LEO LITHIUM LTD

# INVESTOR INFORMATION – JULY 2024

## Overview

This document addresses the most frequently received questions from shareholders since Leo Lithium's (**Leo** or the **Company**) ASX announcement dated 8 May 2024 regarding the sale of its remaining shareholding in the Mali Lithium B.V (**MLBV**), the holding company of the Goulamina Lithium Project (**Goulamina** or **Project**), to GFL International Co. Ltd (**Ganfeng**).

This document should be read in conjunction with the Company's previous announcements, including:

- the Notice of Annual General Meeting and Explanatory Memorandum and webinar presentation both dated 1 July 2024; and
- the 8 May 2024 announcement titled "MoU signed with the Mali Government and sale of entire Project to Ganfeng".

Both of these announcements are available to view at www.leolithium.com and www.asx.com.au.

## 1. BACKGROUND TO THE MALI GOVERNMENT DISPUTE AND SETTLEMENT

### 1.1. What was the dispute with the Mali Government?

Leo Lithium and its JV partner, Ganfeng, were in discussions with the Mali Government (**Government**) over several matters of dispute between the parties since July 2023. As the dispute progressed in late 2023 and into 2024, it became apparent that regular permits required for the operational phase of the Project were not being progressed and without these permits, production could not commence.

The initial matters in dispute related to direct shipping ore (**DSO**), the status of the Government's free carry stake and the overall status of progress at the Project. Following the resolution of these matters in September 2023, the Company received further correspondence from the Mali Government that raised for the first time the following matters:

- an allegation that the transfer of the Permit from a Firefinch entity to Lithium du Mali SA (**LMSA**) had not followed the relevant regulatory procedure and was therefore irregular;
- an invitation for the parties to apply for a new exploitation permit for the Project; and
- a request to migrate the Project to the 2023 Mining Code.

Whilst the Company disputed these claims, the Project was approaching the commissioning phase and the issuing of operational permits was becoming critical. As such, a settlement of the dispute was required.

Despite being in a strong legal position to pursue its case, Leo's Board held the view that a settlement with the Government and a subsequent sale of the Company's interests in MLBV (the holding company of the Project) to Ganfeng was in the best interests of shareholders.

This was due to increasingly challenging sovereign and security risks in country, the expected economic impact from the adoption of the 2023 Malian Mining Code and the Company's financial position to fund the remaining working capital requirements and an assessment of the length and difficulty of any potential recovery under international arbitration.

### 1.2. How do the changes to the Mining Code in Mali affect the Project?

Under the previous Mining Code, the Government was entitled to a 10% free carry stake in the Project and could acquire an additional 10% stake at fair market value. This previous Mining Code applied to the Project when the Company commenced investment in Mali.

Under the 2023 Mining Code, the Government remains entitled to a 10% free carry stake but can also acquire an additional 20% stake. The price to be paid for the additional 20% stake is considerably lower, being based on the pre-development costs of the Project, rather than current fair market value under the prior code. In addition, the 5% stake in the Project to be made available to Malian locals is priced on the same basis as the Government stake (i.e. on the pre-development costs of the Project). The difference between the Government acquiring a stake at fair market value under the old Mining Code vs. based on pre-development costs under the new Mining Code has a material impact on the economics of the Project for Leo shareholders.

Other changes to the Mining Code, which all have a detrimental financial impact on the Project, include:

- the exploitation licence term is reduced from 30 years to 12 years, with the opportunity to renew;
- imposition of significant new revenue-based fees in addition to existing royalties; and
- elimination of corporate tax, VAT and customs incentives.

As a whole, the changes significantly reduced the financial returns to the JV partners, diminishing Leo's value proposition for Goulamina. The imposition of the 2023 Mining Code was a major factor in the Board's decision to sell the MLBV stake to Ganfeng.

### 1.3. If our legal case is so strong why did the Company not take legal action?

International arbitration was considered, though, it is a costly and lengthy process with an uncertain outcome. Arbitration would have tied up shareholder funds for years and could have halted the Project completely.

The Project could have stalled during this process and if so, asset deterioration would have been a major concern with the constructed facilities sitting unused an idle for potentially many years. Therefore, the Board decided a full sale that realises certain and significant value in the near term and under volatile circumstances was in the best interests of shareholders compared to the alternative of a protracted, uncertain and costly arbitration process.

