Sigma Lithium

Investor Call Q2 2023

November 15, 2023, 8:00 A.M. Eastern

CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good day, everyone. Welcome to Sigma Lithium's Third Quarter 2023 Earnings Conference Call. Today's call is being recorded and is broadcast live on Sigma's website. All participants will be in listen-only mode. For those on the phone, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. Please note this event is being recorded.

I will now turn the conference over to Matthew DeYoe, Executive Vice President of Corporate Affairs and Strategic Development at Sigma. Please go ahead.

Matthew DeYoe
Thank you, Jason. Good morning, everyone. Thank you for joining us on our 3Q earnings call. On the call with me today is company CEO Ana Cabral. This morning, before the market opened and really actually last night, we post our 3Q '23 financial results, as well as the SEC filing.

Before we begin, I'd like to cover two items. First, during the presentation, you will hear certain forward-looking statements concerning our plans and expectations. We note that actual events or results could differ materially from changes in market conditions and our operations. And additionally, earnings referenced in this presentation may exclude certain non-core and nonrecurring items. Reconciliations to the most comparable GAAP financial measures and other associated disclosures, including descriptions of adjustments, can be found in the back of the release.

With that, I will pass the call over to Ana. Ana?

Ana Cabral
Yeah. Hi, everyone. Thank you, Matt. Well, first of all, it's a pleasure to be here with all of you to present our third quarter 2023 financials. We are delighted to present you our very first operational quarter, and we are profitable right at the onset.

So, with that, I'll go straight into the first page with the operational highlights. Well, we're not a large producer. We are a force for good in that lithium industry, and we basically achieved what many deemed impossible. We are delivering zero carbon, zero tailings lithium produced without toxic chemicals. We have basically been producing the very best product in the lithium industry as far as concentrate.

We have always managed to do that delivering a very successful ramp up. As you can see, our green tech plant has reached 90% throughput. We've been consistently shipping monthly 20,000 tons of the triple zero green lithium concentrate. Our fourth shipment is expected by the end of November, which is going to be sized minimum 20,000 tons. It goes to Glencore. In fact, on that, I just came back from almost two weeks in China, Chengdu, all over, where we ascertained on the ground the fantastic receptivity of our product as far as behavior throughout the refining. We'll talk a lot more about that.

As a result, we are moving forward with the detailed engineering for the expansion. I mean, there's not enough of this material to supply the demand for what we are bringing as value added. So, the selection of the design engineering company connected to the strategic review conclusion, depending on the strategic review partner of choice or winner of choice, we are going to select an engineering company. But we're going ahead with expansion because we can basically sell every gram of this product.

And there's more. There's going to be a lot more of this lithium. We have also delivered in this quarter a substantial potential increase of the mineral resource. We got phase four, that's going to be approximately 30 million tons, and then a phase five for another approximately 20 million tons. So, we expect Sigma's total mineral resource all the way to phases one to five to reach 130 million tons.

With that, I'll move to the next page, financial highlights. Every financial target has been delivered. We are profitable on the first operating quarter, which means that we have an incredible degree of operational efficiency and discipline. We are the second lowest cost producer of lithium concentrate globally, which means we will thrive in any price environment for lithium.

And that is the key message of these financials. We're crystallizing our position as second lowest cost producer of lithium concentrate, and that's the result of tremendous financial discipline. I mean, we are profitable and we also have a superior product. I mean, we do things that no one else does, such as not having a tailings dam, and we deliver a zero carbon lithium. And despite that, we are profitable and we are low cost.

This basically demonstrates our resilience to the lithium cycles. We're going to thrive in any pricing environment for the commodity. And depending on where the cycle goes, we even have the ability to capture market share with this triple zero lithium. This material is the material of choice for any downstream client, all the way up to carmakers which are procuring batteries bound for the European Union. This is all in preparation for the EU battery passport 2026 no matter in the world where these batteries are produced.

A bit of the highlights of the numbers, we posted a Q3 revenue of $96 million. We also produced to date 71,650 tons of the high-grade product. The low-grade product is 100,000 tons. We also have delivered an adjusted EBITDA of $54 million. Our unit operating cost, FOB port, is $577 per ton, and we have a very sound net income at $36 million in the third quarter. So, very profitable with significant recurring cash generation and liquidity.

The next slide shows our production highlights. We have the triple zero lithium as a commercial success. In other words, there's not enough of our triple zero green lithium to satisfy demand. Some of the highlights of the third quarter and production to date, we produced 38,500 tons of this 5.5 triple zero green lithium. Year-to-date production is 71,650 tons. We have also successfully ramped up the green tech plant without a tailings dam, which means we have 62,000 tons of triple zero green byproduct, year-to-date 100,000 tons of triple zero green byproduct.

