Event Transcript

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Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the September Quarter 2020 Results conference call. At this time, all participants are in a listen only mode. After the speaker's presentation, there will be a question and answer session for analysts and institutional shareholders. To ask a question during the session you will need to press the star key on your telephone. Please be advised that this conference is being recorded today. I would now like to hand the conference over to your speaker today, Simon Hay. Thank you. Please go ahead.

Simon Hay: Welcome, everyone, to the call. Joining me today is Alan Rule, Chief Financial Officer. Our September Quarter Activities Report was released to the ASX this morning and will be available on our website today. A reminder that shareholders can contact Phoebe with any questions after the call. Before we begin, a reminder that today's discussions will include forward-looking statements that are subject to various risks and uncertainties concerning specific factors. Information presented represents our best judgement based on today's information. Actual results may vary based upon these risks and uncertainties.

Getting started, Sustainability and COVID, progress at Mt Cattlin and James Bay was unaffected during the quarter. In Argentina the situation is quite serious as the country's being hit hard by the pandemic. For Galaxy, so far we've not experienced any cases in our workforce, at site or at the office which is really pleasing. However, some of our neighbouring projects have experienced outbreaks and there are cases in Catamarca City, we remain on high alert, with strict protocols and practices in place. On safety, pleasingly our TRIFR continues to decline, and we only experienced one low-level recordable injury in the quarter. A soft tissue injury. Construction of our community support projects in Argentina remains on hold due to the COVID pandemic.

Moving onto our projects, I'll start in Argentina with Sal de Vida. We've made really good progress on our test work program in Australia and on the piloting program in Argentina during this quarter. We've completed four lock cycle test runs in Australia on the flowsheet. This is using brine from Argentina, which we shipped across. In all these runs, including the last run, where we have the highest potential for concentration upwards of minor elements, we've made technical-grade product. On the pilot plant similarly, we have had excellent results. We recently completed our first full run of evaporated brine all the way through to final product, even though this run was more around proving the pilot plant, the process and the mechanics of the plant, pleasingly, we've made technical-grade product for a hundred per cent of the time the plant was operating at a steady state.

These combined results give us confidence to adopt technical-grade lithium carbonate as the product for stage 1 of the project. This development's quite significant in a number of ways. First of all, it was achieved through our simplified process flowsheet without using the complex bi-carbonation step. This is purely evaporation and chemistry in the process plant enabling technical-grade product. Technical-grade product opens up a wider addressable market compared to our previously envisaged product, primary-grade lithium carbonate. Of course, we'll see increased revenue from the higher value, higher quality product but this will come at little additional cost or recovery lost, and this'll of course obviously improve project financials.

From here on, we'll make minor adjustments to the flowsheet and feed these through into the process plant feed package, which was recently commenced. This will occur seamlessly and as I said there are minimal changes to the flowsheet as a result of this development.

We are going to continue the test work program and we are going to examine the potential for reaching battery-grade product quality. This is through the same flowsheet. So, we're not looking at major adjustments. We want to keep the project moving ahead steadily on the current schedule. Battery-grade is a potential and you can see from the lithium carbonate purity levels we have quoted of 99.5% to 99.7% lithium carbonate, that the lithium carbonate content itself is not the concern. Our steps from here are to work on lowering the deleterious minor elements which would be necessary to reach battery-grade. We are quite close but there is still a lot more work to go to see if we can produce battery-grade. It's an R&D program, so risks remain.

Piloting will continue with the objective of making product for customer testing and this is at the technical-grade level. Elsewhere on the project, we are making steady progress. Feed is advancing on the ponds and brine distribution network. We also aim to start drilling the first production wells this quarter. However, this is COVID-dependent, with a lot of logistics and transportation required to move materials, casings, drill rig and labour to site. That is not easy under current restrictions and with COVID in the vicinity. Very pleasingly we have managed to hold the schedule during this quarter and this reflects very highly on our Argentinian team to have done so under such trying conditions.

Moving onto Mt Cattlin, we have had a steady quarter with spodumene concentrate production of 30,000 tonnes, very similar to the second quarter. We remain on track to meet full-year production guidance. Recovery picked up over the quarter as a number of work programs yielded positive results. The optical ore sorter circuit, it's operating at nameplate capacity and reliably contributing a thousand tonne per day or sorted ore into the plant.

