Mining

Cleantech Lithium

06/06/2022

Maintain our 340% Upward Re-rating within 12-months

Current Price	£0.26
Mkt Cap	£20.54
12 Month Target	£1.14
3 Year Target	£2.77

Main Shareholders	HOLDING
Jason Baverstock	12.65%
Aldo Boitano	11.89%
Regal Emerging	9.32%
Tim Leslie	8.44%
Francis Jarvis	5.06%
Argonaut Inves. Funds	4.43%

Analyst

Approaching three decades of experience in commodities, primarily in Australia and the UK, including underground and surface mining operations, exploration, corporate finance, mineral economics and as a resource analyst; for WMC, Outokumpu, Mincor, DJ Carmichael, WHI Securities, WH Ireland, HD Capital, Numis, Metalytics, Aegis Equities and Smartkarma.

Gaius L.L. King gaius@fox-davies.com

For further information please email Ctlithium@fox-davies.com

Summary

- **Assay results confirm JORC resource grade for Laguna Verde**
- **Average basin margin depths is +43% greater than current model**
- **Confirmed freshwater aquifers are sufficient for DLE purposes**
- **Mains power available at both sites**
- **Accelerated progress for Francisco Basin**
- **Scoping study and Resource update due July**

We have previously stated our belief that CTL is the most attractive non-traditional lithium play globally, and we continue to hold that position. The most recent drill programme tested the basin margins, confirming that surficial resource grades at Laguna Verde are replicated at depth. It also substantiated our belief that the aquifer thickness is, on average +43% greater than previously modelled, which bodes well for the imminent resource update. Management has accelerated exploration efforts at the Francisco Basin, which at the time of the IPO was not scheduled but has subsequently proved to be successful, with a maiden resource due in July. In turn, highlighting a pertinent fact about lithium salar projects, that they can be developed far more quickly than their metalliferous counterparts.

Management has already exceeded our expectations. Resource drilling only took marginally longer than anticipated due to the scope of the exploration programme being dramatically expanded (three rigs instead of one); and because the basin aquifer at Laguna Verde was substantially deeper than previously envisaged (which again, is positive).

Our intention is to commence an NPV soon after the initial scoping study has been released. We highlight that both the Laguna Verde and Francisco Basin(s) have proven easily-accessible fresh-water aquifers, capable of meeting any conceivable future production parameters; and most critically, both projects have access to sufficient mains power to run their respective DLE plants. Factors, we may add, that most other compatriot DLE projects are unable to claim.

Recent market volatility aside, when CTL is compared with its direct peers, it remains the cheapest realistic producer in the lithium sector, including all salar, DLE and hard rock competitors, globally. It has lithium assets in a premier jurisdiction, with sufficient power and water to commence DLE operations together with proven resources. If company management maintain their ambitious timeline, CTL could be cashflow positive in four to five years, with 40 to 45% EBITDA margins (assuming a long-term price of $20k/t LCE), and a three to four decade mine-life.

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Assay Results Confirm Resource Grades

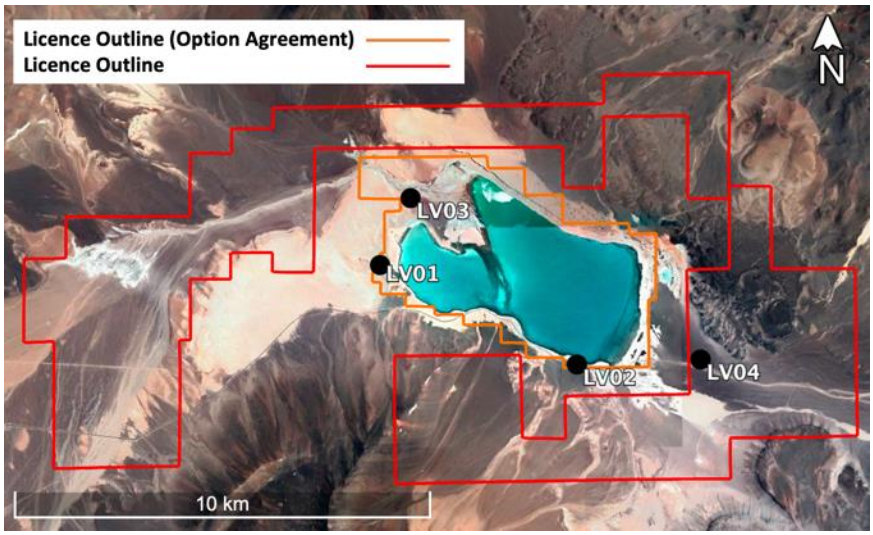
In mid 2021, CTL undertook a geochemical survey (34 samples) of lagoonal brines utilising an 800m grid pattern covering the entire surficial lagoonal area. The brine average Li content 245.8ppm, demonstrating substantial homogeneity, averaging 245.8mg/l Li with a small standard deviation[1]. LV01 and LV03 average grades of 217 and 245mg/l, respectively, are well within the range of expectations (see Table 1). We would remind that Lake Resource's average grade is ~211mg/l, and has recently confirmed that its production base-case for Kachi will increase to 50ktpa LCE in the Definitive Feasibility Study (DFS); stating there was a willingness by financiers to grant debt (est. ~70% debt/30% equity), and the fact that their technology partner (Lilac) believe that their DLE process was both scalable and cost effective.