### 1.4. How did the JV partners negotiate with the Government of Mali?

Leo Lithium and Ganfeng jointly participated in discussions, meetings and correspondence with the Government of Mali over many months. The JV partners were 100% aligned throughout the negotiation process on all matters. Ganfeng has invested more than US$300 million into the Project and has had no issues with Leo Lithium's management of the joint venture. Ganfeng has been a consistent supporter of Leo Lithium throughout the process and has been an outstanding and honourable partner over a long period of time.

### 1.5. How was Firefinch involved in Leo Lithium's dispute with the Government?

Throughout these protracted discussions, the Government continued to insist that Leo Lithium and Firefinch were related parties. The Government continually attempted to draw Leo Lithium into Firefinch's separate dispute with the Government over Firefinch's Morila gold mine.

Leo Lithium's management reiterated its position repeatedly that, following the demerger, there was no corporate relationship or common control between Leo Lithium and Firefinch and that Leo Lithium has nothing to do with the Morila dispute. This did not sway the Government's position and the Government insisted Firefinch's settlement of the Morila dispute be included in Leo Lithium's settlement of the Goulamina dispute.

As part of an overall settlement with the Government, Leo Lithium procured the payment of US$60 million to the Government. Pursuant to the settlement, Firefinch will transfer its shares in Morila SA to the Mali State-owned mining company. Firefinch will seek shareholder approval for this transfer.

Leo Lithium and Firefinch also reached a separate agreement that upon Firefinch shareholders approving the transfer of shares in Morila SA to the Mali Government, Firefinch will make an A$11.5 million contribution to Leo Lithium as Firefinch's contribution to the Mali Government settlement amount. Firefinch has also released Leo Lithium from any claims relating to the demerger of Firefinch and Leo Lithium and the transfer of the Goulamina permit as part of the demerger.

Upon receipt of the A$11.5 million payment from Firefinch, Leo Lithium will provide a similar release in favour of Firefinch.

### 1.6. If the new Mining Code is not implemented, can Leo pull out of the transaction?

The 2023 Mining Code was promulgated on 29 August 2023, and so was in effect when the dispute with the Government was settled. The Implementation Decree which describes how the Mining Code will work in practice is still being developed.

Accordingly, the transaction is binding and is not conditional upon the 2023 Mining Code being implemented or remaining in force. Further, there is no adjustment to the transaction value if, for any reason, the 2023 Mining Code is revoked or changed in the future or if the Project is not ultimately regulated by the 2023 Mining Code. Leo would note that the Malian Government has shown significant determination to apply the 2023 Mining Code to the Project.

## 2. TRANSACTION AND RATIONALE FOR SALE

### 2.1. How is this the best deal for shareholders?

We believe the deal is in our shareholders' best interest when compared to the alternative of continuing to own a minority interest in the Project, regulated under the 2023 Mining Code and located in a challenging jurisdiction.

Under the 2023 Mining Code, there is a significant loss of expected future value for Leo Lithium. This includes potential dilution of the Company interest in the Project, down from the current 40% to 26%. Whilst Ganfeng will experience similar loss of value in Mali, it is able to generate additional value by processing Goulamina spodumene concentrate through its downstream facilities in China. This outcome and revenue stream are not available to Leo Lithium.

A full sale of Leo Lithium's interest in the Project was not part of the original plan, but the Board and management team have been forced to adjust to the situation that was presented and now believe it's the best outcome that could be achieved given the highly volatile and challenging circumstances. We finally have a settlement and, subject to shareholder approval, we are proposing a return of cash to our shareholders.

### 2.2. Goulamina is a tier 1 asset on the cusp of production – how can the Board justify the valuation and decision to sell now?

Leo continues to firmly believe Goulamina is a tier 1 asset. However, as outlined in the Notice of Meeting (issued on 1 July 2024) and previous ASX announcements, Leo has been engaged in discussions with the Mali Government since mid-2023 concerning a range of issues described in more detail under section 1 above.