Mining was affected by a short-term shortage of labour, as the South Australian-based mining contractor moved to a localised workforce. Many of the original staff since the contract changed at the beginning of the year had worked in Western Australia for six months without returning home and we are really thankful for their commitment, but now the contract has now increased their contingent and they have put on an extra shift to catch up on lost volume. The lost volume did not impact plant performance as we always had ROM stock throughout this period, overall a very steady quarter from Mt Cattlin.

In regard to sales, we shipped a lower-grade lot early in the quarter and only missed the second Q3 shipment by four days. Right now, we are part way through the loading of the second 15,000 tonne October shipment, which will see inventory drawn down further. Obviously, there is a lot happening on the supply side, with administrators and receivers appointed to Altura, Orocobre announcing a temporary closure and on the development side, Lithium America's pushing back the start of their Argentinian project to 2022. This has created some nervousness in our customer ranks. Negotiations are progressing on further shipments in November and December although we have not agreed terms and timing as yet. We expect to conclude additional shipments this quarter, this will see spodumene inventory return to more normal levels and as a result we have commenced examining the ramp-up of Mt Cattlin back to full rate. We're in the early stages of discussion with our major contractors and any ramp-up would be expected to occur in Q1 2021.

On James Bay, I think the most interesting development during the quarter was commentary coming out of Tesla's Battery Day, where Elon Musk outlined Tesla's desires for local lithium supply for their Austin-Texas plant and more generally in the US. We see this as very positive for James Bay with it having the potential to supply the North American lithium value chain over the coming years. Europe, as we have talked about is also a potential customer, as the number of proposed lithium chemicals plants there grows in number. Our plan is to continue work on optimising the upstream mine and concentrator project and monitor developments in the downstream space, with the objective to position James Bay as a supplier into an emerging downstream facility in either of those two locations.

I'll now hand over to Alan to take us through the financials.

Alan Rule: Thank you Simon and good morning everyone. At quarter end, Galaxy was debt free with cash and financial assets of US$105 million, placing Galaxy in a strong financial position at quarter end.

The reduction in cash and financial assets of US$4.2 million for the quarter is made up of a few key items. Firstly, at Mt Cattlin, there was a net cash inflow for the quarter of US$2.7 million, due to the working capital benefit of the receipts of the sale proceeds from the shipment at the end of the June quarter. That shipment was 26,000 tonnes and if you recall, we had said at the time that the funds were received in early July. So, that benefit came through in this quarter, resulting in the net cash inflow at Cattlin of US$2.7 million.

Capital expenditure across the group was US$4.6 million, primarily at Sal de Vida. There was US$3.8 million spent at Sal de Vida during the quarter on feed costs, on the ponds and wells, commissioning and operating of the pilot plant, various studies and other site-based activities. Corporate costs for the quarter were steady at about US$2.3 million.

At Mt Cattlin, it's worth noting, at the end of the quarter we had approximately 61,000 tonnes of finished product available for sale. As we mentioned at the end of the last quarter and in the financial statements, we redeemed the fixed rate note in late June and those funds were received in early July and formed part of the closing cash balance.

The full cost Capex at Sal de Vida for the half is around US$10 million to US$12 million, including the piloting program, the FEED for stage 1 and 2, FEED 2 covers the process plant and non-process infrastructure. We will be commencing very shortly the drilling of the first production wells and owner's costs to be incurred during the remainder of the year.

Simon, back to you.

Simon Hay: Thanks Alan, Just to conclude, a few comments on the broader lithium market because everyone knows there's been a plethora of positive commentary and announcements on electric vehicles, which I won't go into, but I'd rather just provide a summary of the situation as we see it. The significant stimulus at country level all the way down to retail subsidies, plus order makers electrifying their fleets at an increasing pace, particularly in Europe, are all obviously positive for demand. However, limited investment is new mines is certainly apparent, not those that are underway, some affected by delays and we've seen this week supply-side interruptions. All this together leads to what we believe to be a looming supply deficit and Galaxy is well-positioned to benefit from such, with the ability to ramp up Mt Cattlin, Sal de Vida advancing well and positioned to come online at a positive time for the market and James Bay strategically located to benefit from the localisation efforts of lithium supply in both Europe and the US.