In other words, the next target will be to sustain the plant recovery at this designed level, which basically shows global recoveries, including ultrafine losses, of 65%. We have three shipments that have sailed. We have a fourth shipment on the way sailing at the end of November. Scale will be approximately 20,000 tons to 22,000 tons on that shipment, which means we are

maintaining guidance because, amongst all of our products, we're going to hit 130,000 tons and equivalent revenues of triple zero green lithium and byproducts.

So, for a company that just became a producer, getting there, having successfully ramped up--if you multiply 22,500 by 12, it means we got there. You get to 270,000 tons a year. So, the plant works. The dry stacking works. Tailings byproducts have been successfully commercially sold. There is spectacular demand for that product given its purity.

And in the picture on the right of this slide, you can see the third module, which is something that only Sigma Lithium has managed to achieve, dry stacking at ultrafine at 12%. So, here we are delivering on our promise to make this supply chain a whole lot more sustainable and paving the way for the zero carbon battery.

The next slide shows the resilience. It shows that Sigma can generate cash at the bear of the cycle, at the bottom of the lithium cycle. In other words, we have low costs, and therefore we have been delivering consistent revenues in large volumes, both in byproducts and also in the main concentrate. More importantly, as we have one of the lowest costs in the industry, we are able to essentially maintain this operational resilience and generate cash flow no matter what.

So, we have in front of you a simulation hypothetically showing the lithium prices for concentrate reaching $1,500. But because of our low cost, we are able to get to a significant cash generation, both with phase one and also with the expansion. And then you have the byproducts credit, which we're keeping separate just for the sake of transparency and clarity.

Now, why do we have such low costs? Well, basically because of decisions we made early during the development. We chose the dense media separation, the DMS. And at that, we powered with very, very inexpensive renewable power. So, the combination of a simpler processing flowsheet and low cost renewable power leads us to the spectacular result right out of the gate in our first quarter with financials. So, we are clearly extremely proud of what we've achieved here.

Another interesting point, on the next slide we'll show you why, I mean, the product is actually better. So, despite us selecting dense media separation, which back in the day seemed like a very unique, riskier selection, we actually made it mainstream again in the industry because it preserved the integrity of the mineralization of the product, and it allowed us to deliver this incredible superior quality.

It's visual. When you look at this slide, the next slide with the quality, we have a unique high-grade, high-purity, and coarse-grained product. So, you don't even need the laboratory analysis to ascertain that the coarse product is different than the ultrafine that is produced by our peers. And then, it's a much--and the light green color, so purity. So, our purity matches Talison Greenbushes. Then you look at the bottom, you have products of inferior quality, which are the powdered product loaded with iron oxide and other impurities, sometimes even mica. So, it's a picture that says a thousand words, and this product drives cost savings to clients of up to 30%.

The next page is a bit more on quality, on low cost, and on this tremendous competitive advantage which translates into commercial success, and also on low cost and lithium cycle resilience as far as generating free cash flow, essentially the chemistry of the high-purity, the triple zero plus low alkalines. You see low iron oxide, low mica, and then low alkalines here, which are low potassium oxide and low sodium oxide.

So, the product is better and it's also environmentally competitive, which is an advantage for the European Union bound batteries. And again, we'll get to it. Batteries are produced all over Asia, the cells, and they're shipped to the European Union packing factories. We have a tremendous advantage when supplying to these cell makers in South Korea, Japan, China, everywhere with this product.

Why is that? The next slide shows the cost-saving math to clients. We bring significant cost savings to downstream clients. It matters a lot, especially in a tight market where the downstream is trying squeeze cost out of the supply chain, specifically on the refiners. So, when you look at the slide here, you can see that there's a potential of up to $6,000 per ton of hydroxide for the downstream, for the refiner, which is part of a downstream supply chain which is perhaps tolling, which represents a 26% higher margin for that refiner or battery maker that's tolling through that refiner.

And that is Sigma, and we've been working with Glencore and their customers to premiumize that product in the market. So, even at 9% price of lithium hydroxide, our premium lithium concentrate can drive measurable savings to converters, to downstream in the current market, which is a tremendous competitive advantage on quality, on value in use.