While Leo is pleased the issues with the Mali Government have now been resolved, the Board has taken the view that with the major changes from the 2023 Mining Code, the future financial returns of the Project do not fully compensate for the increased risk and uncertainty of doing business in Mali. Essentially, while the underlying "Tier 1" geological and mineral properties of Goulamina remain unchanged the corporate, financial, taxation and legal structure that would apply to the project is now significantly inferior. In light of all these changes, Goulamina's value to Leo has fundamentally changed. The Board believes it is in the best interests of Leo's shareholders to exit its shareholding in Goulamina via the proposed sale to Ganfeng.

### 2.3. On a $ per tonne of contained lithium basis, this transaction looks lower than other transactions. How did you come up with this valuation?

The transaction consideration of US$342.7 million is the culmination of months of discussions with Ganfeng and is the best outcome that we were able to negotiate, given the challenging and volatile circumstances.

In deciding to sell for the agreed consideration, the Board had undertaken detailed analysis and consideration of matters including:

- preparation of a detailed valuation of Leo Lithium's stake in MLBV, including looking at comparable deals and compiling a Discounted Cash Flow analysis recognising the currently depressed spot lithium prices and quantifying the potential impact of the new Mining Code; and
- recognising the complexities associated with any attempt to sell the Company's interest in MLBV to a party other than Ganfeng whilst the matters raised by the Mali Government remained unresolved and Project permits remained unissued.

After careful evaluation, the Board believes the Proposed Transaction provides Shareholders with certainty of value and the lowest risk profile of the options available.

### 2.4. Why is Ganfeng's payment in two tranches?

The delayed consideration with the second tranche being due in June 2025 was an outcome of the sale negotiations between Ganfeng and Leo Lithium. Whilst Leo Lithium preferred an earlier payment, ultimately it was a trade-off with enhanced value over a longer period being a preferred result compared with the alternative of a lesser amount paid sooner. The second tranche payment is not contingent on any operational outcome of Goulamina, it is a debt owed directly from Ganfeng.

### 2.5. Did the Company consider selling Leo Lithium shares to Ganfeng (i.e. a Ganfeng takeover of Leo for cash / Ganfeng shares) instead of selling shares in MLBV? Similar was receiving Ganfeng shares instead of cash considered?

The Company reviewed all potential transaction structures with Ganfeng to provide maximum value to Leo Lithium's shareholders at the lowest possible risk. Based on the outcome of the sale negotiations between Ganfeng and Leo Lithium, it was structured as a sale of Leo Lithium's shares in MLBV (a Leo Lithium subsidiary) rather than a sale of the Company's shares.

### 2.6. Did the Company consider retaining a small interest in MLBV?

Given the new Mali Government equity rights to acquire up to 35% of Goulamina, a minority remaining interest in the project today would result in a far smaller interest once the Mali Government exercises their rights to an economic interest. Furthermore, the imposition of additional taxes under the 2023 Mining Code, shorter tenure and elimination of fiscal incentives significantly reduced the economics of the project to a point that the Project's value is significantly diminished for Leo shareholders, regardless of percentage ownership. The risk of operating in Mali does not change based a reduced interest in MLBV, the risk remains the same for a lower potential reward.

The lack of any control over decisions whilst still having to fund a portion of capital and operating expenses and the associated discounted trading value of a minority position should Leo decide to exit at a later point, made this a less favourable option compared to the proposed transaction structure.

## 3. RETURNS TO SHAREHOLDERS

### 3.1. What will be the total return to shareholders from the sale? What are my shares worth?

It is too early to know the total return to shareholders, as the transaction has not yet completed. In addition, tax and other matters are not yet final. The major financial details of the transaction and the Company's other revenue sources in 2024 - 2025 are as follows:

- the cash consideration for the sale of MLBV shares is fixed at US$342.7 million and payable over two tranches plus a deposit -
  - the first tranche payment is US$161.0 million;
  - the second tranche payment is US$171.2 million; and
  - a US$10.5 million non-refundable deposit has been received;

- interest will be accrued on the second tranche at the rate of SOFR[1] + 2%, from the time the transaction is completed until the payment is made by Ganfeng. At current exchange and interest rates, this interest would total A$12.3 million over the full term.