I'll hand it back to the operator to get Q and A underway. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you are an analyst or an institutional shareholder, and wish to ask a question, please press star-one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star-two. Your first question comes from Rahul Anand with Morgan Stanley Australia. Please go ahead.

Rahul Anand: (Morgan Stanley Australia, Analyst) Hi, Simon and team. Thanks for the opportunity. Can I please start with recoveries? You did mention that September, the recoveries peaked at 60%, however, the period average was 57%. So, when you say peak, I just wanted to know how long you were able to sustain recoveries at that level and given you haven't revised guidance today, does that mean that you're expecting to get to the guidance range in the last quarter of the year?

Simon Hay: Thanks, Rahul. So, we peaked at 60% for September, across the full month of September. The quarter average was dragged down by a trial we conducted in July where we introduced higher quantities of stockpiled materials, not just the sorted ore, but also tailings and some other materials, that dragged the quarter average down. We haven't adjusted our guidance, all I'd say further on recovery is we are working on a number of items that were quite successful during the quarter.

We have improved density control and we have a diagnosis tool to enable the team to react quickly to any process interruptions. We also did a much better job or higher lepidolite material out, so, peaks were certainly smoothed out. Those initiatives are still in place, we do expect recoveries to be better generally but also we talked about raising our product-grade target to 6.0% and that comes at a recovery loss we have talked about now for a number of quarters compared to operating previously at 5.7% final product grade.

Rahul Anand: (Morgan Stanley Australia, Analyst) Just to follow up there, are you still seeing customers want only 6%, because we have seen some of your competitors actually starting to take the product grade lower and take their recoveries to up to 90% - 95% and saving significantly on costs. Mainly because the offtake partners are happy to take product that's sitting at sort of 5.5% - 5.6%. Is that something that you would explore? Is that something you're seeing from clients at all, or your customers, that they only want 6.0% and not anything lower still?

Simon Hay: No, I wouldn't say it's a general trend, Rahul. I think some of our competitors maybe struggle to produce 6.0%, that might be part of the issue. We continue to see battery-grade specs lifting, so I don't think it'll be a trend to reverse but what we have seen in the last year or so of generally tightening specs, but, no, not something we have seen.

Rahul Anand: (Morgan Stanley Australia, Analyst) Moving onto Sal de Vida, positive news there in terms of being able to produce technical-grade with pretty much quite a similar flowsheet and just addition of some chemicals. What I was wanting to get to really was, has this been only tested in Perth at this point in time, or have you been able to do it at site? I mention this mainly around complexities of altitude and deferring conditions at site.

Simon Hay: No, it was produced in both locations. The pilot plant is in Argentina, up at the Puna right on the Salar at 4000 metres. Our first full process run, we made technical grade, a tremendous achievement. While we are still sort of learning to understand how to operate the plant, normally in these circumstances you are just happy to get the plant underway, but to make technical grade for a 100% of the time that the plant was in steady state, up at elevation, using our simple flowsheet, it's a really good achievement.

The other test work has been conducted in Australia. It's not in Perth, but I won't go into where it is, but it is a very professional, well-run metallurgical test facility that has piloting processes. They've been working with us now for over two years and they've verified the work independently at lower altitude, of course, but they're also involved in our piloting from a guidance and advice point of view as well. That's why we have come out with confidence today to adopt technical-grade as our product.

Rahul Anand: (Morgan Stanley Australia, Analyst) Okay. Understood. One quick one. You've mentioned normalised level of inventories by the end of the year. What is a normalised level of inventory for you?

Simon Hay: We would normally have at least one full shipment in the shed. You would never get below, say 20,000 tonnes and then you have probably got another shipment lined up. So, the low end of inventory that you're sort of comfortable with is 15,000 to 20,000 tonnes and another 10,000 to 20,000 tonnes on top of that would be normal. 60,000 tonnes for us is high, 30,000 – 40,000 tonnes would be more normal.

Rahul Anand: (Morgan Stanley Australia, Analyst) Okay. Perfect. Then, look, final question. You did talk about it briefly at the start regarding Altura. So, I mean, a couple of questions here. First one's obviously, how do you view this asset? Is that something that can potentially fit your portfolio? Then secondly, how do you view the lithium market progressing post this asset going on, initially care and maintenance but if someone else acquires it?