I'm stressing that point just to demonstrate how our product conserves, because we have a chemical, physical, technical, measurable cost savings, and we're delivering the best or the most sustainable triple zero lithium product, and we're not charging for it. The environmental zero carbon, zero tailings, low chemicals is for free, right? So, it's a fantastic attribute for a client delivering their cells into the European Union.

On the slide here is actually a fascinating exercise that we've produced. In other words, our product will always have demand at premium prices because of the chemical attributes. The chart compares the margin our clients would achieve, the efficiencies of vis-à-vis buying the competitor's product on spot market. You can clearly see the gain. The spot margin in light green is lower, and Sigma's customer margin, even at 9%, is actually higher.

Why? Because the 9% premiumization doesn't capture the full cost savings that the client has. So, it's a win/win situation. That's why the demand and acceptance of the product has been so spectacular. I mean, I was in China for almost two weeks. I brought my whole [inaudible].

Operator
Pardon me, everyone. It looks like the speaker line has disconnected. Please stand by while we reconnect. Thank you for your patience. Pardon me, everyone. Thank you for your patience. We have reconnected with the speakers. Ana, you may please proceed.

Ana Cabral
Yeah. So, I got disconnected accidentally. So, I was talking to the slide where we have the chart with the demonstrated efficiencies driving demand for Sigma products in any market. And I think basically, wrapping up that slide with that chart comparing the premium product driving measurable efficiencies for the client, you can clearly see why the client with the spot--the client today has two choices, buy the competitor's product at spot market and buying Sigma's product at a premium value. That's the chart you all see on the screen now.

And we showed you on the graph that our client achieves higher margins no matter what happens. In other words, by purchasing Sigma's product, he's always better off. So, essentially that drives the commercial success that we've been achieving in this industry. And our

commercial teams, through Campton [Ph] in China basically working with our partners for the low grade ultrafine and with Glencore for the high-grade triple zero concentrate, and the response has been spectacular from carmakers, battery makers, and then the tollers or refiners themselves.

So, we're very proud of what we've built. We're very proud to have been able to deliver a product that's not only the leader or the reference environmentally. Come on, it's like zero common. No one does that. Zero tailings dam and we don't use hazardous chemicals, but also we actually have physical and chemical properties that deliver value use for the customers. So, this is--I've been going through this point repeatedly to make it clear that we don't have a demand problem because we, Sigma, will place every gram at our price, given all these competitive advantages and values in use.

The next page shows then the summary of all that I've been saying. Where does it all lead us? Well, it leads us into a tremendous competitive advantage when it comes to cell making bound for batteries to be packed in Europe or bound for cars that are going to be sold in Europe. As you know, there are battery cells factories located all over the world, in China, in Japan, and in South Korea. And for now, they ship the cells to battery packers that have their European factories.

So, this packing taking place in Europe then is directed to the carmakers located in Europe. So, the sourcing of those cells, the tracking of those cells within the battery maker is actually happening as we speak. And Sigma, our triple zero green lithium is a recognizable brand. Clients ask for it. They want to have our material. They ask their downstreamers for our material. So, that makes us very proud.

And then when you look at the European auto market this year and our production this year, that's where you can clearly see that there's not enough of our product just to satisfy the European demand, which is fantastic. I mean, remember, again CATL, LG, SK, Panasonic, they're all based elsewhere, but they are making the cells that will end up in the European cars. And that is the battery pass for 2026, and these supply chains are getting ready as we speak.

So, the next page, a bit of the triple zero green lithium. This has been our purpose, our incentive as investors, as operators, as executives, as partners here. This is what we set out to do, meaning enabling best in class carbon intensity for batteries, and eventually enabling the Holy Grail of the zero carbon battery as far as lithium is concerned. In other words, the lithium hydroxide chemical producer in China today, if it's best in class, meaning using natural gas and using renewable power, he can actually have a total carbon footprint of just 2.5 tons of carbon per ton of lithium hydroxide.

In other words, that's very easy to tackle with carbon credits, because this best in class has done the homework as far as replacing coal gas for natural gas and replacing coal power for renewable power. So, with our material, which is zero, you eventually end up in a fantastic position as far as abating--the final abating of these carbon loads with carbon credits. So, again, we enable the zero carbon battery for lithium as far as the lithium material is concerned.

The next slide, I'll go quickly through because you all are very familiar with that, the triple zero, zero carbon, zero chemicals, and zero tailings. The key elements are tailings recycling, dry stacking. We have zero residue mining because we get rid of all the tailings. We sell the byproducts for a price that's 10% of the main product. That's an important point. The water, we basically reuse all the water, so we source the water with sewage. So, this is sewage grade

water that comes in, gets treated in our water treatment station inbound to make it suitable for the green tech plant, and we end up with a closed system of fully reused water.

