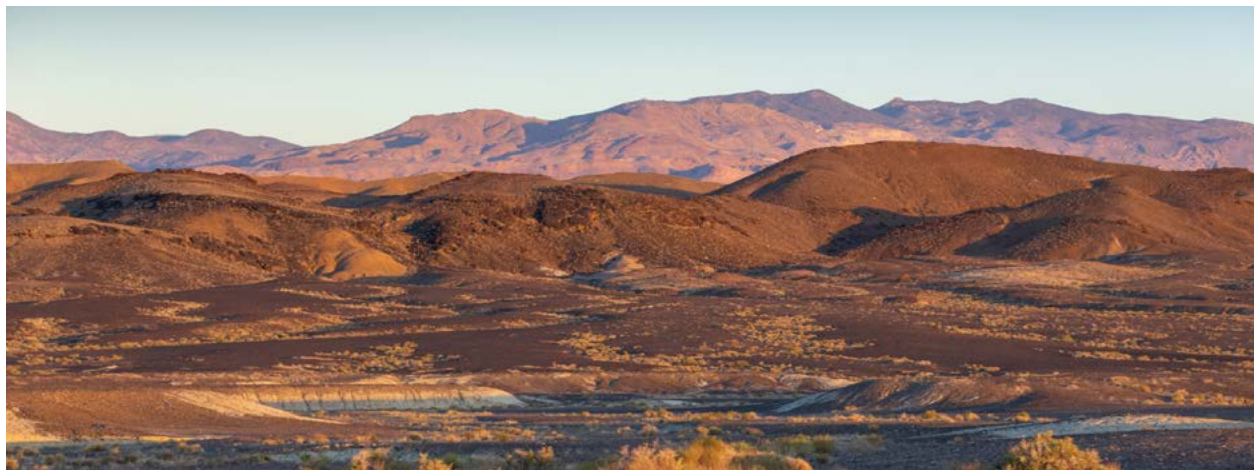
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Source: Company

LCE continues to make progress with key strategic and operational initiatives discussed in our previous report, with key updates including:

SUCCESSFUL PRODUCTION OF BATTERY-GRADE LITHIUM CARBONATE

Century Lithium announced that it has successfully produced battery-grade lithium carbonate (Li_2CO_3) at its Angel Island pilot plant. The produced lithium carbonate indicated purity as high as 99.5%, which is typically considered as battery grade. Importantly, LCE has now achieved an end-to-end capability to convert lithium claystone to battery-grade lithium carbonate at its pilot plant. Management is presently concentrating on the optimization of processes to decrease the projected capital and operating expenditures of the project while also facilitating advancements in environmental studies, securing necessary permits, and obtaining project financing.

Regarding environmental permitting, Century Lithium seems to be making good progress. The Company has created a preliminary hydrologic model and an operational plan while also pursuing agreements for water sources closer to the project site to mitigate logistical difficulties. The company is diligently searching for strategic partners and end-users for their lithium carbonate, in addition to potential customers for the sodium hydroxide by-product, which may help offset production expenses. Applications for government funding are currently being processed to facilitate further development.

We believe the Angel Island project positions LCE as a key player in the security domestic supply of battery-grade lithium carbonate, a key commodity for the growing electric vehicle and battery storage market. However, the low lithium prices remain a substantial challenge in achieving profitability at its Angel Island Mine project. At the current level of lithium prices, we believe the project economics is unviable, and as such, we recommend that investors avoid the stock unless there is an improvement in lithium carbonate pricing.

LCE ACHIEVES MILESTONE WITH BATTERY-GRADE LITHIUM CARBONATE PRODUCTION

Century Lithium produced a battery-grade (99.5%) lithium carbonate (Li_2CO_3) at its Angel Island Pilot plant, demonstrating the commercial viability of the project. With this, Angel Island is now among the few projects in the U.S. with the ability to provide end-to-end processes for Li_2CO_3 production. We are encouraged to see the availability of Li_2CO_3 samples that have been produced on-site for evaluation by potential partners and end-users. This is a significant milestone for the project and positions LCE as a key player in the security of the domestic supply of battery-grade lithium carbonate.

The pilot plant utilizes the Company's patent-pending process for chloride leaching combined with DLE. As shown in the figure below, results from the second batch included two 40-liter volumes of concentrated lithium solution from the DLE area, which were treated at the pilot plant. The treatment process involved precipitation using sodium carbonate, followed by the washing and drying the 4 kilograms of lithium carbonate generated from each volume. Subsequent to resolving a mechanical issue, the assay results for the

two volumes from the second batch indicate an enhancement in the purity of lithium carbonate, reaching 99.5%. Notably, the first batch, which was processed in September 2024, produced Li_2CO_3 with a maximum purity of 99.2%. The improvement in the second batch suggests that the impurities of concern, specifically sodium and calcium, have been effectively reduced.

Table 1: Lithium carbonate assay results (second batch) from pilot plant

Sample ID	Li_2CO_3 [%]	Total non-Li [ppm]	Sodium [ppm]	Calcium [ppm]
Batch 2 #1	99.5	4,721	965	2,300
Batch 2 #2	99.5	4,778	566	2,200

Analyses were conducted on three laboratories using methods on both solids and liquids. Lithium carbonate purity was determined by subtracting the sum of impurities from 100% of the sample.

Source: Company filings

Going forward, the Company continues to work on optimizing the process at the pilot plant to drive reductions in the Project's estimated capital and operating costs, thereby improving the economics. The sale of sodium hydroxide by-products produced during the process could help offset the project's operating costs. Furthermore, significant steps are already taken to advance the project through environmental studies and permitting. This includes completing a preliminary hydrologic model and an operational plan while also pursuing agreements for water sources closer to the project site to mitigate the logistical difficulties of accessing water. The Company has enlisted consultants to manage the preparation of essential state permits, with a strong focus on water pollution control and air quality management.

