SCP EQUITY RESEARCH

Surge Battery Metals, 22 February 2024

Ticker: NILI CN	**SCPe cash:** C$7m	**Project:** Nevada North
Market cap: C$84m	**Price:** C$0.53/sh	**Country:** U.S.A., NV
REC. (unc): BUY	*TARGET (+50c): C$3.00/sh*	*RISK RATING (unc): VENTURE*

Today's initial resource is a materially positive de-risking catalyst*, hence our Price Target lift below. We previously saw potential for unconstrained 4-5Mt LCE >3,300ppm, accounting only for the upper clay units for ~240Mt 'de-risked' by drilling in CY23. Constrained to shallow pit shell and incorporating the lower clay units and small portion on the 25% owned ground sees today's MRE beat our tonnes by +28%, with overall grade coming in at 2,839ppm—confirming this is the highest grade clay discovery in Nevada. The best part, in our view, is the quantum of high-grade at higher cut-offs shown in Table 1 below i.e* ***241.4Mt @ 3,167ppm Li for 4.1Mt LCE (>2,000ppm cut-off),*** *which is +11% larger than LAC's reserve base (which supports a >40 mine life), and precisely in line with our original thesis. The optionality on cut-off here is critical in our view, we think the potential reserves here could approach 3,500-4,000ppm at higher cut-offs, and with SCPe 60-100Mt+ of highest grades sitting at surface by our math to drive margins—key for a staged-build and/or to attract M&A in our view.*

*On valuation, the initial MRE puts the stock at US$9/t LCE in situ, with advanced peers Lithium Americas (US$685m mc), Ioneer (US$187m mc), and American Lithium (US$156m mc) trade between US$79-145/t on inventory / reserves. With the initial 4.7Mt LCE MRE booked and very likely to grow this year, we lift our prior US$65/t in situ valuation to US$100/t (slightly below the peer average) and apply to the initial 43-101 (vs SCPe prior). As such****, we maintain our BUY rating and lift our C$2.50/sh PT to C$3.00/sh****. Looking ahead, as Surge continues to de-risk the initial resource with more drilling, metallurgical test work, permitting / engineering this year, we will likely opt to convert our valuation to a DCF overtime. For now, the value proposition is simple given Surge's critically low market cap vs peers.*

Big picture: While lithium hardrock/brines are more mainstream, very few projects domestically have the visibility on standalone processing capabilities to supply North America's needs without dependance on China. Clays also have visibility on greater output, making them the preferred source over domestic brines. The current total annual production from Albemarle's Brine operation in Nevada (currently the only domestic producer) is ~5ktpa LCE, while Thacker Pass aims for 40-80ktpa LCE, a step towards self-sufficiency but still well below demand projections, hence we think the U.S. needs another large producer.

Table 1. (A) Nevada North Initial Mineral Resource sensitivity and (B) constraining inputs

1Q24 Nevada North MRE	Tonnes (Mt)	Grade (Li ppm)	*Contained LCE (Mt)
Inferred @ >1,000ppm cut off	310	2,834	4.68
Inferred @ >1,250ppm cut off	309	2,839	4.67
>1,500ppm cut off	294	2,918	4.56
>1,750ppm cut off	267	3,042	4.33
>2,000ppm cut off	241	3,167	4.07
>3,000ppm cut off	144	3,662	2.80
>4,000ppm cut off	28	4,289	0.64