Table 1: Brine Assays for LV01 and LV03. The current JORC Resource is based on the lagoon brine averaging 245.8 mg/l Li.

	Depth (metres)	Li Grade (mg/l)	Brine Temp. (Celcius)
DH LV01	356	221	21.1
	374	191	25.8
	392	225	27.5
	410	219	25.5
	428	230	24.3
	446	161	28.2
	464	222	24.5
	473	270	26.5
Average		**217.4**	**25.4**
DH LV03	335	195	14.5
	353	132	14
	371	163	18
	389	131	18.5
	407	148	19.3
	425	141	19.5
	443	349	21.7
	457	378	26.1
	479	409	25
	497	400	30.6
Average		**244.6**	**20.7**

Source: CTL (2022), FD

Figure 1: Laguna Verde Project Drill Programme Map, the four designed holes largely testing the margins of the aquifer.



Source: CTL (2022))

Part of the Laguna Verde basin is actively fed by hot geothermal springs, and is classified by the Chilean Ministry of Energy, as containing potential for geothermal energy; with a thermal spring on the south-eastern shore named *Termas de Laguna Verde*. Power costs are the second largest component in running a DLE plant, due to the industrial evaporation stage. Having waters pre-heated to 20-35 degrees Celsius (see Table 1) will make a material difference to ongoing opex when eventually in production.

It was previously hypothesised that sub-surface resource brines at Laguna Verde could contain substantially higher lithium concentrations with depth, corresponding with readings of decreasing resistivity values (see Figure 3)[2]. These subsurface resistivity values were observed to decline with depth, with the lowest values occurring in the centre of the basin aquifer, which, we believe, was not adequately tested with the current round of drilling. The current resource grade is strongly influenced/diluted by seasonal precipitation events. Likewise, the resistivity model shows substantially higher values on the periphery of the basin, probably influenced by surface runoff; which this round drilling may be confirming. The challenge for management, therefore, is to find a cost-effective method to drill the centre of the basin; with geophysics suggesting that the centre of this basin could approach a kilometre depth. A

[1] A normal Gauss distribution, the minimum Li value 232.7mg/l and the maximum 259.1mg/l Li.

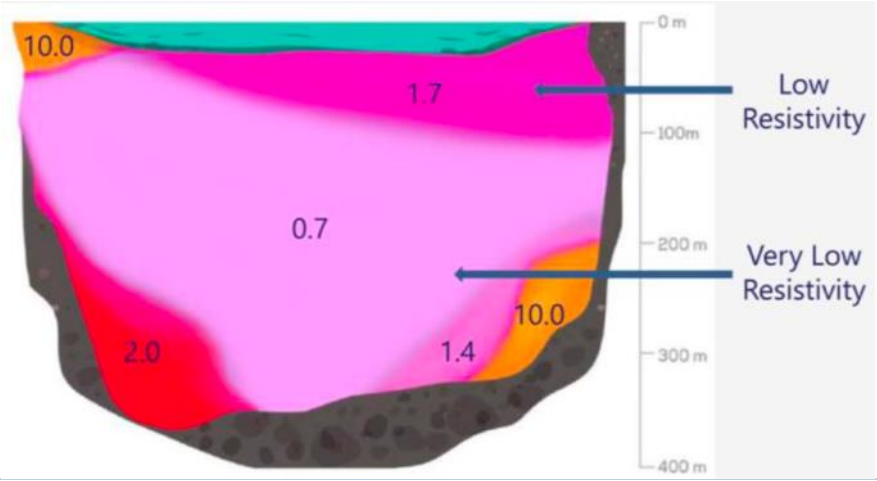
[2] Based on the premise that lithium has a very low electrical resistivity (*i.e.* high conductivity), being the most eletronegative metal known, which is the reason why it is used in batteries.

target, we believe, that can only be drilled effectively from a position directly above in order to adequately test depth to basement, and to sample the brine column.

Figure 2: Drilling at Laguna Verde, the tiny spec located on the ridge overlooking the basin is the drill rig.

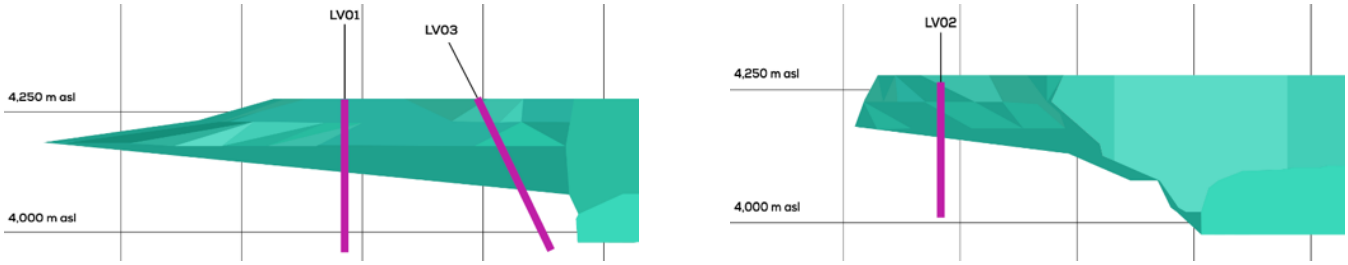
Source: CTL (2022)

Figure 3: X-section of Laguna Verde project demonstrating surface and subsurface aquifers. We believe that the current round of drill results tested the basin margins only.