And more importantly, we power the plant with clean energy. Clean energy in Brazil is $0.02 per kilowatt hour. I mean, it's the cheapest, the lowest cost in the world except for the Middle East, where it's subsidized. So, we're in a fantastic position here as far as renewable power. It's lower than anywhere. It's actually half the price of Canada.

So, with that, I'll move into operational and resource expansion update. That's the next page moving to the next section. So, the next slide is successful commissioning of dry stacking. Here we show that we've basically successfully commissioned our dry stacking. And when you see this chart, which shows recoveries, we've segregated in the chart the portion of the period when we actually nailed the dry stacking commissioning by delivering the ultrafine down stack--dry stacking at 12% moisture, which meant we could then accelerate the production from the dense media separation.

So, you can clearly see us reaching stability on recoveries, and again reaching the yield levels that we have been striving to do. So, explaining to everyone, yield is how much of every ton of ore that gets into this process, module one crushing, becomes final product, becomes triple zero lithium concentrate, main product.

Recoveries dictate how much lithium we actually recover from the material, so we've got our productivity, right? In other words, as we calibrate the plant to achieve target production volume, the recovery of the lithium is leading to volume. So, here at Sigma, we actually have a very high class problem, because we need to strive to adjust down the lithium concentrate grade to 5.5%. As you might recall, our first shipment was north of 6%, which isn't operational ideal calibration. And that's because we start with exceptional quality feedstock entering the processing plant.

So, as we achieved that calibration down to get to the market standard grade of 5.5% lithium oxide, we basically achieved yields and recovery that increase substantially, as you can see on this slide. So, again, very, very, very proud of what our operational team on-site, our two general managers running the mining plant, have achieved.

And we keep on improving. We're now starting a magnetic separator on the ultrafine circuit, which is going to give us a boost on recoveries. But the work is there. We've already gotten it. At 22,500 a month multiplied by 12, we're already annualizing this mine capacity of 270,000 tons.

The next page, maintaining head grades through successful operational integration, the next page is basically showing that there are no tricks here, right? As we've said, our focus has been to lower the grade to 5.5. You can see that the grade's been clearly above 5.5. We don't get properly paid for delivering more grade as the industry is delivering 5.5 and below. So, the challenge is to bring it down to 5.5, which is, again, a very high class product, a testament to the quality of our feedstock.

So, another important point on this slide is that we're not doing something typically known as high grading, meaning going to rich areas of the ore bodies just to achieve a successful ramp up in recoveries and then suffering that in year two. No, we're not doing that. If you look at the axis on the right, you can see that the head grade has been constant. At 1.4%, 1.46%, that is the diluted feed we showed on the feasibility study. So, incredible consistency on the feed, which shows that the challenge is to keep the grade down, basically down from 6%, down from 6.5%,

so that we are able to deliver grades that are in line with the market as opposed to going above market and not get properly compensated for it.

The next slide, slide 18, shows that we're going to expand. The FEL3 detailed engineering is going to this last stage. We're doing the final quoting. As we're going through a strategic review, the selection of the contractor of engineering, it's going to be a function of the winner, the next guardian of Sigma. Each one of them has their own views. It could be going to an Eastern construction company, which actually has been building transmission lines and large scale generation--power generation structures in Brazil very successfully, very low cost. We're going to be funding it via debt and via our operational cash flow, and the plan is to triple production by next year.

Why? There's a market for every gram of this product. There's just not enough of it to satisfy demand, and that's just solely if we consider European Union bound cells. There's blockchaining through now. There's tracing throughout the supply chain, and we bode really well for that tracing.

As I said earlier, our product has become a brand. And you can clearly see here on the map how easy it would be to expand, given that most of the infrastructure preparation of the industrial site has already been made. The next slide will show our ability to scale up production organically. How big can we get?

We just unveiled that our mineral resource, phase four, phase five, goes up to 130 million tons, so there's another 50 million tons floating over on phase four and five. So, we can easily think through another line and that line to be potentially integrated. Again, it will depend on the winner of the strategic review.

And going back to the engineering point, I want to make it clear Promo [Ph] will be there driving the actual construction in Brazil. What we're talking about is the engineering sort of brain management pairing with Sigma's robust owner's team now. Because we've already built one, and all the engineers that built it are now working with us in an owner's team. So, it will be who would be the foreign engineering company that we would pair with Promo to support our in-house owner's team, right? And again, what we are trying to do is to achieve optimum construction and achieve optimal cost effectiveness of the expansion of the plant.