Simon Hay: I won't get into too much speculation. We look at all Australian lithium assets, Altura's no different. We will monitor developments with what happens with the administration process, our principal focus is on the immediate interruption to supply. The administrator has talked about putting it into care and maintenance and that has got customers nervous and as I've said, we are working with those customers and we some of our customers are shared and we are working with customers on addressing that nervousness and that's on future shipments. So, it could go many different ways and I don't want to speculate, if they're in care and maintenance for a long time, a short time and the situation's very different. So, I don't think it adds a lot to speculate on other possibilities here.

Rahul Anand (Morgan Stanley Australia, Analyst): Yep. That's fair. Okay, look, that's very helpful. Thank you, I'll pass it on.

Simon Hay: No worries. Thanks, Rahul.

Operator: Thank you. Your next question comes from Nick Herbert with Credit Suisse.

Nick Herbert: (Credit Suisse, Analyst) Good morning, Simon and Alan. A few from me, Alan, just start with you, just to clarify a couple of the Capex numbers that you mentioned. Did you say that the Sal de Vida for the second half guide was US$10-US$12 million, and then there was US$3.8 million spent so far in the September quarter?

Alan Rule: Yes, that's correct. Just to give you an idea, in the second quarter there's a heavy workload on the FEED, 1 and 2 and commencement of the drilling of the production wells and we needed to purchase some casing for the production wells too.

Simon Hay: That's the second half.

Nick Herbert: (Credit Suisse, Analyst) Are you able to give an indication of what the subsequent Capex into next year would be to get you to a point of making an investment decision on that?

Alan Rule: We're going through that budgeting process at the moment, I would expect it's well within our cash balance requirements that we've got and I don't expect that we would be burning through a lot of that cash very quickly in Q1.

Nick Herbert: (Credit Suisse, Analyst) Okay. Sure. Then are you able to provide an update on your latest thinking around what the total cost of getting stage 1 into production is?

Simon Hay: Sorry, the total capital cost?

Nick Herbert: (Credit Suisse, Analyst) Total capital cost. Correct. Yes. Whether that's changed from previously, just the latest thinking about what that number is.

Simon Hay: Nick, what we have said is we will complete the FEED packages for both the brine extraction system, distribution system, ponds and then also for the plant and then we will come to the market with an update on the capital cost, that is likely to be Q1 next year. That remains on track and we don't have a capital cost update at this stage, no the technical-grade development doesn't add to capital cost in any meaningful way at all.

Nick Herbert: (Credit Suisse, Analyst) Okay. Understood. Thank you. Final one on Sal de Vida, before Mt Cattlin, do you mind just talking a bit more around the battery-grade conversion R&D program you've got there and how new that technology is? Just sort of trying to get a sense of the risks associated with that and just some sort of more thoughts on that would be helpful. Thanks.

Simon Hay: It's fundamentally a chemistry solution that we have come up with. It's the atmospheric pressures and temperatures, there's a little bit of heating, but it's not substantial. The process that we're using and the individual components are all conventional. It's just our recipe of how we do it, where we do it and when we do it that is different. It's fundamentally an evaporation flowsheet and then the softening and chemicals, the use of reagents to remove impurities. There's no technical, as in equipment risk with the development, it's fundamentally chemistry and how we do it. We've moved to protect our position through various means, protect the IP that is. We do believe it's unique, we can't see anyone else doing what we're doing and we've got a really good team that's putting all this together. The risks are, we can achieve technical-grade, we're going to try to reach battery-grade. I'm not saying we will get there because it is an R&D program to get to battery-grade but it will be using very similar techniques. The flowsheet will be largely the same, if any change to the flowsheet, it would occur at the tail end of the flowsheet so, it's not going to slow down the stage 1 FEED activities at all.

Nick Herbert: (Credit Suisse, Analyst) Got it. Okay. Just a final one on that. Is that a bit of a change then from and this might be my fault, apologies for not being across the detail, but is that a change to you prior plan to have that processing offsite, if you're going to sort of now look at attaching that to the back of the flowsheet at-site?