Source: CTL (2021)

Figures 3 & 4: LV01 & LV03 x-section looking north (left); and LV02 x-section looking west (right). Aquifer intercepts (in purple) testing basin margins are substantially thicker that what has been previously modelled (in green).



Source: USGS (2021), FD

Figure 5: Drilling at Laguna Verde, see Figure 2.

Source: CTL (2022)

As a result of a significant pre-IPO capital raise, management were fortuitously able to commence and expand their drill programme earlier than anticipated. The better-than-expected aquifer thicknesses are the reason why drilling took several months longer than previously scheduled; and is, on average, +43% thicker than previously estimated (via the geophysics model). This, together with a maiden resource for the Francisco Basin, will positively impact the upcoming resource revision.

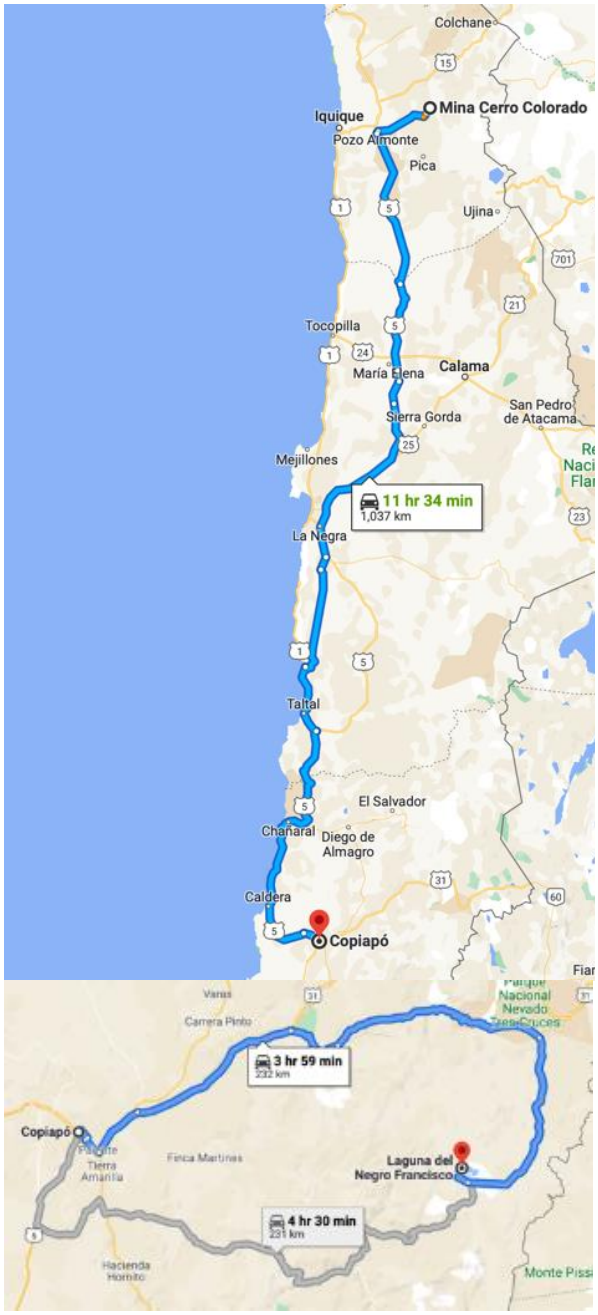
Table 2: Positive aquifer thickness encountered versus geophysics model.

	Geophysics Model			Drilling			Difference in Aquifer Thickness
	From	To	Thickness	From	To	Thickness	
LV01	110	280	170	126	463	337	**+98%**
LV02	30	200	170	55	290	235	**+38%**
LV03*	30	260	230	60	420	360	**+57%**
LV04	100	320	220	100	320	220	0%
Average							**+43%**

Source: CTL (2022), FD * Drilling metres adjusted to true width based on incline of well (see Figure 3).

Abundant Fresh Water at both Laguna Verde & Francisco Basins

Figures 6 & 7: Distance from Cerro Colorado to Copiapó (~1,037km) (top); and an additional 235km by road from Copiapo to the Francisco Basin project – illustrating that water shortages to the north cannot be automatically extrapolated to include the south.



Source: GoogleMaps (2022)

Following a number of discussions with industry participants, the topic raised with management was the possibility that both CTL projects (Laguna Verde and Francisco Basin) may not have sufficient fresh water to process the resins required in an industrial DLE operation. The company repudiate such assertions as baseless, and released a statement to refute such hearsay.

That is not to say there haven't been water shortages in Chile, specifically its central region where most of the country's coppers mines are located; also and where the majority of the country's population reside, having seen rainfall decrease by more than 30% over the last 20 years. These shortages have affected a number of major mining operations, the most well known in August, 2021, when Chile's courts ordered BHP to temporarily cease groundwater pumping at the Cerro Colorado copper mine due to environmental concerns with the underlying aquifer. In other reports, Antofagasta have announced that its forecast copper production for 2022 will be below last year's levels, as its operations continue to be impacted by the longest known drought in Chile for decades.