In addition, the Company will receive fees from Ganfeng for the provision of management services to the Project from July to mid-November 2024. From the revenues above, capital gains tax (**CGT**) will need to be deducted alongside transaction costs and ongoing corporate costs. However, ongoing corporate costs are being materially reduced as the Company's involvement with the project winds down.

### 3.2. Will returns to shareholders be a capital return or a dividend?

The Company is prioritising a return to shareholders and the Board has committed to return in full the net after-tax proceeds of the first tranche of funds received from Ganfeng. However, the exact mechanism for delivering this return is subject to the finalisation of tax advice which remains ongoing. Further information is contained in the Notice of Meeting issued on 1 July 2024.

### 3.3. Why isn't the first payment to shareholders higher?

The Company will receive a first payment of US$161.0 million from Ganfeng. From this amount, the Company will pay any applicable taxes and then return the balance of the funds to shareholders. Importantly, any Malian CGT payable on the transaction is required to be paid in full from this first tranche, according to Mali tax authorities.

The company will also return the US$10.5 million non-refundable deposit (received from Ganfeng) and the A$11.5 million payment from Firefinch, if received in time, in this first distribution.

At present, it is not possible to know the exact shareholder payment. However, after estimating tax and a range of foreign exchange rates, we estimate the return to shareholders from Tranche 1 to be between A$0.15 and $0.18 per share.

### 3.4. Why can't the first payment to shareholders occur sooner?

There are a number of process and mandatory administrative steps that need to occur before the first payment can be made to shareholders. These are outlined in the following table:

[1] SOFR is the Secured Overnight Financing Rate and as at 3 July 2024 2 was approximately 5.3%

| Step | Activity | Expected timing |
|---|---|---|
| 1 | All Conditions Precedent to the transaction are satisfied | Oct 2024 |
| 2 | Ganfeng pay Leo Lithium within 10 business days | Mid-Nov 2024 |
| 3 | Receive final class ruling from ATO | Mid-Nov 2024 |
| 4 | Send information to shareholders seeking approval for a return of capital | Nov 2024 |
| 5 | Shareholders vote to approve a return of capital | Dec 2024 |
| 6 | 2024 financial results finalised and profit declared | Early Jan 2025 |
| 7 | First payment made to shareholders | Early Jan 2025 |
| 8 | Proposed second distribution to shareholders | July 2025 |

If possible, the Company will accelerate this process. However, the timing is indicative and subject to change due to several steps being outside of the Company's direct control.

### 3.5. Is the second tranche payment at risk or conditional on anything?

No, other than initial transaction completion. When the transaction is completed (likely in October 2024), Leo Lithium will no longer own any part of Goulamina or MLBV. Ganfeng will make the first payment (**T1**) within 10 business days of completion.

The second payment (**T2**) is unconditional and not in any way linked to the Goulamina Project or MLBV. T2 is a debt that Ganfeng will owe Leo Lithium and Ganfeng is a strong counter-party with large operations and a strong balance sheet. T2 is not linked to the Goulamina Project or what happens in Mali once the Proposed Transaction is completed. Leo Lithium will accrue interest on T2 from the completion date to the T2 payment date.

### 3.6. Why did Leo Lithium agree to the Trailing Product Service Fee?

The TPSF effectively converts a future offtake right from an uncertain expansion for the certainty of revenue from the current stage of production. As such, the TPSF provides an earlier revenue outcome than would otherwise be possible from the offtake rights for Stages 2 and 3. With this in mind, the Board viewed this as a favourable outcome for shareholders, creating certain value.

To recap, Leo Lithium has agreed, subject to the sale completing, to give up its rights to offtake from the Goulamina Project Stage 2 and Stage 3 expansions. In return, Ganfeng, through its affiliate entity, has agreed to pay Leo Lithium a trailing product sales fee (**TPSF**). The TPSF will be paid to Leo Lithium upon commencement of first commercial production at the Project and is structured as follows:

- 1.5% of the gross revenue (ignoring any amount due in respect of any prepayment) received from the sale of lithium products from Goulamina

Stage 1 subject to a volume cap of 500,000 tonnes of spodumene concentrate per annum; and

- valid over a 20-year period, commencing from the unloading of the first commercial shipment from the Project.