So, lastly on this ability to scale up production organically, this slide shows that, post ramp up, this is what we're going to look like. So, if you look at the slide on page 19, you can clearly see that, in other words, we have phase one, then we're going to have a tripling, which is two phases built at once, two line trains built at once, that will lead us to 766,000 tons, and then potentially a fourth line. That's the obvious strategic choice. I mean, it's just the obvious strategic choice.

In other words, ramping up, we're going to be big. We are a force for good in the industry. We are one of the lithium's next majors, potentially going above 100,000 tons out a year depending on how that fourth line is going to be strategically directed to perhaps intermediate chemical integration, which leads me to the next slide.

The next slide shows all the finalists in the strategic review. I mean, the strategic review has not moved to final. The groups have bundled in consortium, which is very healthy because there's efficiencies. And every consortium has expressed their wish to produce intermediate chemicals

in Brazil. Why? It's quite straightforward. If the industry is going to leave China partially, it has to go to a geography attached to a company that can actually deliver competitive products.

I mean, even when you think China, which is what we've been doing for the last two weeks, they are the sole producers of lithium chemicals globally, as we all know. So, when you think supply chain with them, we actually gained quite a lot of insight, because it's on their interest too to build intermediate chemicals we called double zero, meaning zero carbon, zero waste. They do a fantastic job on waste in China.

And the location of this country to deliver intermediate chemicals has to be a country like Brazil. Why? We have cheap abundant renewable power at $0.02 a kilowatt hour. We have abundant natural gas at a competitive price. We have a very large domestic market that can clearly digest, and that's the word they use, all the byproducts. And those are very key characteristics because the byproducts go into a cement-based construction industry and into a cleaning product, detergent of domestic industry.

And Brazil has both. So, Brazil can actually deliver zero waste just like China can, and we can also deliver zero carbon. That is why we can coexist with what is still a China-centered chemical supply chain. By delivering less volume of an extremely sustainable product, that would tee up, as we showed in the previous slide, the lowest carbon and here zero carbon lithium hydroxide chemicals. So, we can actually enable the development of the lithium hydroxide chemical industry globally by delivering chemical to chemical intermediate double zero, zero waste, zero carbon in Brazil, into anywhere in the world.

Another interesting point, in Brazil we also have skilled labor for chemistry. Brazil never de-industrialized, so we have quite a large chemical industrial park in Brazil. And for basic chemicals, the level of specialization isn't the kind of specialization required to be an alchemist, as we call our Chinese friends. I mean, they are the alchemists with the crystallizers, with their abilities to do this at an incredibly low cost. We would just be doing intermediate chemistry, which is basic chemistry. And for that, we do have the human capital in the country.

So, now I'm changing tacks and talking about how big, how relevant, how strategic relevant is Sigma. So, moving on to phases four and phases five, that's the next slide. On phases four and phases five, what we have here is a substantial additional growth in the scale of the mineral resources. It's what we've been telling all along. On page 22, what we have is just a recap of how big we are.

We have four properties, and we've been focusing our drilling in the middle property called Grota do Cirilo, because that property concentrated most of the previous artisanal mines that were operating when we purchased this--when we started Sigma in 2012. So, it's sufficient to concentrate it here. So, phases one, two, three, four, and five are all here. And these phases alone deliver 130 million tons for Sigma's mineral resource potentially, to be confirmed by the 43-101.

And therefore, it just gives us the reservoir, let's put it that way, the scale of resources that would allow us to keep growing, to keep on increasing scale, to think about integration we want of the line to basically be the foundation to our growth, large-scale plan to be the next lithium major, because this is the kind of scale of mineral resources required for a company that plans to be the next lithium major.

On the right, you see the map that we put forth with the exploration update announcement for phase four. That was just an exploration update. We were just trying to give investors a flavor of what's coming. We're going to put out a pre-43-101 with phases four and five, so increasing it upwards of 50 million tons.

The next slide is the closing comments, I think. How do we wrap it all up? What does it all mean? What does it mean, all that I've been saying here as far as our share price, creation of shareholder value, and what's going on in the industry? Well, we have not yet been rerated as a producer. That full rerating is yet to occur. And the screen makes it obvious.