We would make the point that these water shortages are 1,000km (by road) to the north and another 250km inland of CTL's projects (see Figures 6 & 7).

Key points include:

- That both these southern salar basins contain aquifers that far exceed estimated planned production requirements;
- Holes drilled by Kinross at Francisco Basin have fresh water capacities of 80 to 100 litres/second;
- The company has been offered (by a third-party) supply from an adjacent basin to Laguna Verde of up to 380 litres/second of fresh water capacity;
- Chilian mining legislation allows the holder of a valid mining property or concession the right to access and use any aquifer within their tenement position; to the extent that such waters are necessary for exploration and/or production purposes; and
- Estimated water requirement for a 10ktpa LCE using a DLE facility is ~20 litres/second.

Surfeit of Power for a DLE Operation at both Sites

Stage III expansion at *Hombre Muerto* has eschewed DLE for traditional evaporative ponds, due to a lack of power.

Lack of power is possibly the greatest obstacle for any prospective DLE producer. Even before recent supply chain disruptions, energy, in virtually all its forms, has been in shortage in many places globally, and there have been some unexpected consequences. In particular, Livent's recent decision to invest US$1.1Bn, to triple its South American output from 20ktpa of lithium carbonate[3], in three distinct stages to 60ktpa by the end of 2025. Critically, Stage III, a 30ktpa LCE, in contrast to prior DLE operations, is instead relying on conventional evaporative-based processes[4]. In true coporate fashion, its ESG marketing spin suggested that this transition would "*reduce both carbon intensity and fresh water use*". But in reality, industry insiders suggest that Livent couldn't secure additional gas[5] to run an expanded DLE operation. The company are repurposing their existing ponds (as *Hombre Muerto* has always been a DLE hybrid model) saving on capex, but clearly the time required for evaporation to concentrate the brines to a point where they can be processed, will be at least 150% greater than an equivalent operation on the *Salar de Atacama*.

Why is the above important, and how does it relate to CTL?

Figure 7: Sediment samples from Francisco Basin Drill Programme.

Source: CTL (2022)

DLE is far more industrial and energy intensive than the traditional evaporative pond route, energy security and cost are critical determinants in any future project's financial success. DLE plants are efficient because they remove only the lithium from brine, with higher recoveries and purities, their enrichment process occurs over tens of hours, at many orders of magnitude faster than conventional salars, which even under ideal conditions, still take 9-18 months. Not requiring large numbers of ponds to evaporate 95% of the fluids, mean that DLE projects will have a significantly smaller footprint and, in the case of CTL (because they effectively control two entire basins) possibly allowing the operator to return the brine to the same aquifer kilometres distant from the extraction point, with no fundamental change in brine chemistry.

Guidance from industry specialists suggests that a DLE plant producing ~20ktpa LCE output will notionally require 8MW of power. Any future operation at Laguna Verde can be accessed via connection to a 23kV (originally built with 66kV capacity by Kinross) transmission line located at the La Coipa mine some 52km distant. Whilst any future operation at the Francisco basin is within 2km of the 110kV Kinross Refugio substation, it also has sufficient unused capacity to run a 20ktpa plant. Access to grid power is reliant on the Chilean Electric Coordinator, who has the authority to grant what

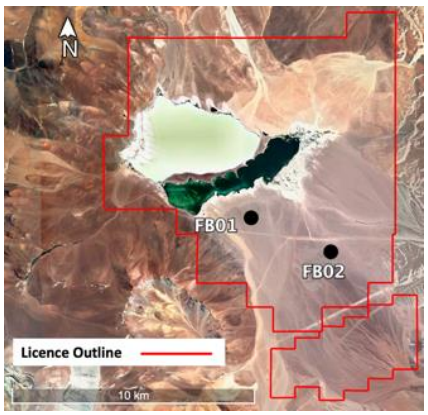
[3] In a Q1 analyst briefing, they have gone further announcing plans to produce (in Argentina) up to 100ktpa of capacity by 2030, or roughly five-times current levels. https://s22.q4cdn.com/453302215/files/doc_financials/2022/q1/Script-LTHM-1Q-2022-Earnings_vFinal-for-delivery.pdf

[4] This is despite *Salar de Hombre Muerto* being ~740 gm/l, compared with ~1,840 gm/l at *Salar de Atacama*, ~1,250 gm/l at *Salar de Maricunga*. Assuming a common evaporative rate, brines from *Hombre Muerto* will take on average 150% longer to reach processing concentrations than those from the *Salar de Atacama.* In the most recent company announcement, they mentioned brine concentrations of ~600mg/l, which would take longer still.

[5] Despite completing (in 2015) a 135km natural gas pipeline from Pocitos (Salta province) to their Fénix facilities at Salar del Hombre Muerto, eliminating previous reliance on shipments via truck.

is required, with the ability to supply additional capacity at a later date if needed. From an ESG point of view, hydropower accounts for ~40% of Chiles domestic electrical supply, with the National Energy Strategy targeting for 45 to 48% of national electricity generation by 2024; meaning that half of CTL's future production will be effectively carbon neutral from day one.