Simon Hay: Yes, if we can make battery-grade that would be a huge change to the project because we then obviously don't need to process the technical-grade to battery-grade at a different location. So, our original plan, you're quite right, was to build our own purification facility to take the primary-grade or technical-grade through to battery-grade. If the future R&D work is successful, we won't need to go through that step, we would sell directly to lithium carbonate battery-grade customers.

Nick Herbert: (Credit Suisse, Analyst) Got it. Yeah. That makes sense. So, the fallback then would be building the standalone facility separately, if the R&D was…

Simon Hay: Correct.

Nick Herbert: (Credit Suisse, Analyst) Okay. That makes sense. Thank you. Then just a couple of quick ones on Mt Cattlin. The pre-strip to get into that new pit, when are you into that pit and what implications has that had for your average grades and feed to the mill?

Simon Hay: We are doing the pre-strip now. We access 2 Northeast next year, I think first ore comes through. In terms of grade, no material change, I think, from here we are still at our life of mine average grade of 1.15%. So, we don't expect it to be a major difference at all.

Nick Herbert: (Credit Suisse, Analyst) Okay. Great. Thank you. Then finally, do you mind just speaking a little bit more to your customer discussions and just a bit about sort of the level of engagement and whether that's changed or is changing? Then also the comments you made that you expected an extra couple of shipments to come this quarter is that potentially on top of the 15,000 tonne that you've already had loaded and the 15,000 tonner that you said was either imminent or already gone? Is that sort of potentially implying a 60,000 tonne level of shipments in this December quarter?

Simon Hay: That's broadly correct, yes. We've got two underway, one has already gone and one is loading right at the moment, there will be two in October. Discussions with customers, yes, there is extra engagement because of these supply-side interruptions. So, that has stepped up and yes, we are looking for two shipments, we are not providing any guidance, all I'm saying is that we are in discussions with these customers and they are well advanced.

Nick Herbert: (Credit Suisse, Analyst) Okay, great. Thanks very much.

Simon Hay: No worries, Nick.

Operator: Thank you. Your next question comes from Levi Spry with J.P. Morgan. Please go ahead.

Levi Spry: (J.P. Morgan, Analyst) G'day and thanks for the call. Just following up on that last question, please. Just the definitional things, cash costs of US$406, remind me, that's pre-royalty and marketing, is that right?

Simon Hay: That's right, Levi.

Levi Spry: (J.P. Morgan, Analyst) In the context of market pricing, we were led to believe it's close to US$400, can you sort of put that in context with the idea of ramping up production, given that maybe it's still burning cash?

Simon Hay: Absolutely, Levi. What we have said all along is we need to see two things to ramp up Mt Cattlin. One is inventory return to more normal levels and the second is price to move for us to obviously be in a cash positive situation. The first of those is playing out now and also pleasingly customer indications on 2021 requirements are a further positive dynamic. The current negotiations with customers on the next shipments will provide an answer to the second part of that equation.

Alan Rule: Levi, the other ting to note is a ramp-up would increase the mining volume and reduce the mining unit costs. The mining costs are the single biggest components of the cash costs. We would expect the cash costs to come down materially as we ramp up and the mining volumes increase.

Levi Spry: (J.P. Morgan, Analyst) Thank you. Can I just push you a little bit more there though? At full speed, what will the mining costs come down and what kind of return do you need to push more volume into the market?

Alan Rule: We would expect that the costs would come down to around about US$350 a tonne.

Levi Spry: (J.P. Morgan, Analyst) C1?

Alan Rule: Yes. As compared with the US$406.

Levi Spry: (J.P. Morgan, Analyst). Thanks. On to Sal de Vida, just in the context of what is happening with Orocobre at the moment and other industry participants selling low-ish-grade carbonate and achieving a pretty significant discount to the headline price. Can you just talk us through how you see that trend going later, as you ramp up technical-grade into the future, as opposed to going to as much battery-grade as you can sooner or even going more downstream and building your own hydroxide plant? I'm just trying to work out what the actual realised price could be over the next five years, as you ramp up not just volume but quality.