There are producers which are delivering a tiny scale. And proportionately, they're getting evaluation per production that's way higher than ours, right? And they're developers. They're getting evaluation to five year forward production that is way higher than now. So, this is the work that my partner here, Etan [Ph], took on with Sigma. While we don't conclude the strategic review, Matthew DeYoe came to lead. I think there was a bit of confusion about what's Matt doing at Sigma. Well, he's joined Etan. He's our partner at Etan, and he came to help the principals of Etan since coming to Sigma, namely Marcelo and I and all of us, to basically be the main investor interface in order to communicate all that we've been doing to hopefully bridge that gap.

The gap is tremendous. We're basically a third of our producer peers non-majors, and we do plan to close this disconnect on fundamental value alone. And our costs are so competitive. But as far as profit, which we've just delivered straight out of our maiden financial quarter and cash flow generation, then this company could be valued at anything as 3 times forward EBITDA, which is a very attractive value proposition, right?

The next slide shows why are we going to be the next lithium major. We are already one of the world's largest producers at 270,000 tons per annum, where we are now, if you take our monthly production shipment. That's going on at the cadence multiplied by 12, that's what we get. So, we got here. We are becoming one of the lithium majors because then, with the expansion at 760,000 tons of concentrate per year, I mean, we get to the supper club of companies that can produce an equivalent of 100,000 tons LTE per year.

So, we have a special product, high-purity coarse lithium. We have a very low cost, and we have the triple zero, carbon neutral, dry stack, no tailings dam, which will fully sell these byproducts ultrafine. So, it's a very unique competitive position.

And then I want to close this call and thank you, because you've been believing in us since the beginning. And the least we could do to all of our investors is what we've been doing. We're delivering like clockwork on every front. And now we delivered cost, meaning we just crystallized our position as second lowest cost producer in the world. Again, when you do byproducts math on our cost, you get to a number that's literally on top of--that's literally matching the all-in sustaining cost we put out at the DSS, which is a testament to our obsession with operational efficiency.

So every front, consistency, focused, relentless. I mean, in fact, I want to leave you with that thought. When I was in China, I received probably one of the biggest compliments there's ever been there where they told me, wow, you actually outwork us. You burn the 3:00 AM oil. And I said, well, that's what needs to happen in the century where Asia is driving the work ethic, right? So, we're literally outworking and working as hard as our competition.

And that's what we want to leave you with on this earnings call. And I really want to thank you for staying with us, trusting on us even in this price environment where lithium enters a down cycle. We're here to stay because we'll thrive, thrive in an environment of down cycle, given that we can produce free cash flow and earnings no matter what.

So with that, I'll pass on to Q&A. And I want to thank you very much for listening to this call.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. For those on the phone, to ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble our roster.

Our first question comes from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson
Hi. Good morning, Ana, everyone. So, Ana, I think I read in your disclosure that you still expect 500,000 tons of spodumene production or sales next year. That would be about double what 20--what your run rate is now. It means--could you talk about the milestones you've got to hit? Because you haven't put the feasibility study out yet for phase 2/3. So, what do you have to hit? When do you have to be in production? How do you have to ramp? How have--lessons learned that you can get to 500,000 tons of production for next year?

Operator
Pardon me, everyone. It appears the speaker line has again dropped. Please stand by while we reconnect. We thank you for your patience. We have reconnected with the speakers. Ana, you need to proceed.

Ana Cabral
Yes.

Joel Jackson
Do you need me to ask the question again?

Ana Cabral
Yeah. Can you please repeat the question?

Joel Jackson
Sure, I would love to. So, in your disclosure, you talk about 500,000 tons of spodumene production in 2024, so next year. We're--that would be about double the run rate right now. So, what has to happen? You haven't put the feasibility study out yet for the expansion. What has to happen for you to ramp up, get in production, and get to 500,000 tons next year? Maybe you could talk about lessons learned from phase one.

Ana Cabral
Absolutely. Well, we learned quite a lot, as you all know, specifically when it comes to the transporting of the tailings, which significantly delayed us reaching nameplate capacity of the production. So, we refined that circuit. We learned a lot on flocculation and chemicals that we could use in order to make that circuit very efficient. Again, it's first circuit in the world. It's an

innovation. We pioneered it. But we've got it down to a tee now. It's dry stacking beautifully. So, that was factored into the new engineering.

So, I think this was actually a very important learning, because all the learnings from actually commissioning this plant and enhancements to the flowsheet, were going to be--or were factored already on the design. And so, we think--we are very confident that what we have now is a fantastic flowsheet, because it comes battle tested by all the pain and all the lessons we've been through in the commissioning.

Joel Jackson
So, what milestones do you have to hit? Like, do you have to be commissioned by this date to hit 500,000 tons next year? What's the milestone? Maybe walk us through that.