Figure 8: Francisco Basin Project Drill Programme Map. FB01 was completed, FB02 was capped and will be completed when the drilling season recommences.

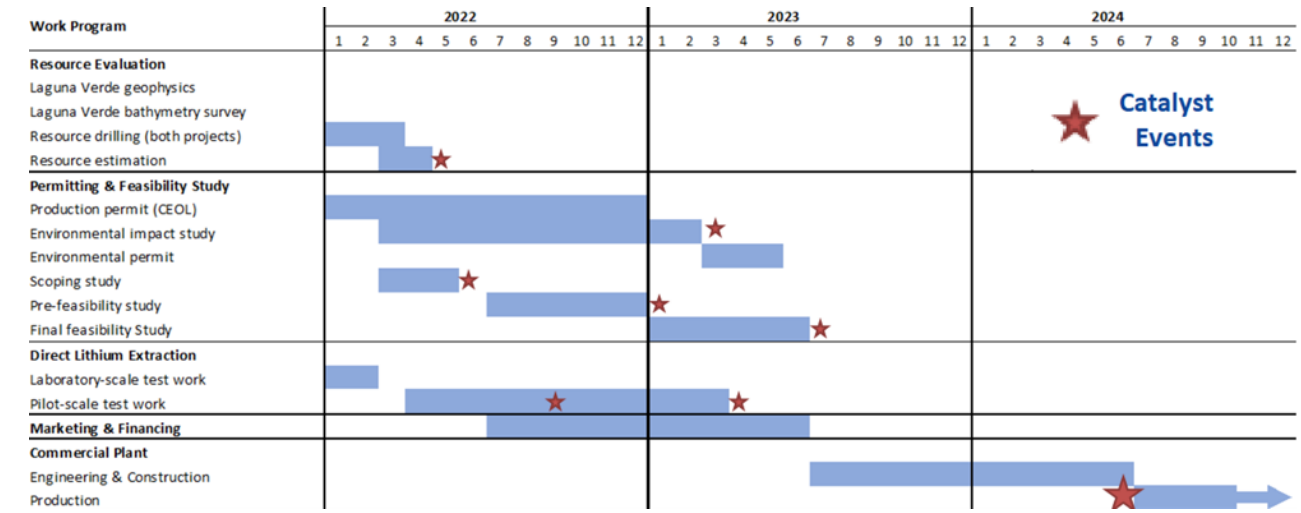


Source: CTL (2022)

Timelines – Where do we Reside?

Inevitably, after every IPO, there is a period of time where the news flow appears to be slow. The timeline (see Figure 9) was always considered ambitious, and it was reasonable to expect some slippage, but not in the way most think. The scope of the exploration programme was dramatically advanced as a result of its pre-IPO fund raising. For example, the official schedule only considers Laguna Verde, but management took the decision to drill at Francisco Basin[6] which wasn't included in the initial works schedule, but is now on the verge of a maiden resource. Overall, management have exceeded our expectations. Resource drilling only took longer because the scope of the exploration programme was dramatically expanded (three rigs instead of one), and that the basin aquifer was substantially deeper than previously envisaged (which again, is a positive).

Figure 9: Critical event timeline for Laguna Verde project covering the next three years.



Source: CTL (2022)

The following are key near-term events:

- **Verifying the DLE process** licensed from Beyond Lithium (using secondary ion exchange and reverse osmosis to selectively extract lithium ions via a number of stages), to produce a kilo of lithium carbonate, which has already been sent to laboratories in Germany

[6] Completing FB01, starting FB02 to ~150m, which has been capped and will be re-entered once the drilling season resumes later this year.

and Canada to confirm that it meets battery grade purity (*i.e.* >99.5% Li_2CO_3). Although we don't consider this event is particularly noteworthy[7], it is not just a box ticking exercise, but an important step to independently confirm that the metallurgical flowsheet works, before construction begins on the one tonne per month pilot plant. Any potential issues, can then be identified and rectified quickly.

Figure 10: Brine samples in the store area at Laguna Verde.

Source: CTL (2022)

- **Resource upgrade** due late July, for both Laguna Verde and Francisco Basin. As recent drilling has demonstrated, the basin is larger than what was first conservatively modelled; secondly, as LV03 approached the main portion of the basin at depth, it also recorded higher-grades, potentially matching resistivity readings. In addition, there will be a maiden resource for the Francisco Basin, to be released at the same time as that of Laguna Verde.
- **Scoping Study** to be released in July. As far as we are aware, it will only evaluate a 20ktpa plant at Laguna Verde. As seen in Figures 12 and 13, C1 and C3 costs for *Hombre M*uerto are ~$4.5k and $5.2k, respectively. Looking at Lake Resources 2021 PFS, for a 25ktpa plant, and associated infrastructure, capex was estimated at ~$550m. If one assumed, (i) consensus price[8] to be ~US$18k-$20k/t (in real terms), (ii) that plant optimisation would take 24-36 months, (iii) operating costs (in the long-term) are 10-15% higher than those for *Hombre Muerto*, and (iv) as the result of the current 8-10% annualised inflation rate[9], eventual capex could be 50-75% higher; ***EBITDA margins could still be 40-45% of total revenue***. Which is exceptional for assets that are likely to be in production between three and four decades each. After the release of the scoping study, we will commence an NPV for the company. We intend to include a future Francisco Basin operation, even if it's at only at a third of the output of Laguna Verde
- **Hydrogeological study** to commence at Laguna Verde by July (at the latest).
- **Environmental impact assessment** (EIA) baseline studies have already commenced and are expected to take at least 12-months in order to encompass all four seasons; before other EIA activities can be activated.