### 3.7. Why can't the TPSF be sold earlier and funds returned to shareholders?

The main financial aspects of the TPSF have been agreed but the final documentation is yet to be completed and executed. Also, the TPSF only becomes payable from the time of the first commercial shipment from the Project.

The Company believes the value of the TPSF will be enhanced when shipments of Goulamina product have commenced and revenue is being received. Also, the lithium industry market conditions are currently challenging and now is not the optimum time to sell a lithium asset.

For those reasons, the Company intends to examine opportunities to monetise the TPSF in H1 2025. Should an acceptable transaction be agreed upon, the Company will announce the deal to shareholders. It is too early for any discussion on the uses of funds, but it is envisaged that proceeds will be treated similarly to the second tranche payment.

### 3.8. Why didn't the company wait until after the resource upgrade to negotiate the sale of its interest in Goulamina?

The seriousness of the dispute with the Mali Government and the urgent need to reach a settlement and sale was of much higher priority than the completion of the resource upgrade.

Nevertheless, whilst the full extent of the resource upgrade at the time was unknown, the sale price negotiated with Ganfeng was based on both parties recognising the world-class nature of the Goulamina resource and its inherent exploration upside.

### 3.9. Why would the Company announce the resource upgrade when it will not result in any benefit for shareholders?

The Company is still a listed entity and is obligated to comply with ASX Listing Rule 3.1 regarding continuous disclosure. Under the Listing Rule, regardless of its trading status, the Company must report any information that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

## 4. THE FUTURE FOR LEO LITHIUM

### 4.1. How much will Leo Lithium be paid by Ganfeng to continue managing the Project?

Leo Lithium will be paid at standard market contracting rates on a cost-plus basis. Under the Goulamina Services Agreement, Leo Lithium will deliver (amongst other things) day-to-day administration, supervision and management of the Project, including procurement, construction, commissioning and ramp-up of operational activities. Leo Lithium will provide services to Ganfeng until mid-November 2024 at the latest, when Leo Lithium will cease all involvement with Goulamina from a management, project and operational perspective.

### 4.2. What's next for Leo Lithium?

For the second half of 2024, Leo Lithium is focused on the following priorities:

- holding the Annual General Meeting on 31 July 2024 when shareholders can vote on the resolution for the Company to sell its interests in MLBV to Ganfeng;
- satisfying the final conditions precedent to completion of the transaction;
- providing transitional project management services to the Project whilst Ganfeng builds its capacity to take over complete management of the Project on the ground in Mali; and
- adjusting the structure and cost base of the company as activities diminish.

Assuming the transaction completes, in 2025 the Company will have a very different structure. A small core team will be retained to undertake the following activities:

- examine the monetisation of the TPSF. This is best done once the TPSF is generating cash and hopefully, we see some recovery in lithium prices in 2025;
- examine potential M&A opportunities which would enable the Company to provide a better return to shareholders than the distribution of sale proceeds; and
- receive and process the second tranche payment and arrange the return of funds to shareholders.

### 4.3. What is the Company doing to conserve its cash?

Plans for cost reductions are advancing, with headcount reduction underway and further employee exits planned for H2 2024 when the Proposed Transaction completes. A small core team will be retained into 2025, under a new remuneration framework and office costs will also be reduced.

The Board will review the size and remuneration of the Board and revise it to a scale commensurate with boards of similar sized companies. This review is to occur in the current quarter with implementation occurring no later than completion of the Proposed Transaction.

Operating costs in 2025 will be moderate with activities focused on monetisation of the Trailing Product Sales Fee, studies for potential investment opportunities activity and facilitating funds distribution to shareholders.

It is important to note that contracting fees payable by Ganfeng will largely cover the Company's cost base in H2 2024 and that Ganfeng is solely funding the Project from May 2024 onwards.

### 4.4. Going forward, does Leo Lithium still own any projects?

Following the sale of Leo Lithium's stake in the Goulamina Project, the Company will not own a project. However, we have a team with proven lithium project development capability and an ambitious Board and management team.

Once the deal has received all necessary approvals and is completed, the Company will further assess all options including taking a disciplined approach to M&A activity, taking into account shareholder feedback and capital returns.