Ana Cabral
Yeah. We basically--it's interesting because we use the same slash and cut that we applied to phase one, even though we don't foresee waiting, like April, May, June, July to hit the stride, I mean, because with the dry stacking circuit that works from the get-go, we can actually unleash and turn on plant two, which is the dense media separation, immediately. Because now we know what is the right flowsheet for actually getting to the 12% moisture, which is the ideal moisture to be maintained in the cake that goes into the membranes in the dry-stacking filter, and hence go into the conveyor belt into the dry stack.

So, that was actually the one black box we had to solve. Again, it's innovation, right? And this is why we've been here as financial sponsors and investors for six years. We promised that, we promised that to our stakeholders in Brazil, and we delivered it. So, we're not going to have that wait anymore, so that cut commissioning significantly. I mean, four months is quite a lot.

And then more importantly--yeah, more importantly, we also know what the issue is with the water. When we first started this, we didn't realize that the water was actually sewage grade, and we had to build a sewage treatment station to actually get the water from the river and remove the solid pico residues and make it suitable for the plant. So, there is a myriad of lessons here that factor--that we actually incorporated into the design of these two new plants. And therefore, we see a construction timeline maybe a lot more streamlined, way more than the first construction timetable.

And then I think on the bigger picture, when you look at that page--and I can go back to that slide, that is like--if the moderator could please go back to the slide, which is page 18. Visually, you can see that we have to do a lot less industrial site preparation that we had to do for phase one, because we built phase one from scratch. So, we had to prepare one square kilometer of industrial area, which we don't anymore, given that the fixed green tech and infrastructure are already here. The piping of six kilometers that brings this water, the sewage water from the river into the treatment station, is already here. So, a whole lot of what we call industrial site infrastructure here were licensed.

As you can see in the expansion little square of that slide--again, moderator could go to slide--sorry, slide 18, that will be very helpful. We are actually tackling the earthworks on pasture areas, which, again, should shorten earthworks by four months, because we don't have to do animal capture. We don't have to do what we call vegetation classification. There's a whole lot of steps that are skipped because we're going into what we call un-proficized [Ph] vegetation areas. So, a lot of savings, a lot more streamlining.

So, what is the key piece of the puzzle now that we've got all the work teed up? Who is going to drive engineering? Because obviously, each strategic partner, buyer, potential M&A counterparty here has a preference, and we don't want to impose our preferences to them. And given that we're now a little in the last leg of it, there's no point in gun jumping with an engineering company.

Promo will be there. That's the Brazilian company that's done a marvelous job, marvelous job in managing over 1,000 people we had on-site during construction. So, they're the experts of executing on the ground. And then we'll pair them up with an engineering company which will drive equipment procurement. I mean, equipment procurement can be basically concentrated in different parts of the world, depending on the strategic potential acquirer or counterparty of Sigma. And we'll do this together. We'll be here helping the next guardian of Sigma to succeed. That's what we want. The success of the next guardian is the success of Brazil.

Joel Jackson
Just following up on that, and then I'll pass over the baton, but as you talk about the strategic review, and you're talking about words like guardian, counterparty, a lot of broad sort of like different terms there, maybe you can give a sense of sort of how has the process gone, the range of bids, the range of kind of plans or proposals? And how have you been managing this in an environment of, okay, yes, lower lithium prices, but it's a commodity. Things go up and down. People can all handle that. How have you managed it in a time of clearly lower lithium multiples in the industry across the year?

Ana Cabral
Look, this screen is not a benchmark for a strategic buyer. I mean, it's sort of--they don't think quarters. You don't build a resilient business on a quarter-to-quarter basis. I'll give you an example. When it gets to 2028, it isn't like someone is going to appear two quarters earlier and say, oh, now I need to figure this out. I mean, these discussions are happening now.

Battery pass for Euro 2026 is a reality, and it affects battery makers all over the world. Batteries made in China, cells made in China, cells made in Japan, cells made in South Korea, cells made everywhere are affected by it. So, there's going to be a lot of lithium needed into the materialization of the plan of some of these gigafactories that have been announced and are being built all over or are operating right now.

I mean, so ultimately it's 2024, practically speaking, so the plans for the remainder of this decade, which is the decade of lithium, are happening as we speak. And, I mean, I'll give you an example. CATL announced this year in the Shanghai Auto Show that they are going to deliver the zero carbon battery. They will be zero carbon in '25. Zero carbon battery comes in 2035. That just shows that this is a global concern. It isn't something that just affects the Western--because, as you all know, CATL supplies the world.