  Pre-feasibility study (PFS) to be awarded post release of the scoping study, and should be completed by May/June 2023.
- **Pilot Plant** construction & procurement to begin in August, assuming that battery purity grades are confirmed.
- **Second Drill campaign(s)** at Laguna Verde and Francisco Basin is scheduled to start early October. High altitudes (from mid-May through to late September) produce extreme winters that make drilling difficult (which incidentally, is the reason why immature salars

[7] If we remotely thought that this process was in any way questionable, we would have never supported CTL in the first place.
[8] Spot prices for lithium carbonate are currently ~US$65k/t.
[9] Livent noted that in FY20 major raw material inputs represented 13% of total revenues, including soda ash, solvents, butyl chloride, hydrochloric acid, quicklime and caustic soda; all very susceptible to supply chain issues and inflationary pressures.

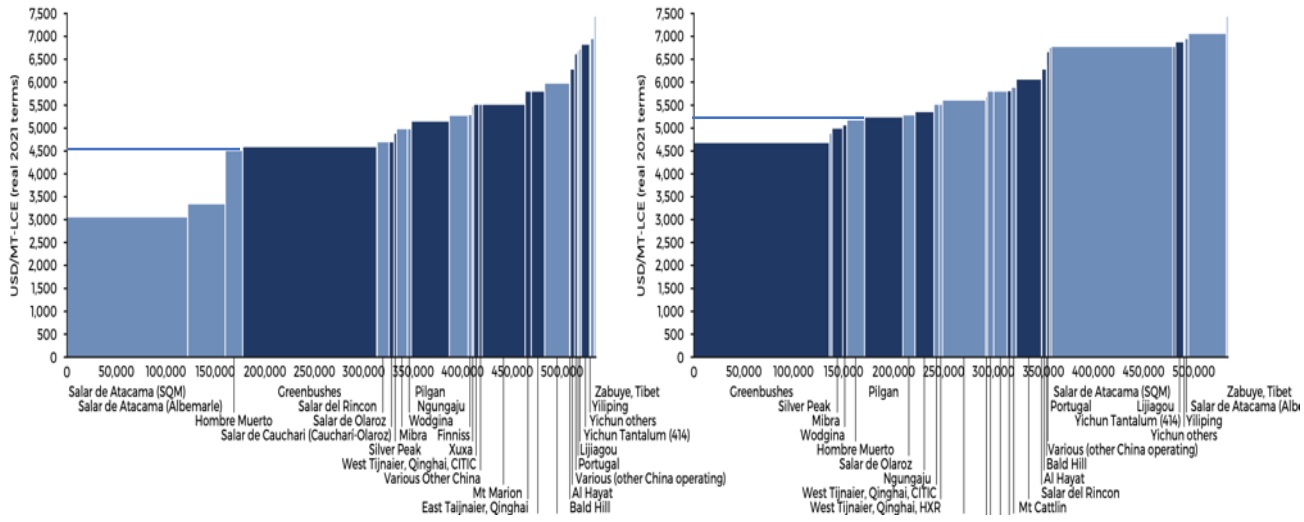
are so frequently found at these elevations). The future programme is not yet designed, as management are taking stock of what they have recently discovered, also wanting to involve the new COO appointee.

Near-term Valuation Drivers – Awaiting Scoping and Resource Upgrades

We reiterate that:

- CTL acquired (at the bottom of the market) two significant (considering the size and quality) semi-mature salar assets, with enormous land packages covering the critical areas of interest. Moreover, as far as we know, there are no other Andean aquifer projects currently available.
- Recent drill results have proven that these brine systems are sufficiently mineralised (*e.g.* in comparison with Lake Resources brine grades) to enter commercial production.
- Resource upgrades for both projects due in six to seven weeks.
- Completion of scoping study for Laguna Verde in seven to eight weeks.
- PFS on Laguna Verde by the end of Q223, with a potential PFS on Francisco Basin by late Q423.

Figures 12 & 13: Lithium carbonate C1 2022 cost curve[10] at ~$4.5k/t- brines lighter blue, hard rock dark blue (left); lithium carbonate C3 2022 cost curve[11] is ~$5.2k/t (right).