### 4.5. Has Leo Lithium shut down operations?

No. Leo Lithium has announced that it will sell its shareholding in MLBV to Ganfeng and thereby its remaining interest in the Project. Leo Lithium Limited, the ASX-listed company, remains intact and shareholders will retain their shares in Leo Lithium.

### 4.6. Are my shares sold / do I still have my shares / are my shares cashed out?

It is important to note that under the transaction, Leo Lithium will sell its stake in the joint venture holding company MLBV, not Leo Lithium Limited. Shares in Leo Lithium will remain owned by the same shareholders and this ownership is not in any way impacted by the sale of shares in MLBV.

### 4.7. Why won't the Board commit to returning all funds to shareholders and winding up the Company?

The current team has an experienced skill set in exploring for, developing, constructing, and operating projects in the critical minerals sector, having advanced Goulamina which is one of very few globally significant lithium mines to be constructed in the past two years.

Given the current soft market conditions, the Board believes there is an opportunity to undertake a thorough and disciplined review of potential opportunities in the critical minerals sector to understand if there is a highly compelling alternative opportunity that offers accretive returns to shareholders. Any major growth opportunity would be put forward to shareholders for approval.

The Company plans a second cash distribution to shareholders in July 2025 and further clarity on the cash management plans for the US$171.2 million Tranche 2 payment as follows:

- If the Company has not identified value accretive investment opportunities by July 2025, the net proceeds of the Tranche 2 payment will be distributed to shareholders in July 2025;
- If the Company does identify value accretive investment opportunities involving deployment of the Tranche 2 payment:
  - The investment opportunities will be put to a shareholder vote; and
  - If shareholders do not approve the investment opportunities, all net proceeds from the Tranche 2 payment will be distributed to shareholders in a distribution planned for July 2025; and
- If the A$11.5 million to be paid by Firefinch is received after the January 2025 payment and before the July 2025 payment, it will be included in the July 2025 distribution.

The Company has commenced the application process with the ATO to obtain a class ruling on the form of distributions to share holders for the return of Tranche 1.

## 5. TRADING OF LEO LITHIUM SHARES ON THE ASX

### 5.1. Will Leo Lithium be able to resume trading on the ASX again?

Following the resolution of the dispute with the Mali Government, Leo has updated its ASX filings including lodgement of the 2023 Annual Report, related corporate governance filings and lodgement of the 2024 Notice of Annual General Meeting.

Leo Lithium's Chair and CEO recently met with ASX representatives to discuss the reinstatement of the Company's Shares to trading on the ASX. On this basis, Leo submitted a written request to ASX seeking reinstatement of Leo's shares to trading on the ASX.

The ASX has stated in writing that it is not minded to reinstate Leo's shares to trading following the release of the Notice of Meeting due to concerns regarding Leo Lithium's ability to demonstrate compliance with ASX Listing Rules 12.1 and 12.5. The ASX's concerns arise primarily due to Leo Lithium's minority holding in the Goulamina joint venture. The ASX also requires Leo Lithium to address the matters resulting in its suspension under Listing Rule 17.3 and Leo Lithium has done so.

Leo Lithium will continue to engage with the ASX and endeavour to resolve these outstanding concerns. However, the lifting of the suspension will be at the discretion of the ASX, and Leo Lithium cannot guarantee when or if the suspension will be lifted.

### 5.2. What will the Company do if it cannot resume trading on the ASX again?

The Company will continue with its activities as described above. The Company will continue to be a listed entity and meet its usual reporting obligations, with announcements released by the ASX and posted on its website.

### 5.3. Why did the Company not update shareholders regularly whilst in suspension?

The Company provided updates to shareholders as and when appropriate, adhering to its disclosure obligations. While in suspension, this has included Project updates, updates on the discussions with the Mali Government and quarterly reports. The Company could not update shareholders on the status of incomplete discussions with the Mali Government, As doing so would breach the confidence of the discussion and jeopardise a successful outcome.

### 5.4. Can the Company recommence trading on the ASX without a core asset?

The Company must address, to the ASX's satisfaction, its concerns regarding compliance with the ASX Listing Rules, including Listing Rules 12.1, 12.5 and 17.3. Any transaction the Company enters into as part of its M&A strategy is also likely to require the Company to re-comply with Chapters 1 and 2 of the Listing Rules.