So, this is a global conversation. And what is Sigma? And just let's leave commodity cycle aside for a moment, because, again, we demonstrated that we'll thrive no matter what, right? Sigma is a company that has a clean shareholder registry. There's not a single strategic year. It's basically financial investors with a financial sponsor so we can deliver a transaction without the interloping that's been plaguing recent strategic movement.

Two, we have unencumbered sizable thousand--hundreds of thousands of units, which means we are easily integratable for massive top line M&A synergies. So, we are almost like the perfect target, and we are in a country that is extremely welcoming to mining. The population

wants it. We actually managed to demonstrate that there's a new model for the industry of mining, processing to be followed in terms of lifting the people and sharing prosperity and not being less profitable.

I mean, come on. We've posted a profit, right? So, I think we represent quite a lot for the industry. So, this is just a long way to say that the process is going incredibly well. And I can't say much more given sort of the imminence of it, right? The release, actually--.

Joel Jackson
--Thanks, Ana--.

Ana Cabral
--Is very self-containing. Yeah.

Joel Jackson
Sorry. Sorry to cut you off, but thank you very much.

Ana Cabral
No, it's all right.

Operator
Again, if you have a question, please press star then one. We have a question over the webcast from Marcelo Azem at Everest Capital.

Good morning, everyone, and congratulations for the results. Does the company expect EBITDA margins and net margin to improve over the next few quarters? Does the company expect net margin to reach 75%, as reported in institutional presentations?

Ana Cabral
We do. We do. And I think it's part of the process of leaving this period of commissioning. As you can tell by the bridge of EBITDA we posted on the institutional presentation on our website, the further we move, the less clouded by nonrecurring items our financials become. So, it will become more streamlined and more clear, the ability to deliver superior margins.

Obviously, then we need to--we are now showing simulations against a price backdrop that has gone down, and that obviously affects our margins, right? So, when you--we were not running at $1,500 per ton of triple zero lithium concentrate. We are achieving right now 1,800, 1,900. This was the price for shipment calculation using the formula on spot hydroxide of 23,000. But again, what we are trying to show is that we are profitable, structurally profitable, because our cost is so low we're well below the marginal cost required for the industry to meet the supply expectations of demand.

Even when you look at softer demand backdrop, even when you look at what we call the full bear cave, we're always going to be here. We're going to make more profit, less profit. It's a commodity, after all, but we are resilient to cycles. And that's what makes Sigma very special, a fundamental asset, fundamental company here. We're here no matter what. So, we are this super major in volume that has managed to keep costs very low.

And I think it connects to the previous question. Going forward, as we expand, our cost will go down because the G&A--it's a bit of what happens to Talison. They're so big, the G&A gets diluted over--they are now at 1.4 million tons of concentrate. So, it's a giant number. That is

about five times our size. So, we're tripling. So, the more we increase the scale of production, the less the G&A matters because it gets diluted down.

So, when you look at the fundamentals of the cost, it just gets better by simply basically diluting down the fixed cost over a larger number of units, right? So, essentially this is actually the demonstration of the resilience of the business. I mean, we can expand confidently because the costs actually decrease.

Operator
There are no more questions in the queue. This concludes our question and answer session. I'd like to turn the conference back over to CEO Ana Cabral for any closing remarks.

CONCLUSION

Ana Cabral
Well, I want to really thank all of our investors that have believed in us, that have stayed with us. We have a very steady roster of top investors that have stayed with Sigma over the cycle, almost ripe financial sponsors that we are. And the fundamental investors, you have seen through the value. And what we are hoping to do is to reward them beautifully with the execution, the flawless execution, the strategic vision, the execution of the strategic review.

We do see Sigma as a key, key instrumental player in the global lithium industry, a real force for good, because we brought the conversation of zero carbon, zero tailing, and environmental sustainability and social sustainability and lifting the people and achieving social goals, achieving climate goals while delivering sheer profitability on the metrics while delivering an incredibly profitable, an incredibly resilient business.

So, it has not affected us at all to be the most sustainable lithium company in the world as far as metrics, which show the way forward for the industry. It's a matter of will, right? It's a matter of cost discipline, operational efficiency, and then you become what we are, which is the bedrock of the zero carbon battery.

So, we're very, very proud of this quarter. We're very, very proud of being profitable in the first operating revenue quarter, and that's thanks to you all and to your unwavering support over the years. So, I'm very honored to have the investor base that I have. And with that, I'll close my remarks.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.