Source: Benchmark Minerals (2022)

[10] C1 costs include: mining, processing, reagents, transport, loading & storage, G&A, energy, labour, maintenance and other costs where relevant. For hard-rock operations, a conversion margin to lithium carbonate is included. Excludes extraordinary items, royalties and interest costs

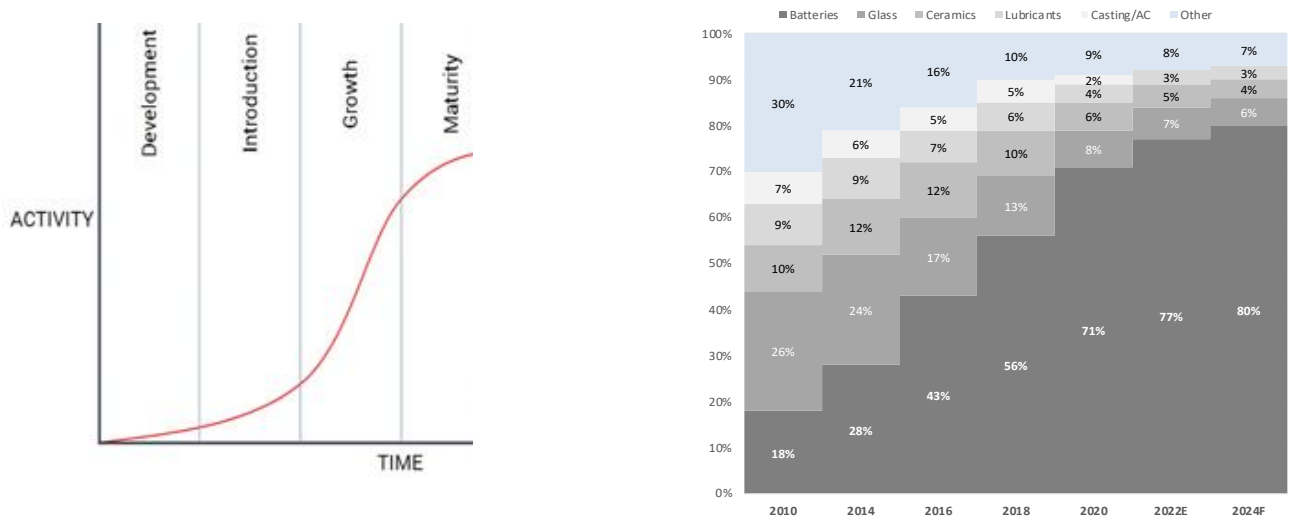
[11] C3 costs include: C1, C2 costs, extraordinary items, royalties and interest costs. For hard-rock operations, a conversion margin to lithium carbonate is included.

Much has been made about the rise and ongoing shortages of battery metals, which are now part of our normal lexicon. To date, the vast majority of institutional investors have chased copper on the basis that future EV growth would outstrip future supplies. In hindsight, this has proven to be more hype than fact (see Figure 14); with many copper resources found and delineated, still yet to be developed; especially, if one considers how widely copper is traded as a commodity, its price has always contained a financial asset premium.

Figures 14 & 15: Copper prices per pound over the past 12-months. Despite forecast shortages, prices have traded within a relatively tight range (left); and lithium price over the past 12-months (right).

Source: Trading Economics (2022)

Figures 16 & 17: Generic sigmoidal model with battery demand a close fit to a "Mature" stage, but this analysis is misleading, because every lithium segment is experiencing significant growth (left); and Li-ion battery demand has risen from 18% in 2010 to 77% in 2022 (right). The primary driver of lithium demand is fundamentally tied to the growth of EVs/hybrids.



Source: USGS (2011-2022), Roskill (2021), TRU Group (2010), FD

By contrast, lithium is, and always has been, an opaque market, with prices set between the producer and industrialist. This has meant that battery grade lithium carbonate trades in a band wholly dependent upon the market it is

being traded upon. For example, in recent years, it was typical to see it sold at a 10-15% discount in Chinese sales compared with their competitors in Japan and Korea. A discount which has now completely disappeared as have any surplus stocks available to buy. Meaning that growth in price of lithium (observed in Figure 15) accurately reflects the strength of underlying demand, without any financial speculation; a structural deficit that is unlikely to dissipate any time soon before 2030.

Constitutional Convention Outcomes? Reasonable to Good…

Chile's Constitutional Convention recently published a draft of the text to replace the Carta Magna. When this process was first announced, the media focussed on extreme proposals by left leaning intelligentsia for the expansion of environmental protections, particularly targeting the mining sector, together with nationalisation (known as Article 27) that would have given the state exclusive mining rights over lithium, rare metals, hydrocarbons, and a majority stake in copper mines. At the time, we made the point that these radical proposals were never going to be approved by the delegate voting process. Chile remains one of the best mining jurisdictions globally, deriving ~12.5% of its GDP from mining activities, moreover, it has seen first-hand the effects of the misguided socialism of its neighbour, Argentina[12].

Figure 18: DH site at Laguna Verde.

Source: CTL (2022)

The draft has been sent to the Harmonisation Committee, formed by 40 constituents that will review the wording and make suggestions in order to make it consistent and coherent. The two Articles passed that would affect mining under the new proposed Constitution, include:

- Article 22: "*The State has the absolute, exclusive, inalienable and imprescriptible domain of all mines and mineral substances, metallic, non-metallic, and deposits of fossil substances and hydrocarbons existing in the national territory, without prejudice to the ownership of the land on which they were located. The exploration, exploitation and use of these substances will be subject to a regulation that considers their finite nature, non-renewable, of intergenerational public interest and environmental protection*".

- Article 23: "*The State will establish a policy for mining activity and its productive chain, which will consider, at least, environmental and social protection, innovation, the generation of added value, the access and use of technology and the protection of small-scale mining and pirquineros*".