Simon Hay: It's a good question, Levi. Look, I think one thing to certainly bear in mind is that we'll be bringing on Sal de Vida in two years' time. The market is bound to be very different. I think what principally led by SQM, that dumping of lower-grade product at a discounted price, if SQM's fully sold, they don't need to be doing that. So, in two years' time, when demand will by all indications be much more positive, I would expect the behaviour of other producers to have changed from where it is right now. That is one thing. Secondly, it's part of the reason why we're pushing as hard as we can to improve the quality of our product is to avoid that dynamic. You provided in a clear way the incentive that's in front of us and if we can get to a high-quality technical-grade or even battery-grade, it takes that pressure completely out of Sal de Vida. So, that's how I'd answer your question.

Levi Spry: (J.P. Morgan, Analyst) Thanks, sorry it was a bit roundabout, but maybe a little bit simpler, can you give me your view on the discount technical-grade trades at versus battery-grades?

Simon Hay: Look, I don't have close numbers on it right at the moment, as said we're still two years out from that and we're focussed more on the technical side right at the moment, but I'd be happy to talk through it with you offline at a later stage with a bit more information at hand.

Levi Spry: (J.P. Morgan, Analyst) Thank you. Excellent.

Simon Hay: Okay. Thanks, Levi.

Operator: Thank you. Your next question comes from Reg Spencer with Canaccord. Please go ahead.

Reg Spencer: (Canaccord, Analyst) Thanks. Good morning Simon and good morning Alan. Just on Sal de Vida, looks like there's some pretty positive results with that product test work. If I go back to the original recut development plan for Sal de Vida, you were looking to produce a primary-grade product and in time potentially look at constructing a purification circuit. With the results of this test work and potentially if you are able to produce a battery spec product, does that still mean that you would be looking at that purification circuit and what might that mean for overall Capex implications for the project over the medium to longer term? Just trying to flesh that out and I fully appreciate that you are still partway through that process.

Simon Hay: You are right, Reg, it is early stages for us because these results only came through in the last couple of weeks. But broadly, our previous plan was we would produce primary-grade, as you pointed out and build our own plant eventually to convert that to battery-grade. Now, that was principally done because as Levi pointed out, the discounts for primary-grade were substantial and we wanted that margin to go all the way through to battery-grade. Now, producing technical-grade, there's a lot more customers. I would expect that the discount is lower, we know the discount is lower. The imperative on us to build our own plant is already lessened having committed to a technical-grade. If we get to a battery-grade it disappears completely, the need to purify. We could then examine, we have talked about examining hydroxide, but that's well into the future. You are broadly correct, less of a need to go downstream, wider addressable markets, and higher margins. So, it's a plus, plus, plus for the project.

Reg Spencer: (Canaccord, Analyst) Okay. Thanks. Just thinking about project timelines and as it stands you're talking about End '22 and a few of the other guys have talked about what's happening in Argentina at the minute, is it fair to say that, in all likelihood, that timeline might be pushed out a bit with what's going in with COVID in Argentina?

Simon Hay: The risk is certainly there, Reg. As I said, we have maintained schedule this quarter and that's been fantastic from our team, fantastic performance from the team over there. COVID is all around us and it's a day-to-day proposition. You know we have seen pretty much every major lithium producer and project go into a closure because of a significant outbreak, as in 10 or 20, up to hundreds of cases at LAC (Lithium Americas) I think it was. That risk is ever present and we are trying to maintain schedule, but yes, you would have to say that it is difficult with the prevalence of COVID in Argentina.

Reg Spencer: (Canaccord, Analyst) Okay. Understood. Just lastly, you might not have seen it but there is increased speculation that there's another lithium company that looks like that they will go after Altura's asset. If that particular asset stays in production, what is the feedback from your customers with respect to the dynamics of the concentrate supply market? What are they seeing in terms of demand one, two, three years out? What does that mean for their own expansion plans? Just trying to match up what we might expect from, on the supply concentrates relative to what's happening in the supply demand in the chemical part of the market because we all know that that's got a fair degree of impact on pricing.

Simon Hay: Oh, look, Reg, in our discussions this week with customers, they haven't looked too far out. I think it's this quarter and early 2021 seems to be their focus area. Then discussions around long-term contracts, as you know, they take long periods of time to evolve, if the current ones fall away, then those customers will go elsewhere. They'll look for new supply. I think there's so many potential outcomes that are there that, as I said previously, it's hard to speculate. You could develop a scenario for each and multiple scenarios for each outcome. I don't think I can really add much to the conversation there.