Further, the Company is seeking government funding through the U.S. Department of Energy and the U.S. Department of Defense to facilitate further development of the project. The efforts are underway to rope in strategic partners and end-users of Li_2CO_3 , which will significantly de-risk the project. Angel Island is now one of the few projects in the U.S. to provide an end-to-end process to produce battery-grade lithium carbonate.

FINANCIALS OVERVIEW

At the end of June 30, 2024, the company had cash of \$10.28 million and working capital of \$9.47 million. The company's current ratio of 10.40x implies the ability of current assets to sufficiently cover current liabilities, implying a strong liquidity position at the end of Q2 2024. The company had monthly cash burn (negative free cash flow) of \$0.69 million in Q2 2024, lower than \$1.43 million in the prior year period, which we attribute to reduced exploration and development activity YOY. The company is currently debt-free. The following table summarizes the company's liquidity position:

Table 2: Liquidity position

Key financial data (FYE Dec. 31, C\$)	2023		Q2-2024	
Cash	\$	14,369,089	\$	10,285,367
Working capital	\$	14,070,914	\$	9,469,774
Current ratio		20.44		10.40
Debt	\$	–	\$	–
Monthly cash burn (3M)	\$	(1,431,342)	\$	(697,685)
Cash from financing activities (3M)	\$	(86,257)	\$	(86,259)

Source: Company, Couloir Capital

The table at right outlines the company's outstanding options and warrants.

The company currently has 6.7 million options (weighted average exercise price of \$1.39 per share), and no warrants outstanding. At this time, none of the options are in-the-money.

REVENUE AND EPS FORECASTS

Because the company has yet to reach the construction stage, we believe the development timeline is still too far out to provide preliminary revenue and EPS forecasts.

Table 3: Outstanding options and warrants

Options	Strike	Exercise value
200,000	\$ 0.35	\$ 69,000
750,000	\$ 1.25	\$ 937,500
1,745,000	2.26	3,943,700
750,000	1.84	1,380,000
645,000	\$ 1.06	\$ 683,700
1,318,000	\$ 1.03	\$ 1,357,540
450,000	0.94	423,000
845,000	0.59	498,550

Source: Company, Couloir Capital

NET ASSET VALUATION MODEL INDICATES UNVIABLE PROJECT ECONOMICS

Our models assume the production schedule outlined in the April 2024 feasibility study as well as many of the FS's base case assumptions but incorporates our own assumptions on LOM average lithium carbonate price and discount rate. Since our past reports, the price of lithium carbonate has fallen sharply, with the current price trending around US\$9,375 per ton versus an all-time high of US\$81,360 per tonne seen in November 2022. Looking ahead, lithium prices could remain in a tight range. According to forecasts by S&P Global Commodity Insights, the price of lithium carbonate is expected to remain between \$9,924 and \$11,627 per metric ton until 2026. This outlook mirrors the sector's cautious perspective, as industry players anticipate that demand growth will take some time to counterbalance the existing surplus. Current prices are suppressed due to an oversupply and varying demand for electric vehicles, particularly outside of China. Albemarle, the world's largest lithium producer, indicated in its recent Q3 earnings report that it expects prices to remain lower for longer.

Based on the current scenario of low lithium prices, we believe that the Angel Mine Island project economics is not profitable. **Our base case DCF model, which assumes a long-term lithium carbonate price of US\$15,000 per tonne and a discount rate of 12%, implies a negative NAV, indicating that the project economics is unviable at that price.** We will revisit our DCF model should there be an improvement in the lithium carbonate (LCE) prices.

CONCLUSION

We downgrade the stock to SELL due to concerns over the project's economic viability. We will revisit our recommendation should the lithium carbonate prices improve. We expect the following catalysts to materially impact our valuation estimate:

- ◆ Any news on the improvement of LCE prices should be positive for the stock.
- ◆ Any news regarding further progress on the permitting process of the Angel Island Mine project.
- ◆ Any news regarding progress on the financing related to the capex associated with construction of the plant.
- ◆ Any news regarding strategic partnerships or offtake agreements.

RISKS

The following outlines some of the key risk considerations that investors should keep in mind when evaluating LCE as an investment opportunity:

- ◆ **Delays in achieving key development milestones:** LCE has not given guidance on when it intends to reach commercial production. However, the guidance embedded in the recent FS will likely serve as a measuring stick for investors looking at LCE as an investment opportunity. Assuming that time frame as an approximate development period, the inability to roll out significant developments on time (i.e., advancing the permitting process, attaining project financing, and beginning construction) will likely lead to a deterioration in the company's intrinsic valuation as free cash flow generation gets delayed.
- ◆ **Uncertainty around permitting:** LCE requires multiple permits identified in the FS, and inability to secure permitting (such as environmental permitting) can significantly hold up project development
- ◆ **Market price exposure and impact on execution risk:** As LCE moves closer to commercial production milestones, the greater we perceive both the sunk capital burden as well the near-term capital needs of the company. Until a project financing deal to facilitate mine construction is secured, exposure to market pricing is significant as LCE will be subject to investor sentiment (which can be vulnerable to deteriorations in broader industry conditions, such as poor commodity pricing). In addition, the project's largest valuation sensitivity is to lithium carbonate pricing.
- ◆ **Capital structure deterioration related to cash burn:** While the Company has sufficient liquidity to meet its obligations over the next 12 months, there is potential that the company's cash burn could increase to the point of the company needing to raise capital. Given that the Company generated no cash flows, there is a high likelihood that LCE would do so via equity issuance. Depending on the price of the issuance, such issuance could be dilutive to existing shareholders.

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