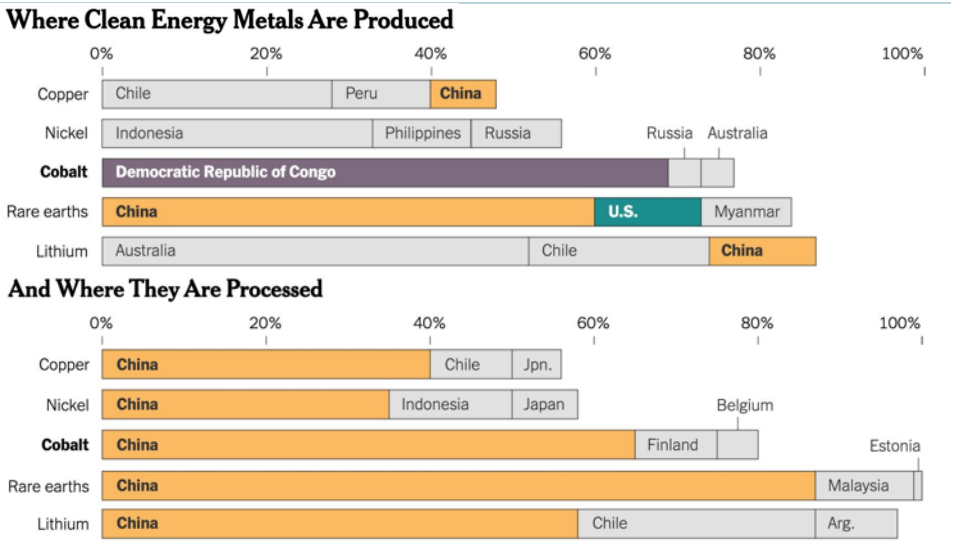
[12] Remarkable that Argentina was among the richest countries in the world at the beginning of the 20th century, averaging ~64% of the then leaders, New Zealand and Australia, on a GDP per capita basis (PPP). But now is only on a 51% and 42% PPP basis, respectively.

In regards to Article 22, on first impressions there doesn't seem to be anything particularly onerous, nor different from any other mining jurisdiction globally. Clearly the wording is such, that one could drive a Mack truck through it, so detail and eventual interpretation is critical. But under most mining jurisdictions, it is normal practice for national governments to attempt to build value add industries on top of simple mineral extraction. The vast majority of commodities are processed and refined in China (see Figures 19 and 20) and so too in the case of lithium (as with virtually all minerals).

Looking at lithium specifically, the overall thrust of the proposal, however, could be extremely advantageous, because since 1979, lithium has been a "strategic resource", due to its potential application in the process of nuclear fission; the result being, that it became ineligible to be granted as a mining concession. Production, to date, has been managed via four separate mechanisms: (i) on its (Government's) own account; (ii) a Lithium Special Operating Contract (Contrato Especial de Operación de Litio, or CEOL[13]); (iii) through state-owned companies; or (iv) through administrative concessions. But Article 22 proposes to treat all minerals (including lithium) on a similar basis. Critically, if implemented, it would do away with CEOL, making the production approval's process far more streamlined.

Figures 19 & 20: Production of key resources are highly concentrated, in particular, Chile dominates in the production of copper concentrate (top); however, China dominates in refining and processing (bottom).

As a result of ESG and cost pressure, most global smelting and refining of commodities have been transferred to China. The difficulty of establishing an alternate processing centre would require the ability to find capital willing to risk it against the Middle Kingdoms SOEs; who historically have been willing to produce below cost to put competitors out of business.



Source: NY Times (2022)

Article 23 is recognition of indigenous peoples, and not dissimilar to that seen in Australia or Canada. Clearly some jurisdictions take these measures further than others, and it can be used to create logistical and legal problems. But in

[13] The company resubmitted their CEOL applications following the election of the new national government. For the Francisco Basin, the application covers >50km^2, including the lithium target zone of 10–25km^2 (excluding the Tres Cruces National Park); for a quota of 20ktpa, over a period of 41-years. The application for the Laguna Verde project covering >50km^2, targets the lithium zone of 15–20km^2; again for a quota of 20ktpa, over a period of 36-years. Previous guidance for the approval's process was six to 12 months.

this instance, we don't foresee any impact on either project, given Laguna Verde and Francisco Basin occur between 4,250 and 4,350m in elevation, while the closest indigenous peoples are located several hours travel by vehicle, residing several thousand metres in elevation below.

The New Constitution will be approved/rejected via a National Constitutional plebiscite, scheduled to take place on September 4, 2022. Voting is mandatory for all citizens registered to vote in Chile. In the event that the text presented for ratification is rejected, the current Constitution from the Pinochet era will remain in force.

Research Disclosures

Research disclosure as of 1st February 2022

Company Name (the Relevant Issuer)	Disclosure
Cleantech Lithium PLC	1, 2, 3, 7

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Fox-Davies Capital Ltd
12 Hay Hill, Mayfair
London W1J 6DQ
United Kingdom

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Fox-Davies Capital (DIFC) Ltd.
Emirates Financial Towers, N1702D
Dubai International Financial Centre
P.O. Box 507268, Dubai
United Arab Emirates

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