Reg Spencer: (Canaccord, Analyst) That's fine. Thanks, Simon. Thanks, Alan. I'll pass it on.

Simon Hay: Okay, Reg. Thanks.

Operator: Thank you. Your next question comes from Glyn Lawcock with UBS. Please go ahead.

Glyn Lawcock: (UBS, Analyst) Good morning, Simon and Alan. You have answered this partly, you talked about maybe a ramp up depending on how your discussions go on price with customers in the next few weeks, can you just sort of remind me, what does full production look like now? You have done a lot of work to the plants over the course of 2020, when could you get to full capacity, if you make the decision band what does it look like in terms of throughput grade and recovery, noting that Alan's already given us where unit costs might go to? Thanks.

Simon Hay: Okay. Thanks, Glyn. Look, our capacity, I think we clearly demonstrated last year at 200,000 tonne per annum of spodumene concentrate, that would remain the same. That was plant constrained, that is the plant running flat chat. We would continue to use the ore sorter circuit, we think that's a great way to get in some cheap feedstock into the plant that contributes to that number that Alan talked about on a unit cost. Grade, we would continue to target 6% and running at high rate and at a high grade obviously presents challenges for recovery. I would be saying recovery would be sub-60, but we've still got all these other improvements that we have made this year that would continue into a full ramped-up scenario. I think that tells you where we would be at, Glyn.

Glyn Lawcock: (UBS, Analyst) And the grade of the ore you expect to put through the plant?

Simon Hay: It would still be the 1.15% grades.

Glyn Lawcock: (UBS, Analyst) Then just taking it a little bit further in terms of you said the phones be ringing a bit more now, which is good. Is that existing customers? New customers? Is it all one geographic location? If you could maybe just sort of help me understand how much the phone is now ringing?

Simon Hay: Yes, it is one geographic location. We know pretty much all the converter customers in China, all the unaligned ones. We are in contact with them routinely, but yes, they've all been in contact in recent days.

Glyn Lawcock: (UBS, Analyst) Finally, just when you look at that then, how do you think you would structure your sales for 2021 then? Are you looking to sell it all on the spot market from a price perspective? Price some away? What are you thinking for 2021, with the discussions you are now having in this environment?

Simon Hay: You are right. We would price some away and we would also look at spot, a combination. All options are open at the moment, with what we have adopted with the spot pricing to meet the market on the way down, we expect to do the same on the way up and we wouldn't be locking away lower prices by any stretch.

Glyn Lawcock: (UBS, Analyst) So, assuming you start ramp-up in Q1, you come close to 200,000 tonnes per year, but may be a little bit short, has any of that locked away at the moment? Or is that still all open at spot at the moment?

Simon Hay: We have long-term contracts that we've talked about, but pricing is yet to be fixed on any of it, so yes, price is all market-related.

Glyn Lawcock: (UBS, Analyst) So, the full 2021 is open for market at the moment. All right. Perfect.

Simon Hay: Yes.

Glyn Lawcock: (UBS, Analyst) Thanks very much.

Operator: Thank you. Your next question comes from Warren Edney, with Baillieu. Please go ahead.

Warren Edney: (Baillieu, Analyst) Hi. Thanks very much. I've just got two questions, Simon. One, just in terms of the grade of shipments for the second half, is it back to the 5.9?

Simon Hay: Yes, it is that one off shipment at 5.6 cleared our stock of lower-grade material.

Warren Edney: (Baillieu, Analyst) Okay. Maybe one for Al, with that shipment of the lower-grade material, I'm assuming from P&L perspective, it'll be done at whatever the cost of production was and obviously that's significantly higher than…

Alan Rule: Yes.

Warren Edney: (Baillieu, Analyst) Where you are now, can you give us any guidance on any adjustments you think we should be making?

Alan Rule: If you recall, we had an impairment at 30 June on inventory. Our write down on inventory at 30 June. We had a significant P&L impact at 30 June for that shipment, because we knew where the pricing was going to be.

Warren Edney: (Baillieu, Analyst) Is that already in the numbers then Alan?