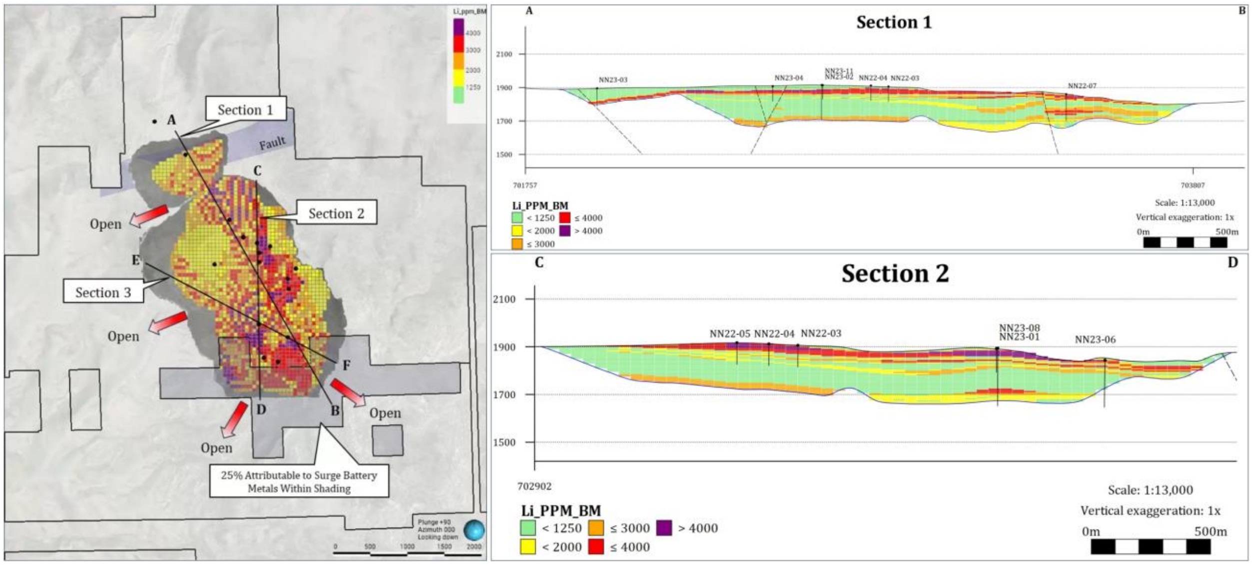
1Q24 Nevada North MRE Constraints	
Method	Ordinary Kriging
Pit angle	27°
Costs	US$88.50/t
Density	1.79 t/m^3
Recovery	73.50%
Price	US$20,000/t LCE
Cut-off	1250ppm Li

*Source: Surge Battery Metals, *LCE conversion factor at 5.323*

Initial 4.7Mt LCE @ 2,839ppm Li MRE confirms highest grade U.S Li clay deposit; PT lifted to C$3.00

Surge Battery Metals announced an initial inferred resource for its Nevada North Li clay project of **4.7Mt LCE @ 2,839ppm Li** at a 1,250ppm Li cut-off, or **4.1Mt LCE @ 3,167ppm** Li at a higher 2,000ppm Li cut-off. Table 1 above includes the tonnage sensitivities to different cutoff grades up to a maximum of 4,000 ppm Li. The MRE is based on 20 holes / 2,758m and 1,973 samples and includes 100% of the resources on Surge's 100% owned ground and 25% of resources within the private block of ground in which Surge owns 25% of the subsurface rights. Next steps include (i) metallurgical tests, with results expected before the end of 1Q24, (ii) surface exploration and drilling and (iii) PEA by YE24.

Figure 1. Nevada North MRE (A) Plan view and (B) cross sections looking NE (Section 1) / E (Section 2)



Source: SCPe

Table 2. North American Lithium clay deposit peer comp showing EV/t LCE in situ value