Alan Rule: Yes, that's correct, at the half year.

Warren Edney: (Baillieu, Analyst) Okay. Thanks a lot. That's great.

Operator: Thank you. Your next question comes from Peter Arden from Bell Potter Securities. Please go ahead.

Peter Arden: (Bell Potter Securities, Analyst) Hi, Simon. Just two small ones. Most of it's been covered. At Mt Cattlin, you mentioned about feeding in tailings and it sounds like the test in July hasn't been terribly successful. What's the future for tailings coming into the mix at Mt Cattlin?

Simon Hay: Yes, you're broadly right, Peter, it did impact on recovery. We will only dribble in tailings at sub-five per cent of total feed at a maximum, it's not going to be a meaningful contributor to FEED.

Peter Arden: (Bell Potter Securities, Analyst) Right. Thank you. At Sal de Vida, you are now talking about doing the first production well. When you were talking about the drilling of the most recent wells there, you said that you would use them for production. How does the plant, the first production well differ? Is it in a totally different location? Is it a different drilling technique? Different screening? Is there any major difference there?

Simon Hay: Yes, it is a different location, it's a different diameter. We put in a casing to last a long period of time and yes, we tackle it very differently. The first one is going to be deeper than the others as well, it's a little bit of exploration as well as production. On your first pass you can get very good hydrogeology information that can feed into your resource and reserve calculations. So yes, very different to what we have already in place.

Peter Arden: (Bell Potter Securities, Analyst) Okay. Thank you. Sorry, could I just return to one other question at Mt Cattlin? In the past, that deposit has yielded tantalum. Is there any plan to recover more tantalum going forward?

Simon Hay: Yeah, tantalum's a current byproduct. We recover that routinely already.

Peter Arden: (Bell Potter Securities, Analyst) Are you going to stay at that sort of level? Apparently, Tantalum prices have been reasonable.

Simon Hay: Yes our tantalum production's certainly quite stable. We had a minor interruption for a couple of months with the spiral bank was offline, but we've got a new spiral bank in place and tantalum productions at normal rates. We have an offtaker. So, yes, a regular source of revenue.

Peter Arden: (Bell Potter Securities, Analyst) Thanks very much, Simon.

Simon Hay: No worries, Peter.

Operator: Thank you. Your next question is a follow-up question from Rahul Anand, from Morgan Stanley Australia. Please go ahead.

Rahul Anand: (Morgan Stanley Australia, Analyst) Hi, Simon and team. Thanks for the opportunity to follow up. There's a couple of questions I had regarding modelling, maybe a bit of help there would be much appreciated. Firstly, the cost that you've reported at FOB, just reconfirming, that excludes any royalties and marketing?

Alan Rule: That is correct. Our marketing figure has been significantly reduced and is almost immaterial now. It's really only state royalties.

Rahul Anand: (Morgan Stanley Australia, Analyst) Then state royalty's sitting still at about 5% and I had marketing and distribution about the same amount. Is that the right way to think about them still?

Alan Rule: State royalties still at 5% marketing and distribution costs are completely immaterial now.

Rahul Anand: (Morgan Stanley Australia, Analyst) One question then, as a follow up for Simon to Glyn's questions. You were talking about sort of mine grades going forward once the plant's ramped up and you mentioned the 1.5% - 1.15%-grade, just wanted to understand your proven probable numbers sit around 1.3% or just above, do you expect that mine life to run at 1.15% or is there a negative grade reconciliation here? Or how should we be thinking about that differential in the reserve and process grade?

Simon Hay: Rahul, the 1.15% is more for 2 Northeast. I'd have to take the rest of the question on-notice. I'm happy to talk to you offline on that if you need further.

Rahul Anand: (Morgan Stanley Australia, Analyst) Okay. Perfect. We can do that. That's all from me. Thanks.

Simon Hay: Okay. Thanks, Rahul.

Operator: There are no further questions at this time. I will now hand back to the presenters for today.

Simon Hay: Thanks everyone, lots of detailed questions today. Thanks for your interest, just a reminder to others, Phoebe is available for questions from other shareholders right now and into the afternoon. Thanks everyone.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for participating. You may now disconnect.

End of Transcript