Company	Ganfeng	Arizona Li	*LAC	Ioneer	American Li	Surge	Century	Spearmint	Noran Li.	Jindalee
Project	Sonora	Big Sandy	Thacker	Rhyolite R.	TLC	Nevada N	Clayton V.	McGee	Zeus	McDermitt
Location	Mexico	Arizona	Nevada	Nevada	Nevada	Nevada	Nevada	Nevada	Nevada	Oregon
Study	1Q18 FS	'19 MRE	4Q22 DFS	'20 DFS	'23 PEA	SCPe	'21 PFS	'22 MRE	'21 PEA	'23MRE
Basin	Sierra M.	Big Sandy	McDermitt	Tonopah	Tonopah	Jarbidge	Clayton V.	Clayton V.	Clayton V.	McDermitt
Resource (Mt)	559	33	1,754	360	2,538	309	1,541	477	1,269	3,010
Resource grade (ppm Li)	2,962	1,850	2,036	1,750	791	2,839	882	823	928	1,340
Resource (Mt LCE)	8.8	0.3	19.0	3.4	10.7	4.7	7.2	2.1	6.3	21.5
EV/in-situ (US$/t LCE resource) (A)	-	160	28	45	14	9	4	2	1	2
Reserve / Inventory (Mt)	244	--	217	60	301	--	213	--	245	--
Reserve / Inventory grade (ppm Li)	3,480	--	3,160	1,800	1,209	--	1,129	--	1,093	--
Reserve / Inventory (Mt LCE)	4.5	--	3.7	0.6	1.9	--	1.3	--	1.4	--
Processing method (s)	Roasting	n.a	Acid leach	Acid leach	Acid leach	Acid leach	Acid leach	Acid leach	Acid leach	Acid leach
Acid Consumption (H2S04 kg/t)	n.a	n.a	490	n.a	>480	328-574	127	375	250	500
Basic EV (US$m)	9,990	51	531	150	153	45	32	4	9	34
EV/in-situ (US$/t LCE reserve / inv.)	-	-	145	262	79	-	25	-	6	-

*Source: SCP, Factset, company filings; *LAC before GM Tranche 2 + ATVM loan. (A) American Li & Arizona Li excl. secondary assets; Ioneer on 100% basis*

Why we like Surge Battery Metals Inc

1. Highest grade lithium clay deposit in tier-1 Nevada with >3,000ppm Li at surface
2. Initial 4.7Mt LCE 1Q24 MRE, still open, growing towards SCPe 15Mt LCE long term
3. Best in class lithium team (formerly Millennial Lithium, acquired by LAC for US$490m)

Catalysts

- 1Q24: metallurgical test work led by Kemetco and Dr. Vijay Metha
- 2H24: Follow up drill results and surface exploration
- 4Q24: Exploration Plan of Operations / PEA

Research

Brandon Gaspar (Toronto) m +1 437 533 3142 bgaspar@scp-rf.com
Eleanor Magdzinski (Toronto) m +1 705 669 7456 emagdzinski@scp-rf.com
Konstantinos Kormpis (Toronto) m +1 778 957 3623 kkormpis@scp-rf.com

Ticker:	NILI CN	**Price / mkt cap:**	C$0.53/sh, C$84m	**Project PNAV today:**	0.17x	**Assets:**	Nevada North
Author:	B Gaspar / E Magdzinski / K Kormpis	**Rec / xNAV PT:**	BUY, C$3/sh	**1xNAV FF FD:**	C$3.04/sh	**Country:**	USA/Canada

SOTP *project* valuation*	**C$m**	**O/ship**	**NAVx**	**C$/sh**
SCPe Nevada North NAV @ US$100/t LCE	603	100%	1.00x	2.82
Private land upside @ US$65/t LCE	86	25%	1.00x	0.10
SCPe cash pro-forma	7.3	100%	1.00x	0.03
Cash from ITM options/warrants	17	100%	1.00x	0.08
SCPe Group 1xNAV	713		PT:	3.04
**Ex G&A and fin. costs*			Market P/NAV	0.17x

Source: SCP estimates

Commodity price	**CY22A**	**CY23E**	**CY24E**	**CY25E**	**CY25E**
LCE (US$/t)	68,579	20,000	20,000	20,000	20,000
Resource	**Mt**	**Li (ppm)**	**000t LCE**		
1Q24 Inferred 43-101	309	2,839	4,674		
	SCPe 'blue sky' potential		17,000		
Share Data	**Basic**	**FD**			
Shares (m)	158.2	213.5			

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TENDER:	1
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TOTAL	56

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